

Five Strategies to Achieve Tangible Savings with Strategic Sourcing

PART THREE



Introduction

This whitepaper is the last in a three-part series on best practices for **achieving tangible savings quickly** with strategic sourcing.

Today's economy presents a **buyer's market** across most spend categories. Now is the time to renegotiate contracts or re-source spend. The following chart, updated since our last paper, includes a variety of **category price decreases** year-over-year for November 2009.

Buyer's Market: Act now or you may lose out

	Category	Aug. '09 Y-O-Y% Price Change*
Fuels	Crude Oil	-39.1%
Metals	Aluminum, High-Grade	-30.1%
	Steel Sheet, Hot-Rolled	-52.8%
Wood	Plywood Sheathing	-11.9%
Facility Services	Main. & Repair Construction	-8.5%
Manufactured Goods	Steel Pipe	-31.0%
	Wire & Cable	-10.6%
Transportation	Ocean Freight	-24.4%
Travel	Airfare	-11.6%
Hardware	Laptops	-23.5%

These are just a few of the many categories that have dropped dramatically.

**Y-O-Y Change: Year-over-year average percentage change*

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Learn more about how ProcureAbility's RAPID Sourcing program can help you deliver savings in just 3 to 6 weeks.

Don't leave savings on the table because you think it too onerous, costly, or time-consuming to renegotiate or re-source now. Those taking an aggressive approach to contract renegotiation and re-sourcing are helping their companies compete.

Five Strategies for Tangible Savings

ProcureAbility uses five best practices to accelerate savings:

1. Understand and use supply market intelligence
2. Develop a robust attack plan
3. Use fit-for-purpose approaches
4. Aggressively manage in-flight sourcing activities
5. Plan for the future

This whitepaper, the third in a series, discusses strategies two through five.

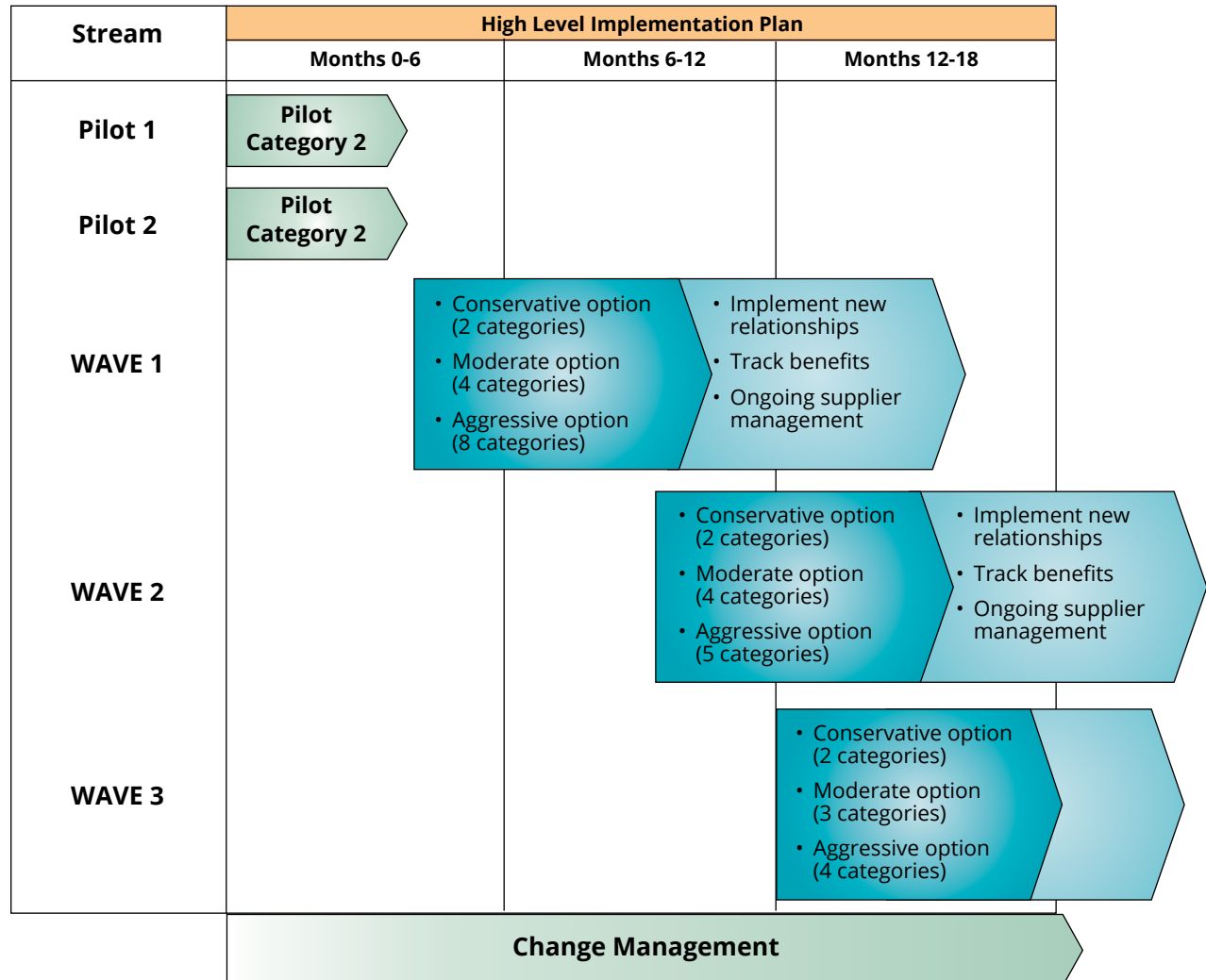
2. Develop a Robust Attack Plan

The phrase: "If you fail to plan, you plan to fail" may be overused, but it certainly still applies. Developing a robust attack plan for sourcing savings is critical to success. Following are details for three phases of this best practice.

Phase 1. Develop a savings roadmap to visibly drive schedule compliance

- Convert prioritized opportunities* into a detailed re-sourcing / renegotiation roadmap.

Roadmap for Re-Sourcing and Renegotiation (Example)

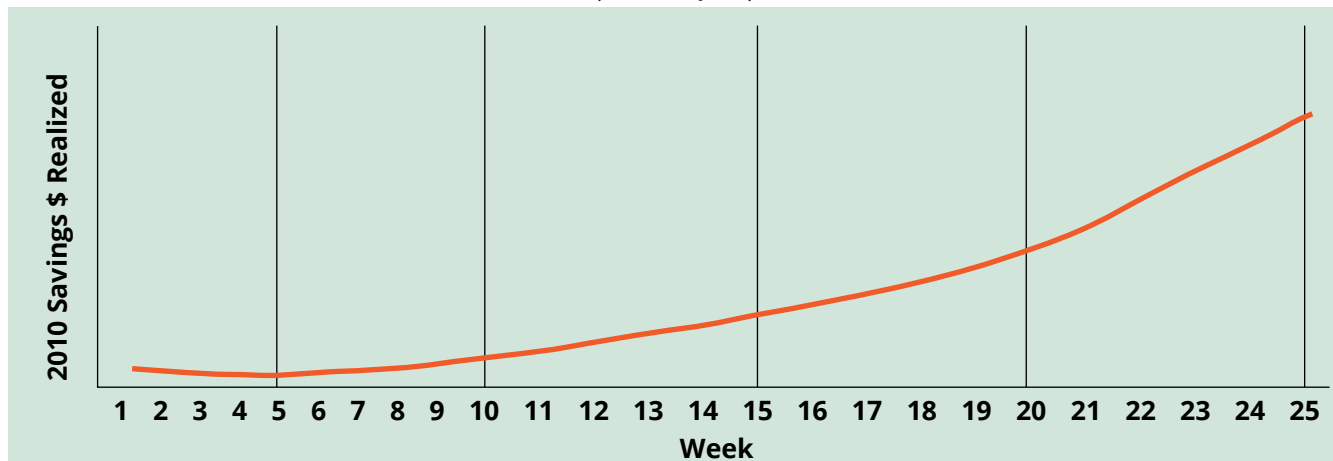


*Part II in this whitepaper series discussed how to identify and prioritize re-sourcing and renegotiation opportunities.

- Create a savings timeline that clearly articulates future savings to be realized. The timeline drives execution

and schedule compliance, and it visualizes the cost (or lost savings) of delay.

Savings Timeline (Example)



Phase 2. Calculate and point out the cost of not doing anything to drive compliance and urgency

- Clearly articulate the daily cost of schedule slippage for each initiative
- Keep savings and schedule results visible
 - Create savings and schedule dashboards and/or websites to increase visibility
 - Celebrate success visibly and loudly
 - Understand, and make visible, savings and schedule gaps and their associated costs
- Define clear accountability for each re-sourcing/renegotiation initiative
- Create risk-mitigation plans for savings shortfalls
 - Actively discuss risk-mitigation plans and tactics to eliminate shortfalls
 - Add new, potential initiatives to make up for shortfalls

Phase 3. Clearly Link Savings to Budgets to Drive RAPID Implementation

- Create a cross-functional finance team to identify savings priorities and participate in the savings strategy process

- Define different types of savings, and determine areas of focus for the initiative, for example:
 - O&M vs. Capital
 - Product vs. Process
 - “Soft” vs. “Hard”
- Create a savings dashboard that clearly and visually tracks completed savings initiatives to realized budget impacts, tracked regularly and often (weekly)
- Conduct regularly schedule savings review meetings with the sourcing project management group and the cross-functional finance team to drive alignment and course adjustment

3. Use fit-for-purpose approaches*

- If the objective is to maximize savings during the next few months, then the focus should be on approaches that can drive savings in the shortest time possible
- Use fit-for-purpose approaches, even if only 80 percent effective
- The fastest solutions will likely be less focused on value engineering/process redesign efforts, and more focused on price and contract renegotiations

- Track opportunities not realized in the next few months, for pursuit in the longer term
- Use stretch targets to motivate stakeholders and suppliers

* See Part I of this whitepaper series for details on ProcureAbility's fit-for-purpose / RAPID Sourcing Methodology, which includes strategies for simplifying and focusing your sourcing process.

4. Aggressively manage in-flight sourcing activities

- Focus not only on spending under contract, but also on contracts that are about to be committed
- Work with your executive sponsor to:
 - Send a broad message about the need for savings and how procurement can help
 - Reach out and get involved with ongoing supplier discussions or negotiations
 - Communicate planned or remaining new spending for the quarter
- Define how business units can engage with procurement (create a new email alias such as in-flightsupport@YOURCOMPANY.COM)
- Continue to publicize how the businesses can benefit and get help from procurement via your intranet, company newsletters, and staff meetings

- Prepare your team to work on an increased number of projects, both small and large
- Refresh negotiation techniques for key resources
- Focus on results and time to value (80/20 rule still applies)

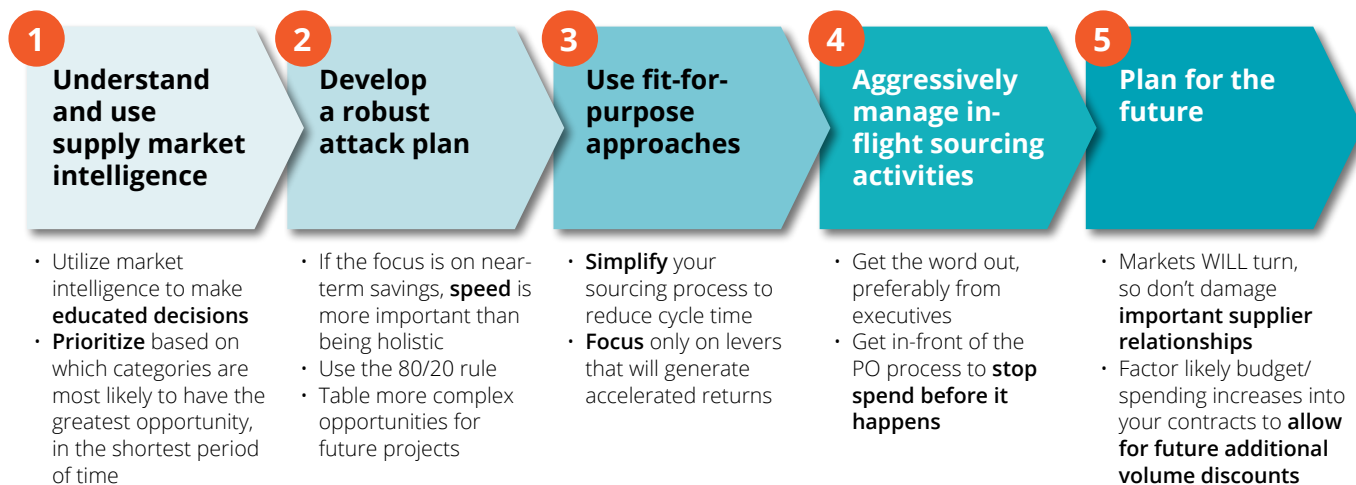
5. Plan for the future

- Spend levels will likely increase as the economy recovers, so consider tiered pricing to allow for additional discounts for future spending increases
- Extend the duration of contracts where possible to take advantage of current conditions
- If value engineering and process opportunities were not pursued, document those for future pursuit
- The market power will shift from buyers to suppliers, so be careful and protect important supplier relationships
- As markets tighten, more innovative approaches will likely be required – be prepared

Conclusion

Sourcing in today's environment requires a quick response to corporate savings requirements. So, plan accordingly. The following chart summarizes ProcureAbility's five strategies / best practices to achieve tangible, accelerated savings.

5 Strategies to Achieve Accelerated Savings



Now is the time to re-source and renegotiate contracts with outdated pricing structures. This savings process can take weeks rather than months by using a focused, prioritized, simplified, and targeted approach.

Contact ProcureAbility

Learn more about how to achieve savings
in weeks instead of months.

About ProcureAbility

ProcureAbility™ transforms traditional, outdated consulting and staffing models by offering our clients advisory and resource support on their terms.

Our delivery model is unique. We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice—an approach unheard of in traditional consulting and staffing firms.

ProcureAbility's customer-focused delivery model allows for a wide range of flexibility:

- **Working with strategic or tactical experts** who can deliver a wide range of solutions, from consulting to staffing
- **Scaling a team your way**, from individual resources to complete project teams
- **Adding value as needed** from a deep and broad library of procurement insights
- **Choosing remote or on-site support options** — or both

Since 1996 we've focused only on procurement's success. **It's all we do.**

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