



3 STEPS TO MAXIMISING SUPPLIER COST SAVINGS

OVERVIEW

For organisations looking to reduce costs focusing attention on external suppliers is the logical place to start, given that for some organisations it can be as much as 60% of total costs.

However many organisations make the mistake of jumping straight into a cost savings project without necessarily considering which best projects to prioritise, let alone how to ensure any savings delivered stick over the long term.

At the risk of tempering that organisation excitement to commence, developing & implementing a clear cost savings plan allows for prioritisation on projects of greatest benefits & more efficient use of resources. Furthermore, maintaining focus beyond the initial cost savings exercise ensures the savings stick & often unlocks further savings opportunities.

Ultimately, having a formalised savings plan, delivering on that plan & maintaining focus beyond the initial project delivers greater savings in shorter leadtimes & with less resources.

Spend Solutions follows a 3 stage process to maximise supplier costs savings that is based on **3 key principles:**

1

IDENTIFY

2

IMPLEMENT

3

OPTIMISE

This article provides insights into the process & benefits of each stage and how collectively they can assist organisations obtain greater value from their supplier base.

STEP ONE

DEVELOP A SUPPLIER SAVINGS PLAN

All successful programs require a plan & a supplier cost savings program is no different.

A supplier savings plan is the process of conducting a deep dive analysis into your cost base to develop savings opportunities.

Best practice supplier savings analysis include 4 key activities-



Conduct a spend analysis, categorising spend according to a specified taxonomy.



Conduct a price analysis of current price & commercial terms for targeted suppliers.



Conduct a sourcing analysis of supply agreements, categorised spend file & market intelligence.



Review product utilisation to identify improvements on how those products & services are purchased, shipped, stored & consumed.

Through these activities, savings opportunities are identified and form the basis of the savings plan.



To formalise each savings opportunity requires each opportunity to be quantified & qualified to allow for direct comparison of project benefits, resources & timeframes.

Once each opportunity is quantified & qualified, the final step is to prioritise each project based on projects of greatest benefit so that stakeholders can identify the order in which each project will be conducted.

The savings plan should be seen as a savings roadmap that organisations can refer back to for several years & used to guide allocation of resources, projected savings & project timing.

Savings analysis benefits

- Identify the total 'size of the prize' savings available.
- Develop a project roadmap based on projects of greatest benefit.
- Identify opportunities for immediate savings through direct supplier negotiations, usage optimisation or demand management.
- Identify the true savings opportunity in each spend area
- Forecast projected savings based on planned project schedule.



STEP TWO

EXECUTE PROJECTS BASED ON GREATEST BENEFITS

Once a supplier savings plan has been developed, the next step is actually delivering the procurement project to generate cost savings, either through a tender (RFx) or supplier negotiation.

A typical procurement Rfx process will have 7 key steps, which we have outlined below-

- 1-Understand current state*
- 2-Develop sourcing strategy*
- 3-Conduct Rfx*
- 4-Analysis & supplier negotiations*
- 5-Sourcing decision*
- 6-Contract negotiations*
- 7-Implementation of changes*



The Rfx process is not a quick process, with a typical project taking 3-6 months to complete. Direct negotiations are a useful option to provide quick wins & should be considered at the sourcing strategy development stage. Keep in mind that there is a trade-off between timeframes & cost savings, with direct negotiations typically delivering lower levels of savings due to the lack of competitive tension.



Keys to RFx success

- Thorough data collection across all sites & suppliers
- Key stakeholder engagement
- Formal, open & transparent process with suppliers
- Identify business needs & compare against supplier capability.
- Develop a killer negotiation strategy.
- Develop & execute an implementation plan.

STEP THREE

MONITOR & OPTIMISE PERFORMANCE



Post contract implementation represents an double edged opportunity- further cost savings through optimisation but also for those hard earned savings to disappear through leakage. Therefore a formalised performance optimisation program is critical to ensure the savings stick and the next leg of savings & performance can be delivered.

Let's start with savings & performance validation. Unfortunately, with most products & services there are numerous areas in which leakage can occur, leading to projected savings not being achieved or performance expectations not being met.

The corresponding table provides some guidance on the key areas to monitor to minimise contract leakage.



Contract Monitoring checklist

- Review internal compliance using the preferred supplier.
- Check that negotiated rates have been applied correctly.
- Correct application of rebates
- Negotiate any rate changes in line with agreed contract terms.
- Review supplier performance against agreed KPI's.

On the flipside, developing & implementing a strategic sourcing solution complete with preferred supplier(s) creates significant opportunities for further cost savings & performance improvement.

One of the key reasons is the consolidation of spend with a preferred supplier(s), which brings with it consolidated reporting, dedicated account management & formalised performance targets.

These traits facilitate greater access to data & resources to further identify & unlock savings.

The opportunities for ongoing savings are significant can deliver savings equal or exceeding those delivered through the strategic sourcing process.

Cost Optimisation opportunities

- Consolidation of products/services
- Standardisation of specifications
- Simplification of how products are purchased, shipped, stored or consumed.
- Minimisation or elimination of unnecessary services



CONCLUSION

Generating supplier cost savings is a strategic activity that required a formalised, structured plan that is delivered & maintained through a rigorous process.

By spending the time to develop a savings plan, organisations can see which projects give the greatest risk/reward trade-off, allowing projects to be prioritised based on greatest benefit & providing a strategic roadmap that can be followed for years to come.

Delivering on those plans requires a formalised, transparent & rigorous process to maximise savings & deliver the right sourcing solution.

Finally, to ensure the savings stick & deliver additional savings requires a formalised performance optimisation plan & assigned resources to maintain focus on cost inputs.

Used collectively, these 3 steps are a continuous cycle of cost review & optimisation that ensure that only costs that are truly required are incurred & that pricing reflects true market conditions.



ABOUT



The Author

Justin Sulley is the owner of Spend Solutions and works with organisations to deliver greater value from their supplier base through bespoke procurement services.

Prior to starting Spend Solutions, Justin had over 20 years of experience as a procurement **practioner**, working for multi-national organisations in various senior procurement roles with **spend under management up to \$1b/yr.**

Justin has a wife & 2 daughters and in his spare time enjoys running, football & travel.

Spend Solutions

Spend Solutions provides procurement services that assist Australian organisations obtain cost savings, improved supplier performance & greater visibility from their supplier base.

Specialising in working with complex multi-site organisations, we use our vast procurement experience to develop strategic procurement solutions through bespoke, end-to-end, supplier agnostic procurement services.

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