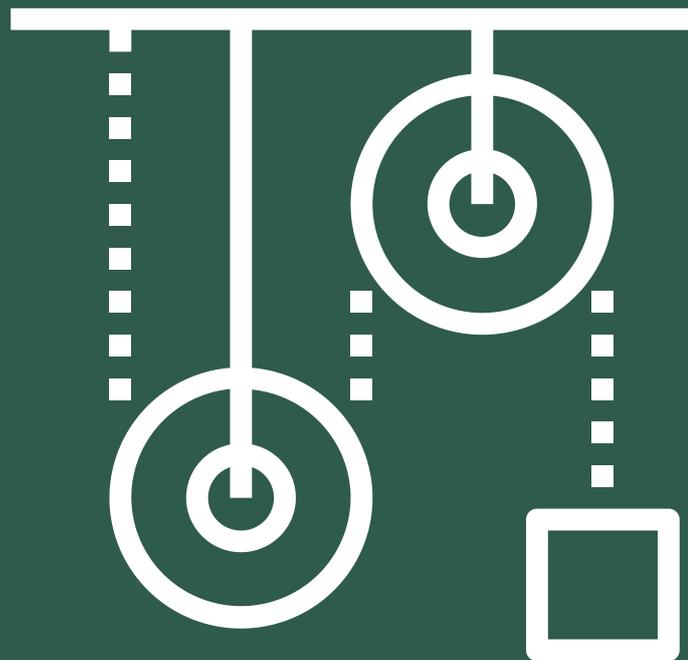


Levers for Supply Chain Savings



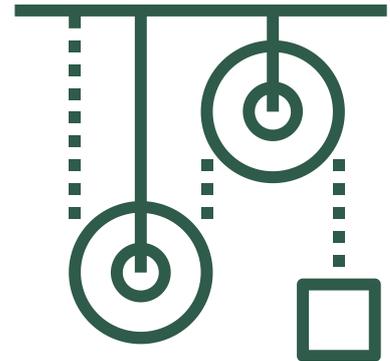
Levers for Supply Chain Savings

Through vendor rationalisation, improvements to control environments and cost optimisation, procurement and supply chain functions can be real enablers of recovery and growth. As the pandemic uncertainties and economic shocks continue, many businesses are planning for a different future from the one they envisaged at the start of 2020.

Digital transformation, flexible working practices and efficient supply chains were already priorities for most businesses, but the last year has brought into sharp focus how critical these activities will be for successful organisations of the future.

Organisations that had already invested in digital technologies and efficient supply chains have demonstrated resilience, have continued to deliver for customers and have been best placed to protect and support their colleagues. However, for most organisations, more investment will be necessary. In a world of reduced demand, reduced spend and reduced income; capital will be scarce to support these investments. Savings elsewhere will need to be made.

These circumstances provide supply chain functions with the opportunity and mandate to play a leading role in enabling their business to recover, grow and succeed.



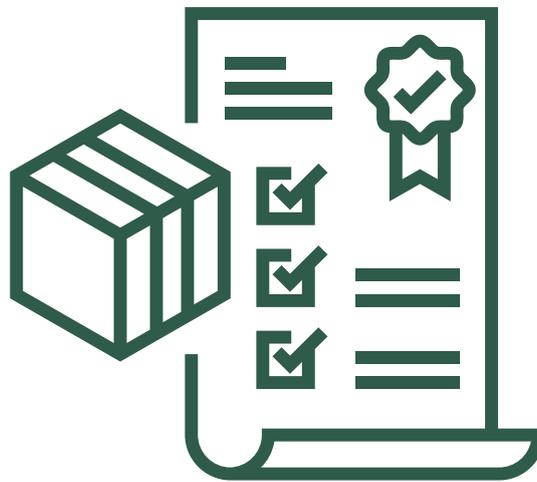
Vendor Rationalisation and Consolidation

It continues to be typical for multi-national and multi-divisional organisations with established Procurement functions to retain multiple suppliers or retain federated divisional functions delivering similar outcomes. Similarly, it is not unusual for a single supplier to be paid differing sums by different client divisions for the same services. This can often be a result of poor access to supply chain data, complex stakeholder relationships or a paucity of specialist knowledge. However, consolidating and rationalising these suppliers will often be the richest source of supply chain savings available to organisations. Creating consolidated shared services, can be a key enabler for stronger and more coherent engagement with suppliers, and will often provide suppliers with the scale and opportunity to propose technology and cost improvements.

Control Environment

It is a fact of life that savings achieved through contract renegotiation rarely fully materialise. Without robust controls, savings leakage is inevitable. Focus on just a few areas can vastly improve an organisation's savings realisation:

- **Procure-to-Pay (P2P)** – An organisation's first defence against savings leakage. The larger and more federated an organisation is, the more reliant upon P2P for ensuring the right suppliers are used for the right goods, services and works. Though many organisations recognise the value of P2P suites, they are often complex and costly to modernise. However, through specialised process analysis and utilising SaaS tools organisations can strengthen their cost control environment without the need for complex change programmes.
- **Contract Management** – Suppliers will often provide deeper discounts on the basis they can achieve margin uplift through the term of the relationship. Suppliers will leverage numerous contractual hooks (indexation, change management, upgrades, etc.) as the catalyst to enable unanticipated cost increases. These can be countered through strong contract management, targeted improvements to supplier management processes and education.
- **Benefit Realisation** – As part of the tender process, buyers typically specify the benefits/outcomes expected during the contract term, and suppliers will commit to deliver these. Without robust benefit tracking, these benefits are often not realised, and the organisation effectively pays for something that is not delivered (quite often without ever realising the fact). Implementing an effective tracking process as part of supplier onboarding, is key to ensuring the intended value is realised.



Cost Optimisation through the Supply Lifecycle

You have consolidated your supply base. You have renegotiated the contract. You have achieved unit cost reductions. You have the supply chain controls to ensure these savings stick. What more can you do to optimise your cost base? Supplier Collaboration.

In the current context it is all too obvious that nothing stands still for long. Having a critical supplier who can evolve with your changing demands, continue to deliver efficiency gains, and give you access to innovative ideas and technologies is the (attainable) dream.

If your critical suppliers share in your success, they will be motivated to prioritise you. Ensuring contracts, executive engagement and operating procedures are based on shared goals, will provide the spur for collaborative engagement. The following are just a few of the approaches you can utilise to help achieve this alignment:

- Positive recognition of strong performance helps build a relationship. Offering to provide written references, video blogs and supplier advocacy in exchange for strong and continued performance will differentiate you from other clients.
- Aligning supplier remuneration to outcomes which reflect your organisational success measures will help motivate suppliers to do the right things for you.
- Continued and structured executive engagement. When your CEO needs to call his counterpart to ask the supplier to go the extra mile, you do not want it to be their first conversation.

The risk for supply chain functions and CPO, is to think everything has been addressed or consider large areas of spend as “non-influenceable”. The current circumstances provide a mandate for change and savings delivery. So, challenge the dogma and set your team to task on exercising those levers for savings.

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