Procurement Cost Reduction

Delivering sustainable cost efficiencies to an organisation

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kpmg.co.uk
As one of the leading firms in the Procurement Advisory marketplace we help our clients deliver benefits to their bottom line and grow the value that procurement brings to their organisation.

Our experienced procurement practitioners bring a track record of insight, engagement and execution. Our focus on results speaks for itself with our fees often linked to the benefits we deliver.

We help our clients to deliver large-scale cost reduction to their business and transform their procurement functions. We have typically delivered an average of 20% cost reduction on procurement projects for our clients. In doing this we offer:

- Objective advice that focuses on our client’s interests
- Cost reduction through use of advanced sourcing techniques e.g. eAuctions and Category Management
- Assistance with the design of the Operating Model that is right for the client’s business. Support in developing a compelling business case demonstrating tangible benefits
- A focus on execution and realisation of the targeted benefits

Clients have concerns about the following business issues:

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<tr>
<th>Issues</th>
<th>Context</th>
<th>Offerings</th>
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</table>
| Reducing third party expenditure and capturing the benefits | • Approximately 20 percent of organisations said they were still unable to track actual delivered procurement savings back to the bottom line and through to EBITDA  
• Procurement functions need to address the total cost base and play a lead role in cost management within the organisation | • Cost reduction  
• Operational excellence |
| Understanding and mitigating supply chain risk | • Procurement can further competitive advantage, especially through strategic supply market insight, revenue generation from its supply base, supply chain value and innovation  
• There is a broad consensus that sustainability – in particular its environmental aspects – is a rapidly growing concern for Procurement  
• Many organisations still do not have total visibility of the level of supply chain risk that exists currently within their organisation | • Cost reduction  
• Operational excellence  
• Capability enhancement |
| Procurement’s strategic role                | • Almost 35 percent of non-Procurement Executives feel that Procurement staff lack understanding of the wider business  
• Over 70 percent of organisations felt that Procurement will win a seat at the strategy table only when it can demonstrate its value to the wider business | • Capability enhancement  
• Operational excellence |
| Designing the ‘right’ procurement operating model | • Over 80 percent of organisations said that a centralised or centre-led Procurement function will continue to gain greater control over global procurement in the near future  
• Business customers demand greater influence over the suppliers they work with | • Capability enhancement  
• Operational excellence |
| Understanding tax related opportunities     | • Where organisations have supply chains that span multiple countries, different corporate and indirect taxes and customs duties complicate the lives of procurement professionals. Many recognise the problem, but few have been able to address it successfully. | |

*KPMG Beyond Purchasing – Next steps for the procurement profession survey, July 2008*

Based throughout the UK, we help clients to address these issues across regional, national and international operations.
What we do

With a focus on four key areas, KPMG is able to deliver rapid cost reduction and build our clients’ capability to sustain and deliver further savings themselves.

We have four principal service offerings under the umbrella of Procurement Cost Reduction. These can be selected together as a programme or as individual offerings in their own right.

We can also perform a rapid opportunity assessment benchmarking a client’s pricing and specifications against industry best practice.

A typical Procurement Cost Reduction programme would involve:
- A cross-functional cost reduction programme considering procurement opportunities across all categories of both direct and indirect third party expenditure
- Category based cost reduction through eAuctions, tenders, supplier re-negotiations and specification rationalisation
- A strategy for embedding operational excellence, improving capability of procurement people and supporting processes
- A clear supporting business case for the Procurement transformation programme, sponsored at Board level and with business-wide engagement, change management and clear ownership

### Cost Reduction
- eAuctions
- Strategic sourcing
- Category based cost reduction
- Supplier relationship management
- Complex procurement and outsourcing
- Contract audits

### Cash Improvement
- Payment terms re-negotiation
- Supply Chain Finance
- Supplier rebates
- Contract reviews

### Capability Enhancement
- Procurement team up-skilling and training
- eProcurement/eSourcing technology strategy and selection
- Current state operating model review
- Future state organisation design
- Procurement outsourcing review

### Operational Excellence
- Wider business alignment
- Benefits tracking and realisation
- Policy and process improvement
- Supply chain risk management
- Category Management
Our four key offerings enable us to provide real strategies to current client issues:

**Cost Reduction**

- **Client issues**
  - Strong impact:
    - Cost reduction
  - Moderate impact:
    - Strategic role

- **Benefits**
  - Category management ensures optimal demand management and total cost of supply is considered.
  - Strategic sourcing is embedded through eSourcing with the appropriate use of lower cost country suppliers and eAuction technology.
  - Supplier Relationship Management activity adds further value beyond contract award.

**Cash Improvement**

- **Client issues**
  - Strong impact:
    - Cost reduction
  - Moderate impact:
    - Strategic role

- **Client issues**
  - Moderate impact:
    - Supply chain risk

- **Benefits**
  - Procurement has a direct influence over working capital and can significantly impact the cash position of the business. Greater engagement with the supply base and use of financing solutions can deliver significant cash benefits to the business and the extended supply chain. The various supply chain finance solutions can also be used to de-risk the supply chain.

**Capability Enhancement**

- **Client issues**
  - Strong impact:
    - Strategic role
  - Moderate impact:
    - Operating model

- **Benefits**
  - Procurement operating model focuses on cost optimisation whilst balancing National and Regional needs. Procurement has over 90 percent of expenditure under its influence and control.
  - Procurement function up-skilling and talent management. The value add of the procurement team is recognised in the business.

**Operational Excellence**

- **Client issues**
  - Strong impact:
    - Operating Model
  - Moderate impact:
    - Cost Reduction
    - Supply Chain

- **Benefits**
  - Procurement policy is clearly communicated.
  - Effective eProcurement systems provide efficient purchasing transactions, enhance management information and greater compliance.
  - Procurement benefits are visible and linked to budgets, the profit & loss and ultimately EBITDA.
  - Value chain risks are understood and managed.
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<th>Client &amp; Issue</th>
<th>Our Role</th>
<th>Outcome</th>
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<tr>
<td>Building Supplies Company</td>
<td>KPMG assisted the client with</td>
<td>The outcome</td>
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<tr>
<td>Cost Reduction – The rapid organic and acquisitive growth coupled with strong revenue growth over the last decade has resulted in the cost base of all the group companies not to be managed effectively. Capability Enhancement – There was no procurement function to manage either indirect or direct expenditure.</td>
<td>Conducting a diagnostic exercise with stakeholder interviews to establish the current operating state and the extent of fragmentation across the business units. At the delivery phase, KPMG’s standard methodologies were used, including organisational design, specification challenge, demand management and spend consolidation, as well as use of eSourcing tools within the individual categories in order to deliver benefits.</td>
<td>A centralised procurement operating model equipped with tools and approach. A consolidated and categorised spend analysis of all indirect expenditure to enable enhanced spend control and compliance ongoing. Annualised savings of £8.4m delivered, with the overall project forecast to deliver up to £12.4m of P&amp;L savings.</td>
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<td>Retail Company</td>
<td>KPMG assisted the client with</td>
<td>The outcome</td>
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<td>Cost Reduction – The client was integrating its UK and Spanish businesses which significantly increased their market presence and doubled the size of their business. Drive out procurement synergies.</td>
<td>An analysis of the client’s Goods Not For Re-sale (GNFR) spend with an opportunity assessment to identify a set of target categories to deliver cost reduction. Implementation of a rigorous sourcing process was used across a broad range of GNFR areas of expenditure. This included applying a number of sourcing levers, such as specification challenge, demand management and spend consolidation, as well as use of eSourcing tools within the individual categories in order to deliver benefits.</td>
<td>Implemented and delivered £1 million savings across GNFR. The client was left with sustainable cost benefits and a proven methodology for delivering GNFR cost reduction across the business. The client has engaged KPMG to deliver phase 2 of the project delivering further cost reduction.</td>
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<td>Diversified Industrial Company</td>
<td>KPMG assisted the client with</td>
<td>The outcome</td>
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<td>Cost Reduction – The rapid acquisitive growth coupled with strong revenue growth over the last decade has resulted in the cost base of all the group companies not to be managed effectively.</td>
<td>Identifying opportunities to reduce costs across a wide range of spend categories as diverse as marketing, catalogues, corporate print and IT maintenance by applying a number of appropriate sourcing levers. These included demand management, volume aggregation, supplier re-negotiation and eAuctions. Establishing specific procurement category strategies across the organisation’s regional businesses.</td>
<td>Procurement savings opportunities implemented and delivered over £1 million. A consolidated and categorised spend analysis of all indirect expenditure to enable enhanced spend control and compliance ongoing.</td>
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<td>Retail Company</td>
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<td>The outcome</td>
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<td>Cost Reduction – The client was experiencing difficult trading conditions in the UK market. A need to drive out cost efficiencies in their business to protect profitability</td>
<td>An analysis of the client’s Goods Not For Re-sale (GNFR) spend with an opportunity assessment to identify a set of target categories to deliver cost reduction. Implementation of a rigorous sourcing process was used across a broad range of GNFR areas of expenditure. This included applying a number of sourcing levers, such as specification challenge, demand management and spend consolidation, as well as use of eSourcing tools within the individual categories in order to deliver benefits.</td>
<td>Annualised savings of £3m delivered and implemented across eight spend categories. This represented a 20% improvement in EBITDA. A structured process for delivering sustainable cost reductions in GNFR spend.</td>
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<td>Real Estate Company</td>
<td>KPMG assisted the client with</td>
<td>The outcome</td>
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<td>Cost Reduction – A challenging property market led to a need to reduce costs in the business. Capability Enhancement – There was no procurement function to manage indirect expenditure.</td>
<td>Conducting a diagnostic exercise with stakeholder interviews to establish the current operating state and the extent of fragmentation across the regional units.</td>
<td>A centralised procurement operating model equipped with tools and approach. A consolidated and categorised spend analysis of all indirect expenditure to enable enhanced spend control and compliance ongoing. Annualised savings of £1m identified with improved SLAs, KPIs and contract management model.</td>
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<td>Heavy Engineering Company</td>
<td>KPMG assisted the client with</td>
<td>The outcome</td>
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<td>Capability Enhancement – Sub-optimal decentralised Procurement function Strategic Role – Procurement function perceived as transactional and price reduction focused.</td>
<td>A Procurement Transformation feasibility study to review and recommend a more optimal procurement target operating model. Recommended solution was a Centre Led operating model. Feasibility study also included a high level business case to support the recommended changes. Business case identified over £65m of direct P&amp;L cost savings Feasibility also identified the need to transform their procurement function through step-change improvements in their procurement organisation, people, processes and skills.</td>
<td>Identified P&amp;L savings of £45m. Procurement Transformation road map for next 1-3 years. Detailed design and implementation plan.</td>
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