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# Too Much Savings?

9 Ways to Expand Influence, Drive Savings, and Secure Your Procurement Position



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## 9 Ways to Expand Influence, Drive Savings, and Secure Your Procurement Position

*Matt Miller K2 Sourcing September 1, 2009.*

There are 2 ways to improve earnings: increase revenue or reduce costs. With the poor economy, most organizations are facing a decrease in revenue. That means that companies will do what is needed to maintain earnings – cut costs. Though a favorite tactic is to downsize, and procurement many times appears a target, it is actually the perfect environment for procurement. After all, who in the organization is more qualified to negotiate reduced costs? Now is the perfect time for procurement to expand their influence, secure their position, and be the star. Utilize these 9 methods to drive success.

- 1. Understand That the Purchase of Goods and Services has the Number One Impact on Profitability.** Aberdeen research states the purchase of goods and services represents 40-60% of the average company's revenue. On the profit and loss statement, one must also understand that one dollar of sales is quickly diluted by the costs associated with the sale and may result in 10% earnings. One dollar of savings equals one dollar of earnings. Let's put it another way. A company has \$10,000,000 in revenue at a profit of 5% or \$500,000. At 50%, the purchase of goods and services is equal to \$5,000,000 dollars. 5% savings yields \$250,000 dollars or an increase from \$500,000 to \$750,000 of profit. Profitability improves from 5% to 7.5%. That is a 50% improvement. Top procurement departments know they have a tremendous (if not the greatest) impact on profitability. In a down economy, it is easier to improve the bottom line than grow the top line.
- 2. Expand Procurement's Influence.** Naysayers will maintain, "other departments control many of the organization costs not procurement." Procurement needs to realize that CEOs and CFO's are less concerned about who does the work than they are with results. In other words, stating it another department's responsibility is a self imposed barrier to growth. Procurement is already recognized as expert negotiators. You now need to be seen as a resource. Your job is to get other departments to call on your expertise.
- 3. Speak with Numbers.** If you simply ask or demand additional authority, there is a good chance the organization will NOT respond. Think of the hard sales pitch. The way to remove this barrier is to start with the data, and build organization buy-in. Begin with the CFO. Explain to the CFO you believe that there may be other opportunities to reduce costs within the organization. Request an expenditure by supplier report or check register. If there are multiple locations, ask for report of each location. Group the suppliers by category, conduct some basic market conditions research, and demonstrate potential opportunities. Look closely for redundant sources of supply. Create a potential reduction opportunity spreadsheet. Where the market is down, consolidation opportunities exist, or where you suspect proper negotiation has not been conducted, write a 5% (that is really conservative) figure next to the annual spend.
- 4. Become the Cost Reduction Leader.** Present the figure from above to the CFO. Let the CFO know this is based on your knowledge of best practices in procurement, and that you would like to hold meetings to determine if the opportunities are, in fact, opportunities. Ask the CFO to participate in the meeting. It is even better if they send out the meeting request. Do not be concerned with requesting the CFO's time. As cost reduction is probably number 1 or 2 on their priority list, time will most likely be given freely. You have just become part of the CFO's solution. In the meetings, ask questions to determine if best practices are used to negotiate contracts and to validate your earlier findings. Remember, even if you are not an expert in the spend



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category, you are THE expert at the process of negotiation and sourcing best practices. Where best practices are not used, you have uncovered an opportunity. Now I can't guarantee this, but in the 100 or so companies I have audited, I have never found a company without room for improvement. Why? Because in most organization other departments, like marketing, are not rewarded for cost reduction. I am confident you will find spend categories that have never been formally sourced using best practices. Determine the total verified opportunity and present the file with the list of projects to the CFO. Later you will use it to prioritize opportunities and assign resources. The person that controls the list is the leader.

5. **Centralize Procurement - Especially Strategic Sourcing.** Similar to outside department expenditures, If spend is not being leveraged across locations and divisions than you may not achieving national account status. The company is losing a great deal of money by over paying. There are many audits we have conducted where the same suppliers are used at multiple locations, and the payment terms and discount levels are different. What an easy change to improve cash and leverage spend. Centralization can be formal or can be in the form of a purchasing council. In either case, it is extremely important to get involved in areas of spend outside what procurement typically controls. Being the one to start the council and add the projects to the file created above will continue to cement your role as cost reduction leader.
6. **Market Procurement.** The most likely scenario is the CFO will assign procurement to lead and capture the opportunities presented. Even if the program is not formalized, because the CFO has publicly attended and announced meetings most other departments will be open to getting involved. Make yourself available as the expert resource. Remember the team members are not experts at the process of strategic sourcing so it is up to you to lead them through the process. Put team member concerns to rest by asking relevant questions to determine and define business requirements. Let other departments know they will be in control, or at least a very large part, of any final award decisions. Volunteer to be the resource for as many of the tasks as you can, and other departments will be happy to pass on the work. This is the type of work needed when business is slow. It aligns one with the company goals, and helps to ensure your security.
7. **Utilize Flexible Resources.** You might be asking where are the resources to get all this done? If your company is like most, the procurement department is already understaffed. More work isn't going to help. Change your thought process. Think of procurement like a service business. Is high demand for your service harmful or an opportunity? Leaders ask the question, "What will it take?" If you have identified significant savings, simply prove a return on investment and the money will follow. If a new hire will net \$300,000 in savings, you will most likely get the resources despite a freeze. If hiring takes too long or will not be approved, consider a partner solution. While your knowledge of the company cannot and should not be outsourced, 80-90% of the strategic sourcing process tasks can. An eSourcing company, such as K2 Sourcing, may agree to execute projects and request a percentage share of the savings. Payments can be balanced with receipt of favorable purchase variances to offset an unfavorable budgetary impact. Just be certain to understand the details behind the savings calculation and if it ties to actual or estimated results. Done correctly you can access considerable capacity and expertise with little to no risk. If you can bring in savings five times faster and the return on investment is going to be 500% or more, you will be a hero. Remember leaders care less about who executes the tasks, and more about who leads the results. [Read more](http://www.k2sourcing.com/savebig.php) about our solutions at [www.k2sourcing.com/savebig.php](http://www.k2sourcing.com/savebig.php)



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8. **Drive Continuous Improvement.** Another method to handle the increased workload is to improve your internal productivity. If procurement is still using spreadsheets, documents, and e-mail for estimating, quoting, proposal requests, information requests, negotiating, and analysis, research demonstrate eSourcing tools yield a 40% to 60% improvement in productivity while achieving 4% greater savings than paper methods. Most organizations are pleasantly surprised by the productivity improvements achieved with eSourcing as well as the low cost and ease of deployment. K2 Sourcing provides videos demonstrating exactly how you can do more with less. For the video, please email [info@k2sourcing.com](mailto:info@k2sourcing.com) and mention the eSourcing video. You can also request a copy at the website [www.k2sourcing.com](http://www.k2sourcing.com).
9. **Market Procurement Again** After the savings can be demonstrated, it is time to report results. Have a big meeting and dole out credit. When leadership and others publicly see the success, you will quickly find everyone else looking to procurement for help. You have now expanded your influence, proven your value, secured your future, and demonstrated the importance of procurement.

I am not saying this does not take effort, nor is it for the faint of heart. It will take energy, courage, and leadership. Even with these factors, following the points above may not work or be right for you. The question is, “can you afford not to lead?” Many procurement departments are viewed as cost centers, not as a valuable resource to create a strategic advantage. If procurement is viewed as a cost center, when business activity declines, the department will be an easy target for quick cost cutting strategies. That’s called downsizing. Rather than waiting to be the target, take advantage of the market and seize the opportunity to demonstrate leadership and value.

After all, what is the real risk of failure? Say in the initial meetings savings opportunities just do not exist. In all the years that I’ve done this, I have never witnessed a company where zero opportunity existed, but let’s say it did happen. You have now spent several hours of your time and the CFO’s running reports and reviewing ideas to improve the company. If you are in a company where the leadership reacts negatively because you searched for ways to help the company in tough times, you have learned something valuable about your employer. Get your resume ready for when things improve. You deserve a better work environment.

Say you conduct a few strategic sourcing projects and were unable to reduce costs. You get credit anyway. For now everyone, including senior leadership can be certain that the company is aligned correctly with suppliers and has taken the correct steps to maximize profitability. Upper management can inform stakeholders of the decisive action, and your team and leadership abilities were a valuable part of the assessment. Companies look for leaders that take initiative and align themselves with the organizational reality. In the very unlikely event significant savings are not generated, you will still become viewed as a leader and as a valuable asset.

Taken as a whole, it is my opinion there is little downside. The upside is a chance to expand procurement’s influence, drive organization profit improvement, and secure your future.

Do you agree or disagree? Send comments or questions directly to the author at [matt.miller@k2sourcing.com](mailto:matt.miller@k2sourcing.com).