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Demonstrating the value of Procurement

Benefits management

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Demonstrating the value of Procurement

Leading practice benefits management processes align both the Procurement and budgeting processes to enable Procurement, Finance and the budget holder to jointly agree and report benefits

Organisations typically follow a traditional benefit management process; tracking benefits from the inception of the idea through the delivery of the sourcing event.

However Finance can struggle to account for these benefits which can damage credibility and create a degree of scepticism in the reported numbers

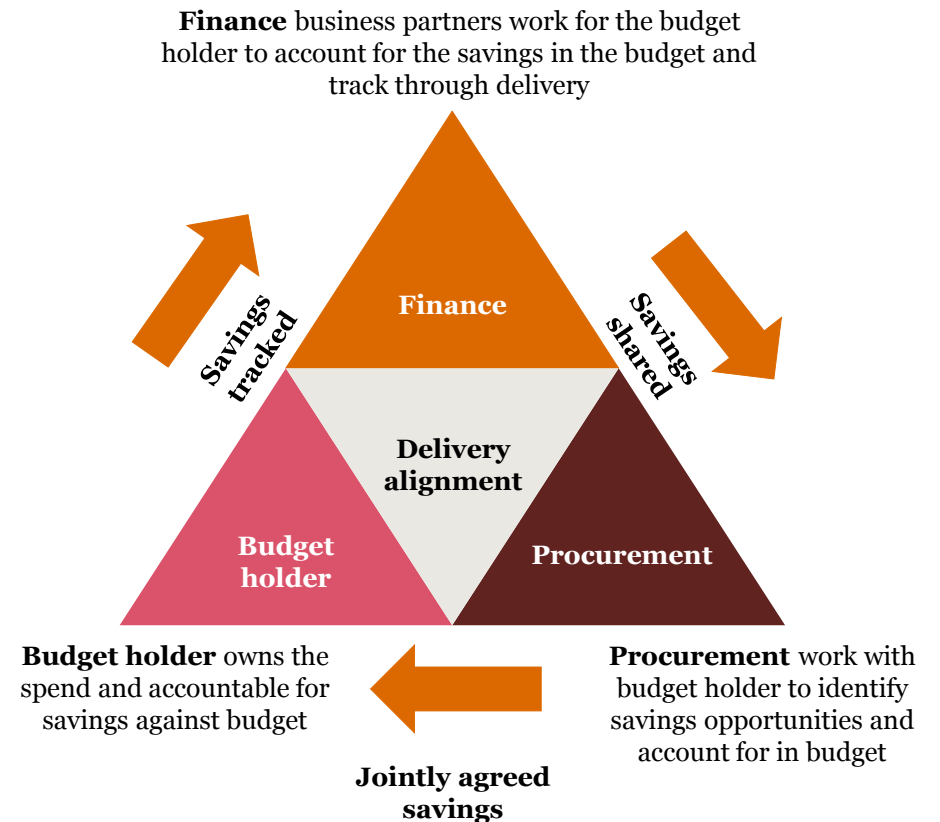
For this to be overcome benefits management must be taken on to another level:

- Procurement and Finance budgeting processes should be aligned to embed category planning in the annual budgeting process.
- Procurement should work with Business Owner and Finance business partner throughout the process, ensuring that the saving baseline and approach to delivery is agreed upfront.
- Benefits should be regularly and centrally tracked in one single database, linked to a stage gated process.



Building credibility

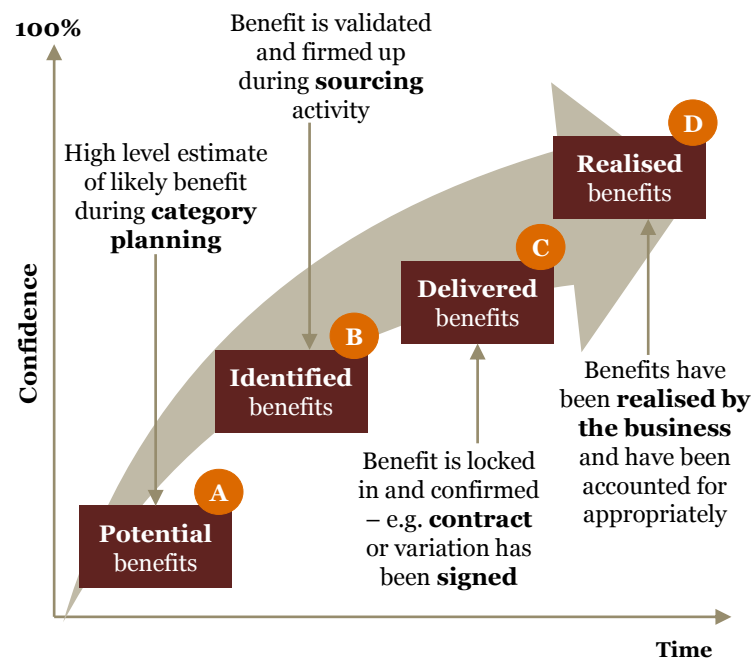
A clear, singular and defined management process, aligned to the Finance budgeting process which engages the budget holder, Finance and Procurement is essential to recognising and tracking savings delivery to build credibility in savings reported.



A transparent and joined up approach

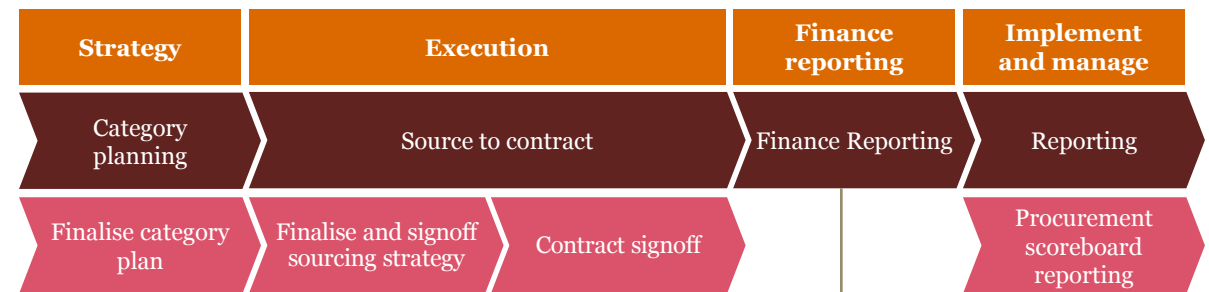
Effective benefits management requires a **clear and auditable process**, underpinned by **agreed definitions** of what a benefit is and how it will be accounted for. This is only effective however if it's **integrated into the end to end budgeting process** whereby Procurement, budget holder and Finance jointly plan for, track and deliver savings in line with agreed budgets.

A clear, auditable and gated process

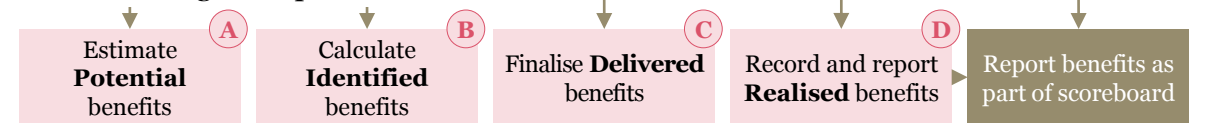


Alignment of Procurement and Finance budgeting processes

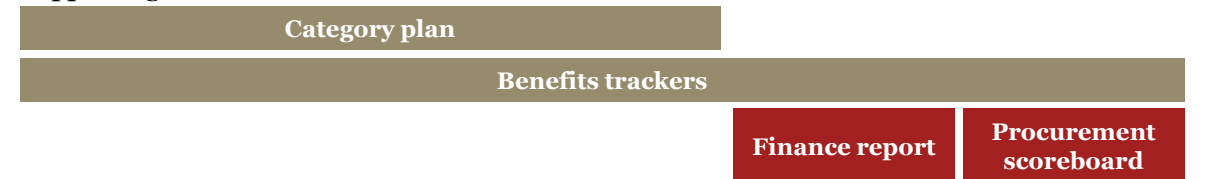
Procurement process:



Benefits management process:



Supporting tools:



- A robust end to end process, agreed by Procurement, Finance and budget holders.
- Formal approval stage gates ensure integrity of savings and how they are allocated.
- Benefit definitions which are agreed by all parties, including how they will be realised and accounted for.

- A benefits management process alone is not sufficient – category planning and business planning cycles must be aligned.
- Procurement jointly work with the budget holders to identify sourcing projects which could delivery value, and Finance build a target into the budget.
- The process demands **full engagement** from Procurement, the Budget Owner and Finance throughout the process, ensuring that the saving are jointly agreed, tracked and reported.

The value of a credible benefits management process

A joined up process which works in partnership with the business:

- Provides a **single** and **credible source** of reporting.
- Provides **clarity of a benefit vs a saving** and celebrates the additional value which Procurement delivers, over and above cashable savings.
- Improves **budget accuracy** as the initial budgets are developed with Procurement insight.
- Enables Procurement and budget holders to jointly address savings challenges, **preventing over stating of savings** potential.

Benefit or savings...?

A clear distinction between a benefit vs. a saving ensures the credibility of the process and the numbers reported – both can be reported, however the definitions and rules must be agreed as part of the process.

- A **saving is the financial measure of a reduction in expenditure** compared to a defined baseline.
- A **benefit is the financial measure of resistance to unbudgeted, unplanned or unexpected price increases** that have not been considered in the baseline price, for example: cost avoidance.
- **Cost avoidance is not a saving**, but is important and should be included as part of the overall measurement of Procurement performance as a “hard benefit”.
- **Benefits may also be non-monetary** but still add additional business value. These should be considered “soft benefits”.



How can PwC help?

We bring experience from working with leading Procurement functions, who have successfully implemented aligned benefits management approaches, to co-develop your benefits management approach with Finance and your business functions.

Review current approach to benefits management

- Establish Procurement and Finance working group.
- Review of current processes and systems.
- Review against best practice.
- Make recommendations on changes needed.



Design new benefits management process

- Define design criteria
- Hold workshops to design end to end process.
- Create benefit definitions and gain agreement.
- Define governance and reporting.
- Determine system requirements.



Implement

- Source system or develop in house solution.
- Roll out to key stakeholders.
- Establish governance.
- Test and refine on pilot categories of spent.



Case studies



Global brewer



Description of benefits tracking process

- All benefit projects logged in a central database with controlled administrative rights.
- Central database will have workflow and notifications to automate the process and reduce lead time to complete approvals.
- All benefits projects will be approved by an independent Finance function to provide independent scrutiny and validation.
- Historical prices for all categories subject to volatility will be adjusted by market indexes to ensure benefits are net of market movements and normalised for volume effects.
- Central spend database to provide evidence around baseline and potentially volume and pricing details.

Leading practice principles deployed:

- All benefits will be subject to verification by Finance.
- Web-based portal will link contract, benefits and sourcing project information together.
- Savings performance will be measured against historical actuals and market movements (currently based on forecasted volumes).
- Performance will be measured by product category and by region.
- Central database will have workflow for all savings.
- Commodity based benefits will be tracked to indexes to ensure robustness of savings calculation – index links to be verified by Finance.
- Saving approvers will be determined by value and type of saving
- All projects will be retained with detailed back-up to evidence value added to support transfer pricing decisions and substance evidence for tax discussions.



Global pharmaceutical company



- Benefits categorised into one of three types – in budget, in revenue or cost avoidance.
- Each category (e.g. Packaging, Marketing etc.) provides a forecasted benefit value every year and incorporates certain benefits into budgets where applicable.
- Benefits are recorded based on actual volumes, prices & outcomes of sourcing activity and recorded against the original forecast. Two revised benefits forecasts are provided per year.
- Benefit projects can be set up on a local, regional or global level and information entered by controlled group of sourcing managers (e.g. to complete local actual benefits).

- Customised online portal that links contract, benefits and sourcing project information together.
- Procurement KPIs (that determine bonus) are gathered from the above system, helping to ensure sourcing managers maintain accurate information within system.
- System linked to globally used spend analysis tool that is updated monthly to define the baseline.
- Saving approvers determined by value and type of saving.
- Benefits are based on actual prices paid and volumes received.
- Automated system means that summary reports can be run at any time during the year with minimal effort.

Contacts

Please get in touch if you would like to discuss opportunities for your business.



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