

Strategic cost reduction through Procurement

Releasing the untapped value from your third party spend



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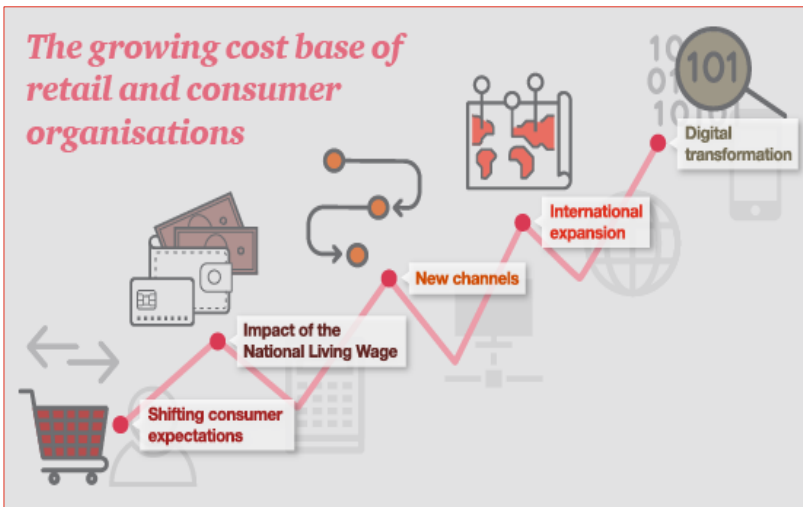
1. Why focus on procurement?

As retailers and FMCGs evolve to meet the changing shopping habits of consumers, so too must the way in which they manage their third party expenditure

There is a cost base that many companies miss when looking for efficiencies. Third party goods and services such as marketing, logistics, IT, property and production costs can account for between 15-25% of an organisation's total cost base but are often not given the same level of attention as other cost lines such as payroll or cost of goods.

Effective management of third party spend can on average **release savings of between 7-12%** and can have a direct impact on the bottom line.

This **cost base is growing** due to a number of observed trends:



Shifting consumer expectations - Customers expect more, and it takes flexibility, agility and speed to keep up - but what's the cost?



Impact of the National Living Wage - The new legislation adds direct and indirect costs to employment and the supply chain – how do you minimise the impact?



New channels - Interacting with customers goes well beyond the shop floor nowadays – How do you exploit new channels and deliver value?



International expansion - Cross-border operations can be expensive and incur hidden costs – how do you manage third party spend to drive value?

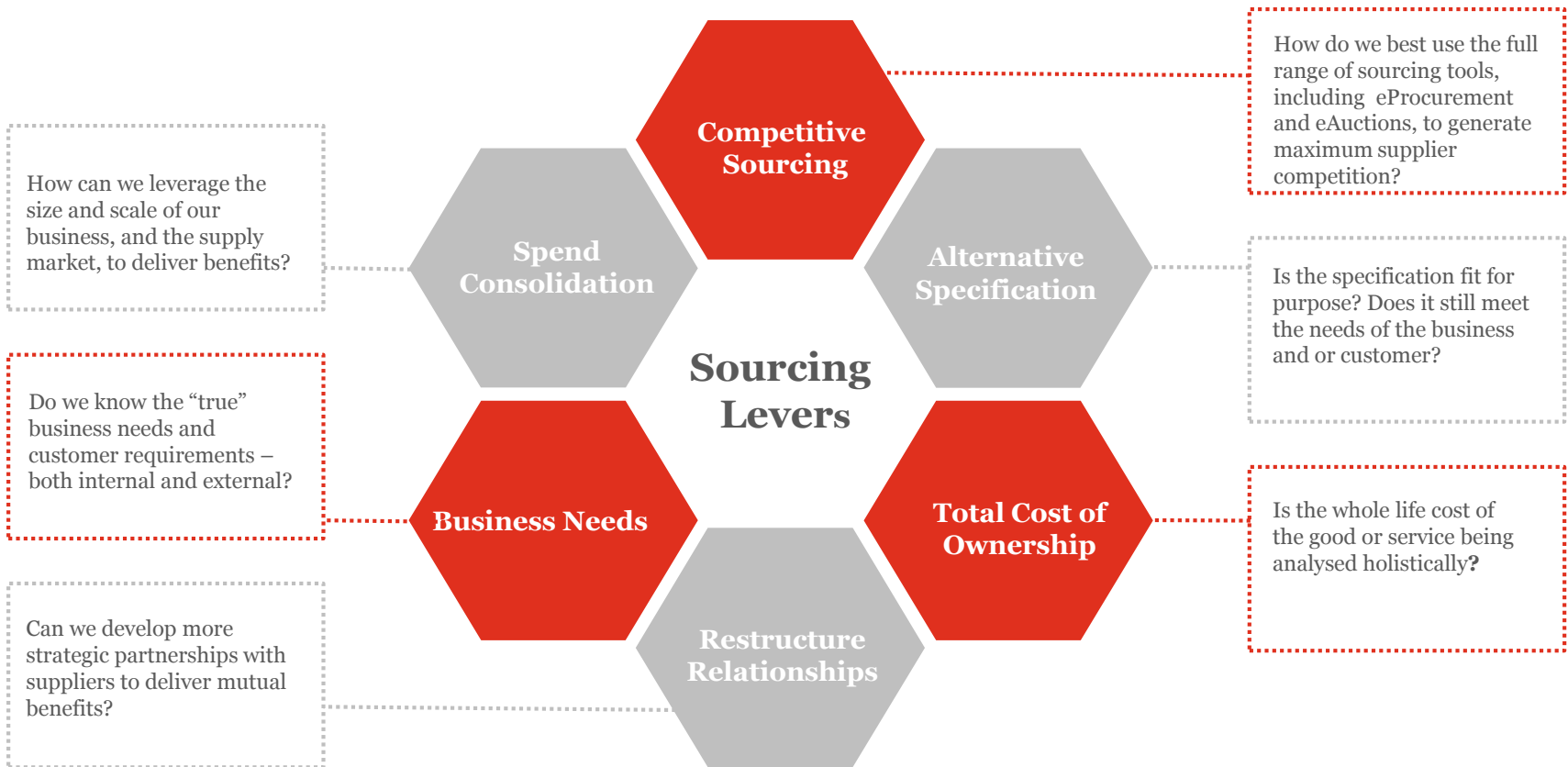


Digital transformation - Over 50% of customers are digital natives and expect seamless interaction with your platforms – how do you keep up while managing costs?

2. Our Approach

Using our experience we evaluate each category using a variety of sourcing levers to identify cost reduction opportunities and create a platform to sustain those savings throughout the relationship

When we have worked with organizations we have helped to **release benefits upwards of 12% cost savings**, whilst also putting the right strategies and skills in place for continuous improvement.



Our online maturity assessment helps to identify gaps in your operating model which need addressing to sustain savings deliver and effectively manage your organisation's third party spend

The maturity assessment will help you determine:

- Do you manage third party spend as strategically as other areas of spend?
- Do you effectively control and manage your spend?
- Could you benefit from working more effectively with your supply chain?
- Could you benefit from a new procurement operating model?

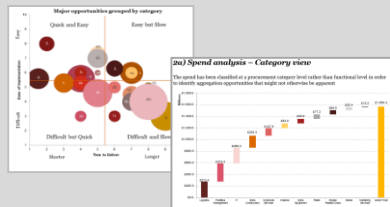


Our project approach is built around three key phases

PHASE 1: Identify the benefits



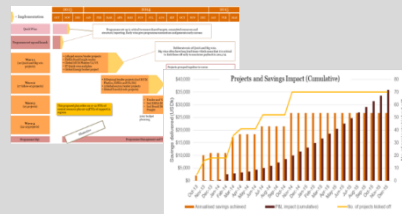
- Develop spend cube to define category profiles
- Establish cross functional category teams
- Conduct opportunity workshops to identify long list of potential sourcing opportunities
- Further validate and quantify sourcing opportunities
- Work with category team to agree savings potential and prioritise opportunities for implementation
- Conduct maturity assessment to identify gaps in current operating model



PHASE 2: Deliver the benefits



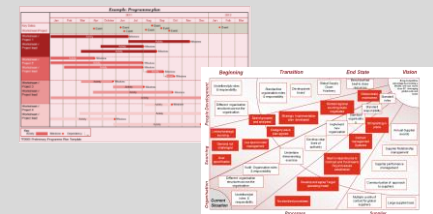
- Implement prioritised sourcing projects to quickly release the savings
- Work with budget holders and finance to track and deliver the benefits
- Plan for an implement successive waves of savings over the financial year



PHASE 3: Sustain the benefits



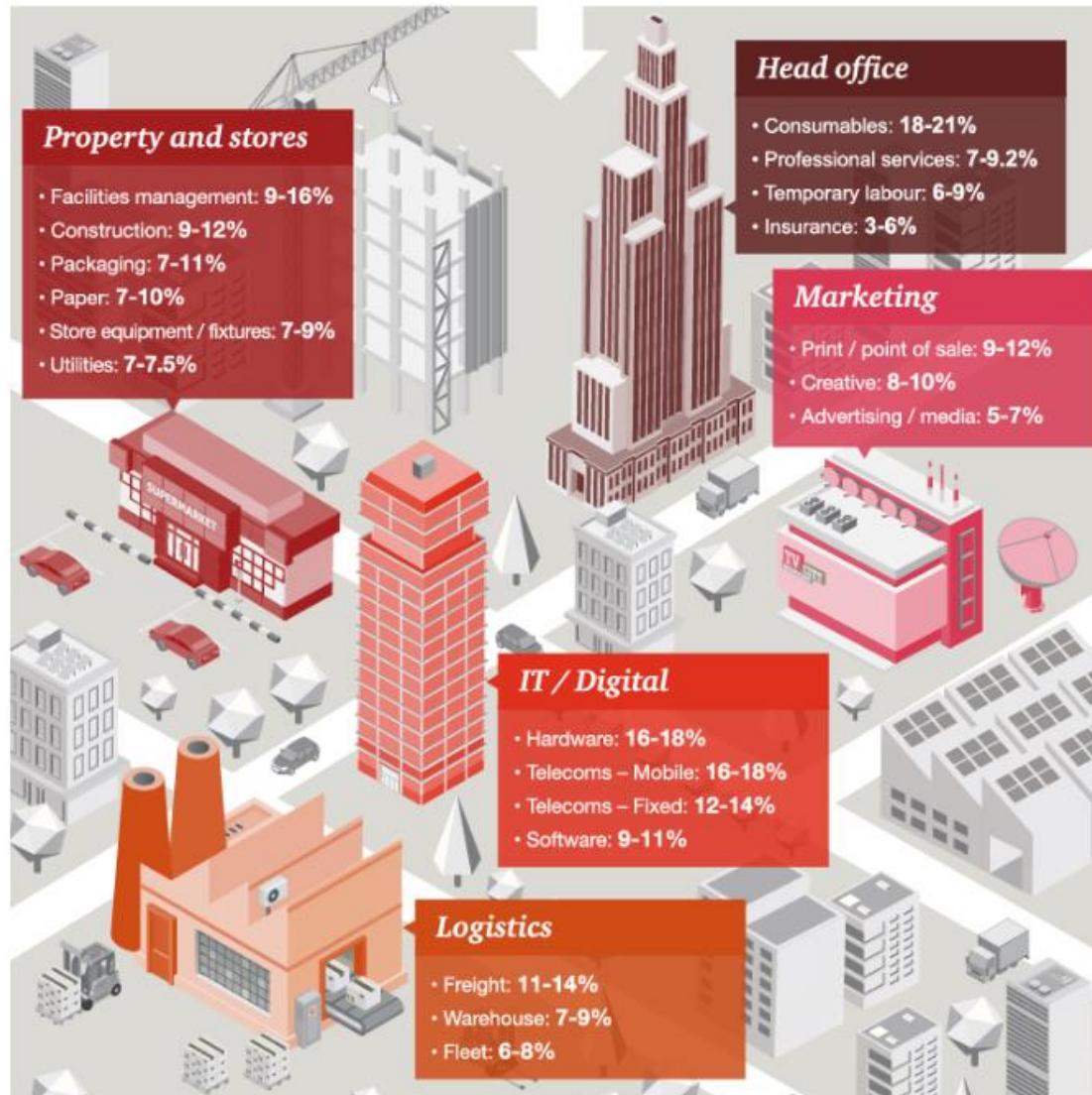
- In parallel to phase 2, design and implement the future operating model
- Embed new ways of working required for continuing and sustaining benefit delivery
- Train and transfer knowledge to category team
- Embed ongoing benefits tracking and reporting



Stakeholder & Programme Management

We can leverage our global database of category best practices to deliver significant procurement cost savings

Typical savings across the identified spend categories below



3. Why PwC

What sets us apart from our competitors?

1

We have deep & extensive experience in Cost Reduction projects

PwC has sourced over £1bn of spend globally across a range of key third party categories, (e.g. Marketing, HR, FM, IT, Professional Services, Logistics) achieving typical savings of 12%.

2

We have a tried & tested approach to Procurement projects

We work cross-functionally to develop cost reduction solutions, investigating specific spend categories using multiple levers. This allows us to prioritise opportunities and develop an appropriate delivery plan.

3

We have a highly experienced team with a breadth of category expertise

Our global team of over 300 procurement and supply chain consultants brings deep category capabilities, specific knowledge of supply markets and industries, and an expert hands-on approach to delivery.

4

We ensure that clients are left with the tools for ongoing cost reduction

We bring, develop and build the required know-how, tools, templates and training to ensure long-term sustainability, and to embed cost reduction into the day-to-day culture

5

We deliver fast and sustainable benefits

We are able to deliver fast sustainable savings, with benefits starting to accrue within 3-6 months. We deliver a compelling Return on Investment and have a strong track record of commercial innovation.

4. Our Experience

Case studies

Driving value from procurement

The challenge

Our client, a FTSE 100 retailer, was trying to release value from this untapped £2bn to help transform their business and shortfall in profits. Goods not for Resale (GNFR), aka third party spend, was seen as an unmanaged space adopting little or none of the strategic principles of other parts of the organisation.

Releasing £100m from the £2bn was the target set; money that could be reinvested into business-wide transformation programmes or delivered straight to the bottom line. Both were core demands of the Executive Board.

Our solution and objectives

The objective of our review was to understand the way our client managed their GNFR spend and give them a benchmark operating model. The review uncovered between £78m and £138m of benefits and proposed a transformation plan to achieve those savings. Our solution would establish a new centralised procurement function to manage all GNFR spend and release both quick wins and long-term sustainable savings.

Measurable results

We realised benefits of £23m while running the programme, and helped our client deliver a further £26m toward their target. This saving, directly attributable to the bottom line, could be used to address both the profit challenge and business transformation programme required both for shareholders and customers.

“This was a £10bn company, so third party spend represented 20% of their revenue. That was also 30-35% of their cost base, so it was a very significant aspect of their costs. It covered marketing, IT, property, and facilities management – so many areas. It was by far the biggest cost initiative they were running, and the one with the biggest P&L impact.” Leon Smith, PwC Partner

Qualitative results

- We developed comprehensive category plans for procurement with a pipeline of savings for three years.
- We increased procurement awareness throughout the organisation.
- We embedded a new supplier relationship management approach so our client could build on their brand reputation and position themselves as a ‘customer of choice’ with their strategic suppliers, helping them capture innovation in their supply chains.
- We reviewed a selection of contracts for commercial and financial robustness.
- We put in place a new approach to benefits management and reporting.

Case studies

Reimagining global procurement

The challenge

After a series of acquisitions, the client had reached new, global scale. However, our client was lagging behind the competition in terms of purchasing capability and recognised the benefits of evolving its existing Group Purchasing function into a global Procurement Company model. In so doing, our client was looking to leverage its increased global scale to realise significant potential savings in both Direct and Indirect spend.

Our solution and objectives

We proposed a future operating model with direct and indirect categories of spend evolving to either centre-led or buy-sell depending on the complexity of the spend and the scale of opportunity available. In parallel, the total expenditure of over €8billion spend was analysed to ensure the optimal design of the new operating model on a category by category basis. Commodity risk exposure was also analysed and new hedging strategies, processes and governance structures designed and implemented. Once piloted in two initial markets, we have helped industrialise the implementation based on category, technology and geography.

In addition to procurement operating model design, we also implemented an enhanced opportunity assessment process, using a range of sourcing levers. The opportunity assessment was conducted across five categories of direct and indirect spend.

Measurable results

Creation of new Global Procurement Company driving significant annualised savings across global spend categories and exceeding initial business case by over 200%.

Qualitative results

- Setup of new operational system to support introduction of new procurement models
- Global spend analysis with consistent, cleansed vendor and material master data providing true spend visibility and comprehensive, real time reporting
- Improved compliance to preferred suppliers, payment terms and contract prices through better data management
- Newly created internal risk management team delivering working capital benefits

Managing portfolio purchasing

The challenge

A world-leading private equity house wanted to manage its portfolio company spend and implement portfolio-wide supplier agreements in Europe. This was the first time that such an initiative had been attempted in Europe, so in addition, the PE firm wanted to be able to demonstrate high levels of buy-in and participation across their portfolio.

Our solution and objectives

We delivered a pan-European portfolio purchasing project covering 11 portfolio companies across 14 countries in scope for Europe. We supported the client using our leveraged portfolio purchasing methodology. Our first step was to establish 'Category Councils' with over 30 representatives from the 11 companies. We developed and validated both the spend baseline and potential savings by portfolio company. We also sourced a range of categories including fleet, mobiles, office supplies covering development of category and go-to market strategy, all required tender documentation, supplier briefings and negotiations, eAuctions, and implementation planning. Finally, we also modelled award scenarios, and prepared recommendations for supplier selection.

Measurable results

We delivered total savings of 11% across all categories, including 34% savings on mobile telecoms which represented an ROI of 12:1 against fees.

Qualitative results

We helped achieve multi-company and regional buy-in to the principle of joint purchasing which can be sustained through the ongoing use of the Category Councils.

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