



POINT OF VIEW

Moving out of the cost-saving shadow

How procurement can grow profit, not just save money



Traditionally, procurement has been viewed as a support function, with the aim of simply keeping a lid on costs. However, such a view fails to take into account the ways in which procurement can impact six outcomes - profit growth, risk mitigation, working capital optimization, innovation, user experience, and operational efficiency - and add significant strategic value to the business.

The challenge is that procurement's ability to deliver value - beyond cost savings - is often hampered by several factors, including:

- Limited involvement of procurement in managing the supply chain (beyond assuring supply)
- Lack of alignment with other functions, especially finance
- The need to maintain fiscal responsibility, financial control, and transparency to support risk objectives and not focus on user experience

The power of six

Procurement has both a strategic and operational role to play in helping organizations accelerate and increase absolute profit growth. This is achieved by influencing six key business outcomes.



Profit growth: Up to 70% of organizational costs reside with third parties. As a result, organizations often end up relying on suppliers for products and services - think outsourced manufacturing or customer service teams - that directly impact their brands and reputations. Working with the right suppliers can have a big impact on performance.

By identifying critical suppliers, integrating commercial efficiencies, and aligning supplier performance to incentivized contracts, procurement can build productive, competitive supplier relationships and drive organizational growth. And that in turn can help boost the top line, improve time-to-market and price-point elasticity, create new customer channels, and increase customer loyalty and satisfaction.



Risk mitigation: As the number of suppliers that organizations work with increases, so too does their risk exposure. But by segmenting suppliers against a risk framework that covers everything from supplier onboarding to contract closure, procurement can reduce operational risk. This includes financial, supply chain, and reputational threats. Software solutions are

available that collate multiple data sources on a supplier, providing a holistic view of operational risks. Procurement can spot the red flags and help organizations avoid them.



Working capital optimization: Procurement - particularly because so much spend falls under its control - can provide data and insight on how best to optimize working capital while also working proactively to mitigate supply chain risks. But in order to do so, procurement must react quickly when internal or external circumstances cause priorities to change, and coordinate its efforts closely with finance.

Procurement enables a business to understand supply chain liquidity beyond its first tier, making forward purchases of raw materials and optimizing inventory levels while managing changing demand with suppliers. If a supplier doesn't understand why demand has dropped they could reduce cash outlay and material purchases, meaning inventory drops beneath safety tolerance levels. This then impacts key performance indicators, such as on-time, in-full orders.



Innovation: To innovate and meet changing consumer trends, procurement must build close, creative working relationships with suppliers, and also be willing to use outcome-based commercial constructs to secure the best and brightest ideas from across the supply base. Supplier development programs can help foster innovation, and provide a framework for suppliers to participate in new product development efforts to either improve existing products or move existing suppliers into new markets.



User experience: Savvy procurement teams understand that providing seamless user experiences extends the scope of their influence and brings more spend under their control. Customers need to be able to make purchases quickly and easily, and they expect to have consistent experiences and to be able to solve problems quickly.

Already, digital technologies like machine learning and natural language processing are helping to create guided, personalized buying experiences based on role profiles, prior purchases, and organizational buying behavior. Having controls in place - for instance, by delegating authority, preferred suppliers, and buying channels - as well as powerful analytics can help further optimize purchasing behavior.



Operational efficiency: Standardizing procurement processes and policies goes a long way toward eliminating bureaucracy and improving efficiencies. These standardized tasks can then be automated, freeing up time for more value-added work. And that's not all. By focusing

on holistic expense management to address demand management, spend compliance, and broader strategic business change, procurement can create granular transparency, drive conscious decision-making, and integrate business planning and budgeting processes. It also enables a fiscal line of sight into P&L and balance sheets, and reframes the cost discussion to include cost out and areas where savings should be invested to increase profit growth.

Cost savings may be the primary area of focus for procurement - both today and in the past - but its future lies in working with the business and supply base to deliver strategic outcomes and drive profit growth. These outcomes should be at the heart of every procurement transformation.

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