Measuring Procurement Savings in the Age of Value

Paul Gurr
22nd June 2017
Introduction – Paul Gurr

- 23 years in procurement at Capgemini, GEP, Vendigital, Vodafone, Meggitt, JCB, Kraft Foods, Bayer & more...
- Founded Provalido in 2013.
- Providing a cloud-based tool that help organisations plan, manage and report their procurement benefits.
"Are Savings Dead?"

"Procurement value, not cost, is key."

"CPOs from some of the UK’s largest companies agreed that they see their future role as one that removes the shackles of mere cost savings."

"The idea being that you drive cost out of the organisation to make it more profitable, to maximise shareholder value is passed its sell-by date."

"The CPO is Dead – Long live the Chief Value Officer."

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No – Savings are Alive & Well

- People like numbers.
- They’re (relatively) easy to measure.
- It’s what people still expect.
- Change…
Change – Why we Never Reach Cost Utopia

- Changes in what you buy.
- Structural changes in the supply market.
- Structural changes in your own organisation.
- Changes in technology & innovation.
- Who would buy the “utopia” line anyway?
What’s Given Savings a Bad Name?

The savings black hole – on average 39%* of identified savings are not realised.

- Incorrect assumptions
- Lack of compliance / focus
- Lack of process for measuring
- Spurious calculations
- Price creep

Savings obsession. It’s unhealthy – but with the right approach, savings are something to be embraced

* Accenture 2015
5 Tips for Measuring Savings
Can you approve my saving?

THIS IS MY SAVING:
Last year, product A cost £2.50 and we bought 50,000 of them. Thanks to my great negotiation I’ve reduced the price this year to £2.00. 50,000 x £0.50 = £25,000 saving on a £125,000 spend.

BUT:
This year we buy 100,000 so the total cost is £200,000. So even at the new price, we’ve spent £75,000 more. Is the saving £25,000, £50,000 or -£75,000?

THIS IS MY OTHER SAVING:
Last year we bought 100,000 of Product B. Thanks to my great work with the stakeholder to cut out waste, this year we’ve only bought 80,000. This price is £5.00 each so we’ve saved 20,000 x £5.00 = £100,000.

BUT:
Last year we received a rebate for buying 100,000 of Product B worth £50,000, making the real price £4.50 each, so the piece price has gone up by £0.50, costing us an additional £40,000, so we’ve actually spent £60,000 less. Is the saving £100,000, £60,000 or -£40,000?
Defining Savings

FACTORS TO CONSIDER:

- How long do I claim for? – 12 months, contract life or fiscal year?
- Total spend / demand - do I care?
- Rebates that repeat – a gift that keeps on giving?
- Fluctuations in market pricing – absolute or against the rest?
- Timing of payments / cost of capital – time is money!
- Contingent signing bonuses – can I count them all now?
- Sustainable vs one-off – what happens next year?
- Cost increases – shut your eyes and ignore them!
- One-off or project based purchases – what is my baseline?
5 Tips for Measuring Savings

- Clearly define what you will measure
  - Savings Types
  - Baselines
  - Calculation Methods

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<th>Savings Types</th>
<th>Total</th>
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Savings types used by Provalido customers
5 Tips for Measuring Savings

1. Don’t stifle creativity
2. It’s not all about PPV
3. Benefit vs Savings
4. Encourage Long Term, not Short Term
5. Think TCO

- Price / Cost Reduction
- Cost Avoidance
- Cash Flow Improvement
- Revenue Increase
- Bonus (Signing or Volume)
- Rebate
- New Product Saving
- VA/VE
- Demand Reduction
- Product Rationalisation
- Process Efficiency

% of Provalido customers using these savings types
5 Tips for Measuring Savings

- Measure what actually happens – to a point
  - Retrospectively monitor
  - Effort vs Reward will differ
  - Use available technology

63% of our customers perform some form of retrospective validation
5 Tips for Measuring Savings

- Have a clear process with governance
- Use a pipeline or funnel system
- Have approvals at the appropriate milestones

### Provalido customers status & approval statistics

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5 Tips for Measuring Savings

Use the right tools that...

- Are easy to use
- Provide the right granularity
- Reinforce your process
- Are auditable
- Provide credibility
Savings are Just a Means to an End

- Value has not replaced savings, savings are a vital component of procurement value.
- Be obsessed with what your stakeholders / organisation can do with the saving, rather than the saving itself.
Thank you

Paul Gurr
22nd June 2017