

SPEND ASSESSMENTS 101

A GUIDE TO DEVELOPING A SAVINGS ACCELERATION ROADMAP



INSIGHT
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Introduction

“We need to cut costs, but we’re not sure how or where.”

Have you—or a member of your leadership team—found yourself uttering those words? It’s a situation that hundreds of companies find themselves in each year, yet few have the capabilities to successfully achieve.

One of the most effective ways to achieve savings objectives without headcount reduction is through strategic sourcing and procurement. However, developing a roadmap to savings can be overwhelming without the necessary resources and expertise. Additional questions can creep in:

- How do your procurement practices compare to your peers?
- How can we develop a plan without good data?
- Which spend categories have the highest savings potential?
- How do you win over key stakeholders?

If you’re unsure how to answer these questions, a spend assessment may be the answer for you and your organization. A spend assessment will provide the answers and an actionable roadmap for cost savings and procurement optimization in eight weeks or less.

In this guide, we’ll explore key questions to ask about your current state, situations that typically benefit the most from an assessment, the anatomy of a successful assessment, and four real life examples of companies that were able to drive impactful, bottom-line results from an assessment.

About the Author



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Steven Browning has over 10 years of consulting experience focused on elevating clients’ procurement performance and delivering millions in margin improvement. Currently, he leads ISG’s assessment practice, identifying savings opportunities and capability enhancement for over 100 clients as well as numerous portfolio companies of leading private equity funds.



10 Key Questions to Determine Current State

For companies who are looking to significantly grow the value driven by their procurement group, we recommend that you first assess the state of your procurement organization to determine the best way to accelerate value. Generally, this begins when a company identifies a need to rapidly improve EBITDA. However, there is much more to consider in order to maximize the total value of the procurement organization or ensure you do not fall victim to common pitfalls.

Consider the following key questions for your organization:

- Is your procurement data useful in developing a sourcing wave plan?
- Do you know which categories it makes sense to address and source first?
- Does procurement have influence or appropriate relationships with key stakeholders?
- Do you have the right people, technology or processes to maximize success?
- Is your internal team capable of achieving savings targets?
- Would external support help to accelerate savings?
- Are you able to make data-driven decisions?
- Are you confident that your plan will speak to the financial leaders in the organization?
- Are you yourself confident with the plan?
- Would you be able to commit to savings targets to your leadership team?

Who Benefits the Most from an Assessment

Although many organizations may benefit from a spend assessment, we commonly encounter four situations that create an immediate need for one:

- 1.) A CPO or CFO** who is new to their role and eager to make an immediate impact
- 2.) A Company that Misses Earnings** and has pressure to increase EBITDA or any organization in need of near-term savings
- 3.) An Organization with Limited Procurement Resources** and needs support to extract value from its spend base
- 4.) M&A Activity** leads to aggressive cost synergy targets

An assessment will provide you a roadmap to savings acceleration and procurement optimization. Our next section will outline what a successful assessment engagement should include.



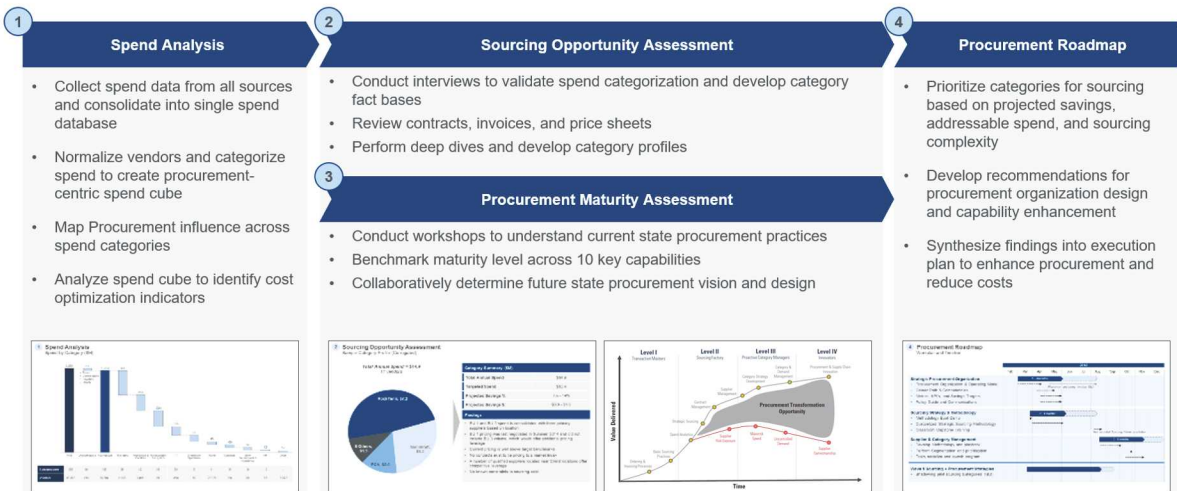
The Anatomy of a Successful Spend Assessment

A successful spend assessment begins with spend visibility. It's nearly impossible to build a credible, actionable plan without accurate visibility into spend by category, subcategory, and vendor. It's important to collect and consolidate data from all relevant systems (think ERP, P-Card) and categorize it to create a procurement-focused spend database. In working with over 500 clients, we have found that the majority of them do not have clear spend visibility from their financial systems. This first analytical step will create clear visibility into what your organization is purchasing, how much, and from which vendors.

Next, a series of interviews and contract reviews should be conducted to learn more about historical procurement practices of your organization. Specifically, these steps will help build a fact base for each category and provide context as to whether it may be a good candidate for strategic sourcing or not. Interviews also inform the procurement maturity assessment, which identifies critical gaps in the procurement organization that are, or can become, roadblocks to procurement success. Additionally, interviewing category stakeholders will provide an opportunity to begin developing the necessary relationships and alignment for a successful sourcing campaign.

Finally, a detailed execution plan should be developed that includes prioritized sourcing targets, realistic savings goals, and specific plans to achieve them. The plan should be socialized with and presented to an executive steering committee to illicit sponsorship and ensure accountability.

The following is the best-in-class assessment methodology framework that Insight Sourcing Group has developed:



Real World Impact of Assessments

Now let's look at real world examples of companies that have been able to transform their procurement function into a corporate asset and become smarter with their spend as a result of an assessment.

Example 1 | Multi-Billion Dollar Apparel Manufacturer and Retailer

After 20 years of explosive growth, this client's revenue finally slowed, which eroded margin and led to a strategic focus on reducing SG&A costs. Historically, procurement was a small team managing less than 10% of the total spend. Insight Sourcing Group was engaged to accelerate capture of savings opportunities and elevate the procurement function through a two-month assessment focused on:

- Gaining spend visibility
- Identifying sourcing opportunities and quantifying savings potential
- Performing a gap analysis of current procurement capabilities
- Designing a future state procurement organization to maximize value delivered
- Developing a roadmap to accelerate identified savings and enhance procurement

The assessment identified **\$40M in savings opportunities**. Insight Sourcing Group was engaged for a second phase to accelerate capture of the first \$20M (across ~20 categories), transform the procurement organization, and train the new procurement team members—the new team is now armed and ready to sustain savings, increase spend under management, and better serve its business partners. Ultimately, other business functions' perception of procurement changed from “procurement is tactical” to viewing procurement as a strategic partner that they want to engage with.

Example 2 | Fortune 500 Consumer Packaged Goods (CPG) Company

This client—founded in the late 19th century—had a history of growth through merger and acquisition activity, but had failed to effectively integrate its businesses and achieve cost synergy targets. Further, procurement was historically focused on ~7% of spend and primarily tactical activities (e.g., PO processing) rather than strategic, value-generating activities like sourcing, spend analytics, and category management; this all resulted in internal dissatisfaction with procurement from business partners.

Insight Sourcing Group was engaged for an eight-week assessment to identify savings opportunities and necessary enhancements for savings sustainability. The assessment identified **\$30M in near-term savings opportunities**, which were prioritized into a multi-wave sourcing roadmap; savings targets were supported by detailed category deep dives and benchmarking across a plethora of savings levers.

Additionally, we identified key enhancements to the organization, processes, and technology to sustain savings; namely, spend visibility and category dashboards to track savings and monitor demand. We were engaged for a second phase to drive the first ~\$15M of savings and implement the technologies to track and sustain savings.



\$40 million

SAVINGS OPPORTUNITY
IDENTIFIED IN
SPEND ASSESSMENT



\$30 million

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Example 3 | Fortune 1000 Building Materials Manufacturer

Tasked by their board to achieve \$8M in annual operational expense savings, this client was looking to develop a business case for implementing a more strategic approach to procurement; historically, procurement had been focused on tactical activities and had not strategically sourced many key spend categories. They chose Insight Sourcing Group as a partner and advisor who could bring expertise in sourcing, analytics, and benchmarks to develop a program that would deliver impactful results with a strong focus on change management.

The engagement started as a two-month project focused on \$1B+ in addressable spend. Key activities of the assessment included:

- Cleansing and categorizing spend data from five key data sources
- Interviewing 30+ stakeholders across all business functions to get an understanding of their spend profile and current purchasing processes
- Completing site visits at six manufacturing mills across all product divisions
- Reviewing and documenting over 60 contracts
- Developing a strategic roadmap to elevate procurement and drive value

The client engaged Insight Sourcing Group to execute the resulting sourcing projects, which delivered **\$15M in savings across 16 spend categories**. This savings acceleration achieved by the sourcing work helped the client exceed its savings targets for both 2018 and 2019. The project also included a holistic procurement transformation initiative that armed the internal team with best practice sourcing capabilities through co-execution, knowledge transfer, and training as well as the implementation of SpendHQ spend visibility to monitor spend and compliance.

Example 4 | \$700M Furniture Retailer

This client had been in business for almost 30 years and had grown into one of the country's top furniture retailers. Additionally, the company had been PE-backed since 2014 and was in growth mode, preparing for a potential IPO. As a result of the company's rapid growth, its contracts and price structures were representative of a much smaller company. Also, they had very limited procurement capabilities—mostly tactical purchasing work across three people. The client's executive team was eager to begin sourcing work to arrive at significant savings in 2019. In December 2018, the assessment kicked off which included:

- Robust spend analysis to define spend by category, subcategory, and vendor
- 20+ stakeholder interviews to build a fact base for each category and begin the necessary change management process
- Identified 17 immediate sourcing opportunities with **\$14M savings target**

Following the assessment readout, ISG was engaged to lead the wave-one sourcing initiative and deliver the identified savings. An in-depth procurement transformation workstream was also executed to establish a strong and capable team to sustain savings, continue additional sourcing waves, and enhance procurement's value to the organization.



\$15 million

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\$14 million

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Conclusion

A spend assessment is the ideal starting point for any organization looking to generate rapid, near-term savings and elevate its procurement function.

If you are interested in learning more or looking for a partner with the capability and expertise to ensure you achieve outstanding results, please contact our team at info@insightsourcing.com or **(888) 973-0208**.

About Insight Sourcing Group

Insight Sourcing Group is the leading boutique consulting firm in North America focused exclusively on strategic sourcing and procurement-related services. Founded in 2002, the firm works with senior executives and procurement leaders to accelerate strategic sourcing savings, increase spend visibility, provide ongoing category analytics for savings tracking, and implement procurement best practices. Insight Sourcing Group has worked with hundreds of corporate clients of all sizes and over 50 Private Equity firms.

To learn more, visit www.insightsourcing.com.



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