



## What are 10 Tips You Can Implement to Increase Your Revenue and Cash Flow?

### 10 Tips to Reducing What You Pay for Goods and Services

The following is a high-level overview of steps that you can apply that will help you and your organization obtain the greatest output in your procurement endeavors and reduce costs with the goods and services you are already purchasing.

#### Sample Benefits

- Cost reduction through procurement.
- Increase efficiency in your goods and services process.
- Spend less time bidding for the long-term.
- Centralize information flow.
- Increased knowledge about what is being purchased.
- Streamlined purchase order (PO) and invoice creation and processing.
- Organized, understandable, and compliant contract management.
- Order control (purchased items for better quality with approved goods and services).
- Ensure greater compliance inside and outside of your organization.
- Provide a communication platform and team input (builds trust).
- Labor cost reduction.
- Greater time management and productivity.
- Create, implement, and/or improve Standard Operating Procedures (SOPs).
- Enhance and enlarge vendor list and relationships.
- Obtain best value.

Below is a high-level process of the procurement cost reduction process we have done successfully for more than 30 years for organizations from small to large (keep in mind that we have always reduced costs with every single project). You can apply these same methodologies, steps, and obtain results if you apply each area with due diligence, thoroughness, and the proper follow-up. Keep in mind that each area you pursue (Ex.: office supplies, janitorial, electricity, natural gas, print, fuel, logistics, technology, computers, insurance, benefits, fleet, MRO, advertising, etc.), requires a lot of labor up front, with the benefit of great time savings in the long-term.

#### Step 1 – Gather Information

Gather information about all budget areas of goods and services within your organization. Prioritize these spend areas from largest to smallest expenses, potential areas for greatest savings, and what your organizations most important needs are.



### **Cost Assessment Areas**

- All Spend Areas.
- Annual Spend.
- Potential Cost Reduction.
- Simple to Complex.
- Other Solutions.
- Supplier or Partner.
- Best Value.
- RFI, RFQ, RFP / RFT.
- Single or Sole Source.
- Contract.
- Term.
- .....

### **Step 2 – Complete Analysis of Budget Areas**

Complete your analysis using the cost assessment table above (on page 2). Work with your team (Finance, IT, Administration, Operations, Human Resources, Executive Management, etc.) to ensure that there is agreement, unity, and buy in for what is most important in cost reduction, need, goals, strategy, and processes. In other words, categorize each area from first, second, and so forth for each area.

### **Step 3 – Best Value Determination**

Now that you have determined the areas to bid, based on spend, priority, the team's input, the organizations need, and strategy, it is very important that the procurement department have an outline of what "Best Value" means to the organization.

Each organization, within each industry, will define the best value differently. Some example areas for you to consider outlining, creating, and implementing are:

- Negotiate improved pricing.
- Product and service quality.
- Delivery times.
- Return authorization process.
- Invoicing.
- Payment terms.
- Green compliance.



- Government policy and procedures.
- Sarbanes Oxley (SOX).
- Quarterly analysis.
- Reporting.
- Online ordering.
- National / Regional vendor.
- Strategic Partnerships.
- 24-Hour delivery.
- Vendor audit.
- Etc.

#### **Step 4 – Team Communication**

Communicate with those involved in each project one project at a time as it relates to what is important (this part is important in the entire process).

The information gathered during this process will lay the foundation for the RFP Scope of Work (SOW) letter bidding process. An RFP SOW letter is the basis of what each vendor will use for proposal submission. This document is the most important part of the RFP process because this provides an outline to those vendors involved with your needs. The clearer this document, the better the proposals you will receive.

#### **RFP SOW Letter Note**

This is where most companies spend more time and money, and challenges arise, because the RFP SOW letter is not thoroughly outlined and understandable. In most cases, an excellent RFP SOW letter can be used by the vendor involved in the proposal process, without having to ask a lot of questions, meet with you in person, and waste resources.

#### **Example RFP Project**

Implement a new software system centralizing data and information for Finance, IT, Human Resources, Procurement, Shipping and Receiving / Property, and Sales and Marketing. Some questions and input might be: What is most important to each department, what is the desired outcome, what is the budget, what is the time frame for implementation, what system is being used now, what processes are in place right now, who will implement the new system, what type of training will be needed, and are the processes being used working? In other words, it is important that communication take place not only as a whole, but with each party (department) involved for RFP success. This all starts with the input (communication) provided



to the person who will write the RFP SOW letter. Typically, this happens in the procurement / purchasing department.

#### **Step 5 – Create RFP SOW Letter**

Create a detailed RFP SOW letter for the selected good(s) and/or service(s). From your team’s input, the RFP SOW letter is created. Then, it is sent back to all the parties who provided their feedback to create this document. Once all parties agree (those outlined in the example in Step 4) that their area is clear and understandable, a final document is created for submission to the vendors you would like to be involved in the proposal process.

#### **Step 6 – Send Information to Vendors, Suppliers, Partners**

With the RFP SOW letter and your other documents in your RFP package, email these to those vendors you are involving in the bid process. These vendors will most likely be whom you currently utilize for the goods and/or services of this bid, as well as new vendors from the media, through your e-procurement system, those vendors you have found on your own, and other vendors who have solicited you in the past. The number of vendors you solicit (submit this bid to) could be from few to many. For example, we had one client purchase office supplies from more than thirty-eight companies across the U.S.

One of the documents that you will include is called a “Master List”. This is a list of items that have been purchased over a given period by each vendor. Each current vendor you utilize will be instructed by you to fill out your template MS Excel spreadsheet and email this back to you (see example layout below). From this, you will create the master list of all the vendors, the items purchased over a period, the cost, etc. This spreadsheet will be sent out with the RFP SOW letter (without any pricing) to each proposed vendor to send back to you with their proposal (this will include their proposed pricing as well).

#### **Example Master List Areas**

- Supplier Item Number.
- Manufacturer / SKU#.
- Item Description.
- Brand Name.
- Unit of Measure.
- 12 Month Total Quantity Purchased.
- Current Price (12 Month Average).
- Current Average per Unit of Measure.
- Total Dollar Spend per Item 12 Months.



- Other Areas.

### **Step 7 – Bid/Proposal Receipt and Evaluation**

You will receive the bids/proposals and evaluate them according to what you outlined in your RFP SOW letter, Best Value (for your organization), cost, and anything else that you have placed in the process.

You might have to go through one, two, three, or more negotiations of your finalists. In other words, you might include twelve vendors in the bid process and only have seven proposals come back to you. The general rule of thumb is to have three finalists for your committee to review for a final winner. As you can see, you need to then go back to the five finalists and let them know that you are going to conduct a second round of price negotiations. From this, you might narrow it down to four. Then, you might have to conduct a third round of negotiations to get to three finalists.

### **RFP SOW Letter Details Note**

Therefore, it is very important that you create the RFP SOW letter with a deadline for proposals to be in your office, so that you will not accept meetings until you have three finalists, all questions will be done through written format via email and the questions will be emailed to all parties involved in the bid process, there might be several rounds of negotiations, etc. Your RFP SOW letter needs to outline the expectations to prospective vendors of what you are looking for.

### **Step 8 – Winning Vendor Selected**

The winning vendor is selected and notified, a contract is signed, and your company's new lower pricing for the selected goods and/or services becomes effective.

For the winning vendor to move forward it will be critical for the team that helped you put the RFP SOW letter together support you, the implementation, and the new vendor in the process. We have witnessed several procurement department's go through the hot seat when there was no buy in and support from management and the team. In other words, for success to take place for all involved, you must have buy-in from the beginning to the end in each project.

### **Step 9 – Contract Signed and Implemented**

The new contract is implemented with the winning vendor providing the outlined expectations of the RFP SOW letter is met with the proposal that has been submitted by the winning vendor.



The old pricing versus the new pricing is outlined in the RFP with the selected winning bidder is outlined for cost savings, along with the contract signed. An example of one of our clients (listed below) shows the bottom-line result of more than 1,000 office supply items.

Keep in mind that their goals were not just price, but efficiency, less invoices, more control over purchases, online authorization for all purchases, 24-hour delivery, training, reporting, green, etc. Also, the more than 1,000 items are not listed below, because this would take up many pages.

### Step 10 – Implementation and Next Projects

Implementation begins to happen on the specified date with the selected finalist, which includes those team members identified in your organization, and the team members selected with the winning vendor.

The same process takes place with each identified for your organization. Depending on organization need, resources, and changes, the plan for bidding, projects, and procurement may change with new areas and/or certain projects deleted.

### Summary

Many companies conduct what we call cost reduction where they sign an agreement for a specified percentage off business pricing or a percentage above their cost, but they really do not know what pricing, savings, and best value they are REALLY getting. Why? There is nothing to gauge for previous pricing versus new pricing for all items. In other words, a lot of bids are conducted with 30 to 50 of the most utilized core items, whereas many companies purchase hundreds to thousands of items in the office supply spend area alone.

**To illustrate this, see the difference between cost reduction and the procurement cost reduction process below.**

- **Cost Reduction Area?** 20% off business pricing.
- **What does the Cost Reduction Outcome Bring?** How do you know what you are paying for the future pricing?
- **What do the Procurement Cost Reduction Outcome Bring?**
  - Create Master List of all items purchased over a specified period.
  - Create the pricing and benchmark.
  - Request for Proposal (RFP)/Bid and include all items, services, and related areas.
  - New winning bidder is engaged with Master List of items included in the contract.



- Procurement Cost Reduction / RFP conducted once per year, or on a scheduled basis as determined by your organization.
- Conduct Procurement Cost Reduction through RFP process.

- **Cost Reduction Area?** Catalog pricing.

- **What does the Cost Reduction Outcome Bring?** Do you have an analyst review each item as you buy it?

- **What do the Procurement Cost Reduction Outcome Bring?**

- Spend more time up front to create a bid.
- Will only have to bid this area once every year or two.
- Save's time, money, improves efficiency, and streamlines processes.
- Procurement or staff does not have to go to bid on this every week (at most once every year).
- Lowest price.
- Can include in contract that items outside of all that has been purchased in the past be included at the same cost reduction (cost percentage above their wholesale cost) in the future.
- Can customize bid to be able to order online, integrate with your procurement system, control what is purchased, see trends, know what you need in inventory, plan, forecast, etc.
- Less time overall.
- More efficient.
- More benefits.
- Improved time management.
- Bid out at a minimum of once every 6 months to one year, two years, or more.
- One to two vendors are chosen meaning less PO's, Invoices, and paperwork.

- **Cost Reduction Area?** Special of the week.

- **What does the Cost Reduction Outcome Bring?**

- How much would you spend on this person? Is this really reducing your costs and is this efficient?
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- **What do the Procurement Cost Reduction Outcome Bring?**

- Because of buying power, negotiations, the RFP process, and vendor selection, the price of the goods and/or services are reduced.



- More efficient measures.
- Deal with only one or two vendors in the specific spend category (they know you and you know them).
- This process will decrease the amount of time over the long-term, so that more management of vendors and compliance can take place

- **Cost Reduction Area?** Staff person bids out products each week for the best deal.

- **What does the Cost Reduction Outcome Bring?** In doing this, you do get a good deal on certain items, as compared to others, but is this labor efficient? What about the other items?

- **Cost Reduction Area?** Small bids each week or each month.

- **What does the Cost Reduction Outcome Bring?** Is it better to engage a contract that provides the lowest price for everything guaranteed with measurable dollar amounts (previous versus new contract pricing)?

- **Cost Reduction Area?** Request for Quote (RFQ) specific to items during that month. Example: Office Supplies RFQ sent out to 3 vendors for office supplies in the amount of \$10,000).

- **What does the Cost Reduction Outcome Bring?** This is very labor intensive and does not provide total spend and buying amount to vendor. Buy from multiple vendors, meaning more Purchase Order's, Invoices, and Shipping / Receiving Documents (not cost effective from both cost and labor). The RFQ does not consider that the companies spend is \$200,000 per year. The RFQ for \$10,000 that month was sent out and the company will only get pricing based on \$10,000, not \$200,000.

- **What do the Procurement Cost Reduction Outcome Bring?**

- Reduced costs and increased quality.
- Centralized procurement.
- Provide needed goods and/or services.
- New market development.
- Just-In-Time Inventory (JIT).
- Increased supply chain efficiency.
- Best value and remain competitive.
- Government compliance.
- Supplier performance improvement.
- Support day-to-day buying activity.
- Policy/Procedure creation, implementation, validation.
- Transaction automation and processing.
- Focus to core competencies.



- Strong end-user to provider relationship developed.
- Lower procurement related labor costs.
- Overall procurement performance improved.
- Greater control, reporting, and vendor compliance.
- Organization and internal cost performance.
- Data for benchmark analysis, goals, and results.
- Procurement personnel training.
- Hedges future increase of raw materials.
- Procurement department creation and implementation.

### Your Bottom Line

There are many other things we could highlight about why Procurement Outsourcing, and the Procurement Cost Reduction RFP process as compared to cost reduction is better on all points.

They far outweigh just cost reduction, because it is not only about price, but time, labor, vendor relationships, compliance, returns, customer service, staff knowing how to order, control over what is ordered for cost control, invoicing and purchase order efficiency, compliance, measurable performances, vendor management, relationship development, efficiency not only in the purchasing department but also within departments (purchasing effects everyone!), budgeting, cost reduction, the goals and needs of your organization, and so many other areas.

### What are You Proactively Doing for Your Bottom Line?

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