Art of Procurement

PROCURE ANALYTICS

Rising Above the Pendulum Swing of Savings

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THE FOCUS ON SAVINGS COMES AND GOES.

It is common for procurement teams to adjust their focus on savings in response to shifting internal priorities or external factors like the economy, global market conditions, or the health of the supply chain.

Procurement alternates between decentralized decision-making that prioritizes speed and access and centralized decision-making that supports belt-tightening and savings. While procurement has the skills to succeed at every point in this cycle, it may be necessary to serve as a check on the business - helping them respond to changing conditions without allowing the savings pendulum to swing too far.

Art of Procurement was recently joined for an AOP Live session by two professionals who have seen this cycle repeat itself over and over. Mu Wagh is the Chief Operating Officer at Procure Analytics and Matt Reddington is their Vice President of Operations. They empathize with the position procurement is often put in and stress the importance of taking a longer-term view.

In this paper, we summarize the key insights from the live event and offer advice that can help improve procurement's ability to work with the executive team to handle the endless savings priority cycle.

Driving savings as the cycle changes

Procurement should be leading – not led by – change, especially because pursuing savings at all costs can increase operational risk levels beyond a company's tolerance and sacrifice quality relationships with key suppliers.

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>
> **Mu Wagh**
> COO
> *Procure Analytics*

When procurement is focused on delivering cost savings to the business, they should develop a strategic plan focused on long-term outcomes and not just on short term cost cutting. "That's where the consistency is," said Matt, who also emphasized the importance of "taking cost out of the business methodically, thoughtfully, and being able to do so with your internal teams backing it."

A large portion of cost-cutting is often associated with unplanned and non-repetitive purchases, particularly in fragmented spending. Procurement needs to ensure that their efforts are well invested. "Maintenance around operations – indirect in general – is very fragmented," Mu pointed out. "So, when the focus is on reducing or removing costs for the business, procurement needs a sustainable, strategic plan to address this fragmentation and continue to deliver value over time, even when the business moves into a new cycle and the pendulum shifts away from savings."

In many cases, the business may not be aware of the ebbs and flows of the savings cycle. This makes data key, not just for tracking but also for company-wide understanding. Reporting should be at the center of procurement's strategic framework on savings. This can prevent procurement from falling into a short-term cost-cutting cycle, and instead incentivize the pursuit of sustainable savings.

"Reporting is critical," Matt shared. "If you can't measure it, then you can't drive value to it, and you can't get people to drive change." Change management is always important, but especially so in situations where any decision maker could easily fall into the trap of reacting to changes in conditions, abandoning well-laid plans in favor of instinct.

Suppliers are not immune from knee-jerk reactions. Mu and Matt advise caution when seeking support from third parties to drive cost-savings projects because, while the savings potential can be an attractive lure, procurement runs the risk of prioritizing short-term savings – often for nonessential or unnecessary items – with suppliers that can't offer long-term support and value.

"As you're thinking of categories where somebody is offering you a deal that's too good to be true," Matt advises, **"what you're really doing is eroding a partnership that you could build with a more strategic relationship."**

The secret to handling the savings cycle is likely in procurement's own experience. Being cognizant of the current priority placed on savings and whether that emphasis is growing or waning provides an opportunity for procurement to increase the awareness of all decision-makers, simply by pointing out what everyone feels but may not be consciously monitoring.

Know when and how to take action

When savings is the focus, procurement can and should deliver - but in the right way. There are certain categories of spend with faster times to close that procurement can leverage to create more value for the business in the short term without eliminating strategic longer-term opportunities.

While direct procurement is typically less flexible, especially in the short term, indirect categories, like packaging or MRO, are often more fragmented and managed by generalists or decentralized buyers. They are an effective way to deliver savings without having an adverse impact on revenue and customers.

Data plays an important role here as well. Just like savings and strategy, data collection must be sustainable. Procurement can invest in the quality and actionability of this data, regardless of where the business is in the savings cycle.

Not only should procurement invest in data quality, but they should also identify the key influencers in those quick-moving categories of indirect spending. Matt suggests, "It's really about building relationships across those divisions," Doing so will help procurement take and sustain meaningful action - reducing lead time by laying the groundwork up front.

Taking a leading role in the savings cycle

When procurement is under pressure from the business to cut costs and identify opportunities for savings, it's crucial that they have a deep understanding of the short- and long-term goals of the business as a whole. This will make it possible to develop an effective and sustainable savings plan that the entire executive team can get behind.

Matt suggests asking the executive leadership team questions like:

- What is important to you in regard to savings?
- What does success look like for the company?
- How immediate or urgent is the need for savings?
- What are our short-term goals for this year, next year, and even three years from now?
- Do we want more strategic suppliers to provide ongoing value projects to drive multiples on a piece price?
- Are we willing to commit to longer-term agreements in exchange for shorter-term savings?

"We need to understand what those parameters look like so procurement can align their savings plan with the business's goals and not lose sight of the total value they need to bring," Matt said. "By not fully understanding the current and future state of the savings cycle, procurement could risk seeking out unsustainable savings."

This is something many procurement teams have already survived. A new supplier is put in place purely to save single-digit percentages. It ultimately backfires and costs the organization money because supplier transitions lead to disruption and lost value, and people often don't buy into the change.

Jumping at small savings can have harmful downstream effects across the business. It may be detrimental to operational efficiency, output quality, and a loss of focus on value.

The savings cycle seems to be an inescapable reality for companies. As long as there is internal and external change, the priority assigned to savings will continue to rise and fall. One of procurement's advantages is the ability to call that cycle out and keep everyone in the business - themselves included - focused on a balance between short term needs and long term objectives.

About Procure Analytics

Founded in 2010, Procure Analytics is a data-enabled group purchasing organization that specializes in the procurement of maintenance, repair and operating (MRO) and packaging supplies and services to more than 1000 companies and 18,000 locations primarily in North America. PA's members benefit from leveraged annual spend volume of approximately $1.5 billion. In December, Genstar Capital, a San Francisco based growth-oriented private equity group, made a majority investment in PA.

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