

POINT OF VIEW

# Sourcing opportunity assessments

Immediate cash management improvements during uncertain times

*At the start of 2020, no procurement team could have predicted the COVID-19 pandemic and its impact. Previously profitable and financially stable companies across every industry are facing a new economic reality. As a result, profit and cash-flow improvements are most CEOs' and CFOs' top priority.*

*As economies slow and market dynamics shift on an almost weekly basis, organizations must face the challenge of doing more with less.*

*Sourcing opportunity assessments are one way organizations can optimize their use of resources and identify potential cost management improvements. These assessments take a step back and use a structured approach to identify where to target first, where the greatest savings opportunities lie, and how to accelerate profit and loss (P&L) impact.*

*This point of view examines the four stages of a detailed cost reduction opportunity assessment using analytics, benchmarks, contract reviews, and supplemental category expertise.*

## Leave no stone unturned

Ultimately the outcome of these assessments is to identify, quantify, and prioritize opportunities to drive immediate and medium-term cost reductions and cash-flow improvements. These opportunities are usually missed because of highly fragmented spend across suppliers, reactively managed contract renewals, and under-resourced or under-trained procurement teams.

Most companies already conduct some version of an opportunity assessment, focused on cost and spend management, during their annual budgeting and financial planning season. But how many of these assessments truly leave no stone unturned when scrutinizing how money is spent across the organization?

Without external input and benchmarking support, money is almost certainly left on the table.

## Turning opportunity assessments into actual cost and cash improvements

Potential opportunities identified by an assessment must then be realized, either with direct incumbent negotiations and/or strategic-sourcing initiatives. Best-in-class assessments show savings of approximately 4.79% against external spend, year-over-year<sup>1</sup>, compared to the 2-3% range we typically see for spend that is not proactively assessed and managed. For a company with \$1 billion in total spend, this equates to incremental savings of \$18-\$28 million each year.

To maximize potential cost management improvements, we recommend four distinct and interdependent steps:

- Data collection and situation analysis
- Opportunity/hypothesis identification and stakeholder reviews
- Opportunity sizing, refining, and validation
- Implementation planning

	Data collection and situation analysis	Opportunity identification and stakeholder reviews		Opportunity sizing and refining	Implementation plan and report out
Gaps and critical success factors	<ul style="list-style-type: none"> <li>● Complete spend and contract data for analysis</li> <li>● Set up category manager and stakeholder reviews for following weeks</li> <li>● NOTE: any gaps could delay project timeline</li> </ul>	<ul style="list-style-type: none"> <li>● Validate/confirm with key stakeholders that there are no gaps</li> <li>● Review of qualitative insights not included in the documents and data gathered</li> </ul>	<ul style="list-style-type: none"> <li>● Spend cube and profile - accuracy is critical as this will affect the baseline against which savings will be calculated</li> </ul>	<ul style="list-style-type: none"> <li>● Validate / confirm and gain and buy-in from various impacted internal stakeholders, as well as budget holders</li> <li>● Can impact change management and compliance</li> </ul>	<ul style="list-style-type: none"> <li>● Quantified, prioritized opportunities with time and resource estimates will help the client calculate ROI for savings realization initiatives</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>● Initial spend analysis</li> <li>● Stakeholder kickoff and meeting schedule</li> <li>● Initial list of taxonomy inconsistencies</li> </ul>	<ul style="list-style-type: none"> <li>● Spend data baseline and contract analysis</li> <li>● Initial savings ranges / opportunities</li> <li>● Initial contract analyses for suppliers under review</li> <li>● List of validated opportunities and draft of sourcing wave plan</li> </ul>			<ul style="list-style-type: none"> <li>● Business case with savings opportunities by category required resource to deliver</li> <li>● Implementation/ wave plan prioritized by category</li> </ul>

**Figure 1:** Genpact's sourcing opportunity assessment approach

<sup>1</sup> The Hackett Group - Source-to-Settle Discussion Metrics, 2019

The opportunity assessment identifies the total cost reductions and cash-flow improvements possible and then lays out a roadmap of how to achieve them. How long it takes will depend on the size of the organization and the number of geographies assessed.

## Data collection and situation analysis

This initial phase is fundamental because it lays the foundation for the entire assessment and subsequent hypothesis testing. Missing contractual documents or incomplete data will delay benchmarking exercises and present an incomplete picture for the assessment team to analyze. To avoid these gaps, companies should set data completeness targets and make sure they're met ahead of starting the clock on the formal four-to-five week assessment period.

## Opportunity/hypothesis identification and stakeholder reviews

As contracts and payment data are only part of the story, the assessment team should also begin its analysis by testing and validating a set of hypotheses. Part of this validation will come from qualitative not just quantitative - insights such as:

- The history of relationships with key suppliers that led to the commercial terms in the latest agreements
- Internal projects that influence the ability for a company to move away from using an incumbent supplier
- Operational metrics that detail how a company interacts with key suppliers. This can include payment term performance, supplier risk and supplier performance management indicators, and core supply chain processes such as fulfillment and demand planning

The spend cube development process is then a critical next step. When combined with the spend profile, it creates a baseline against which savings projections can be calculated. If the baseline is incorrect, or deemed untrustworthy, this will have a direct impact on the output's credibility from the assessment process.

## Opportunity sizing, refining, and validation

This stage requires close collaboration with finance to ensure that everyone agrees on how to calculate savings against each opportunity. This should not start until the spend cube and spend baseline have been finalized. It's important to have validation, confirmation, and buy-in from the impacted internal stakeholders as well as budget holders.

## Implementation planning

The plan and overall roadmap for how to implement each opportunity, how long it will take, and whom to involve are as important as the opportunity identification. Plans should be detailed and realistic based on available resources. In the current COVID-19 environment many organizations are running lean, with key procurement and project management staff having to take on multiple roles. Expecting these team members to drive incremental and accelerated cost takeout programs can be unrealistic. Organizations should explore how self-funded commercial terms can support these initiatives with service providers such as Genpact.

## Execution, governance, and tracking

This final phase comes after the opportunity assessment is complete and enables execution against the assessment results. We know from our experience running procurement operations that the opportunities must be realistic, traceable, and sustainable - otherwise the benefits identified never truly impact the bottom line.

Procurement leaders can play a vital role in responding to the current economic challenges by reducing costs and freeing up cash flow. These assessments enable organizations to identify where the greatest opportunities lie and how to achieve savings quickly.

*This point of view is written by Simon Rycraft, Partner, Source to Pay Consulting Practice, and Diana Sen, Director, Source to Pay Consulting Practice.*

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## **About Genpact**

Genpact (NYSE: G) is a global professional services firm that makes business transformation real. We drive digital-led innovation and digitally-enabled intelligent operations for our clients, guided by our experience running thousands of processes primarily for Global Fortune 500 companies. We think with design, dream in digital, and solve problems with data and analytics. Combining our expertise in end-to-end operations and our AI-based platform, Genpact Cora, we focus on the details - all 90,000+ of us. From New York to New Delhi and more than 30 countries in between, we connect every dot, reimagine every process, and reinvent companies' ways of working. We know that reimagining each step from start to finish creates better business outcomes. Whatever it is, we'll be there with you - accelerating digital transformation to create bold, lasting results - because [transformation happens here](#), at Genpact.com.

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