

What Comes After Strategic Sourcing?

Insight Sourcing Group

Tom Beaty

Founder & CEO





INSIGHT
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What Comes After Strategic Sourcing?

Lean Strategies for Preserving & Optimizing Savings

Presented by Tom Beaty, Founder & CEO

Polling Question #1



Do you have a systematic way to track actual savings based on projections from your sourcing events?



What percent of the projected savings do you believe you typically capture?

- a) 100%
- b) 75%
- c) 50%
- d) unsure

About Insight Sourcing Group



INSIGHT
SOURCING GROUP

Strategic Sourcing & Procurement
Transformation Consulting Services

4,500+

sourcing projects
since inception

8 – 20%

average savings per
spend category

400-1000%

Average client one-
year ROI via sourcing

\$350MM+

Amount saved in 2017 for
ISG clients

SpendHQ

Award-winning Spend
Analytics data optimization
& SaaS technology

\$1.5T+

spend analyzed since inception

97% Guarantee

Spend categorization guarantee



Insight**GPO**

Group purchasing programs
for indirect categories to drive
rapid savings

10 – 30%

Immediate savings

\$0

Membership feeds



ENTERPRISE ENERGY SOLUTIONS

Energy supply & demand cost
optimization solutions

5 – 18%

Cost reduction in deregulated markets

10 – 30%

Demand reduction through
Energy efficiency initiatives



Insight**Analytics**

Post-sourcing savings
realization services &
technology

97%

Savings Capture

2 – 4%

Additional savings potential

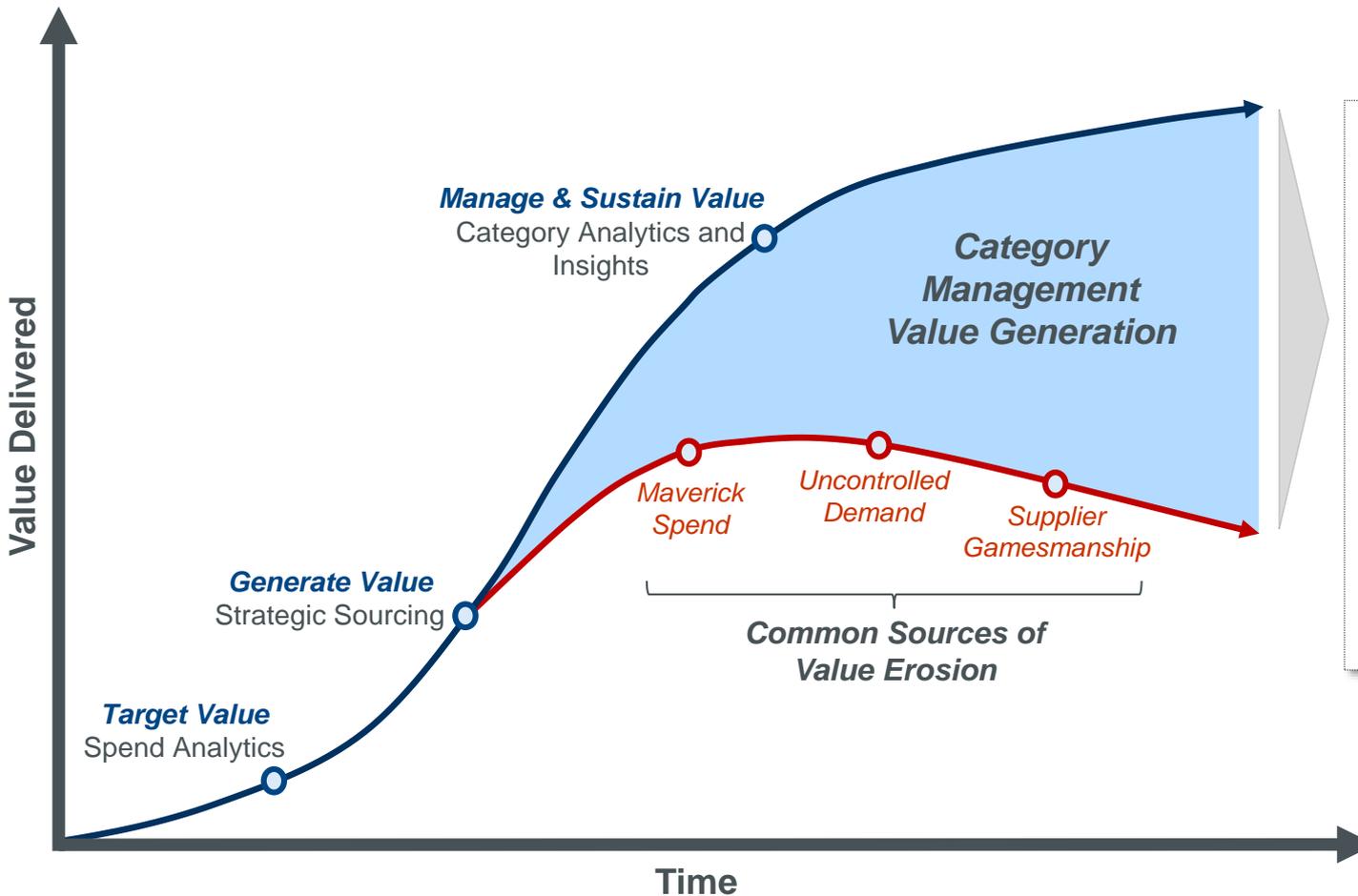
Framing the Issues



The “Y Curve”



Less than half of companies report that they actively manage categories after sourcing events



Category Management objectives include:

- Track and measure ongoing savings
- Ensure that the suppliers fulfill their commitments
- Monitor compliance and recommend actions for improving
- Assess purchasing behavior and recommend improvements
- Identify and capture opportunities for added cost reduction

Three troubling insights



- **40% Noncompliance:** ISG /SpendHQ have over \$1.5 Trillion in spend data across approximately 500 companies.
 - Preferred suppliers are identified in much of the data or the largest suppliers were assumed as Preferred.
 - Average Compliance Rate: ~60%
- **15% Vendor Contract Noncompliance:** In addition, ISG has performed category management for several clients as a post-sourcing service.
 - We discovered a stunning amount of vendor “gamesmanship” that led to an average savings loss of 15%.
- **Skepticism from the C-Suite:** For the past five years, we analyzed the speaking topics for every procurement conference in the world.
 - The #2 topic was “Proving the Value of Procurement”.
 - A common CFO question in 2017 was: “Procurement touts big savings, but where are they in my P&L?”

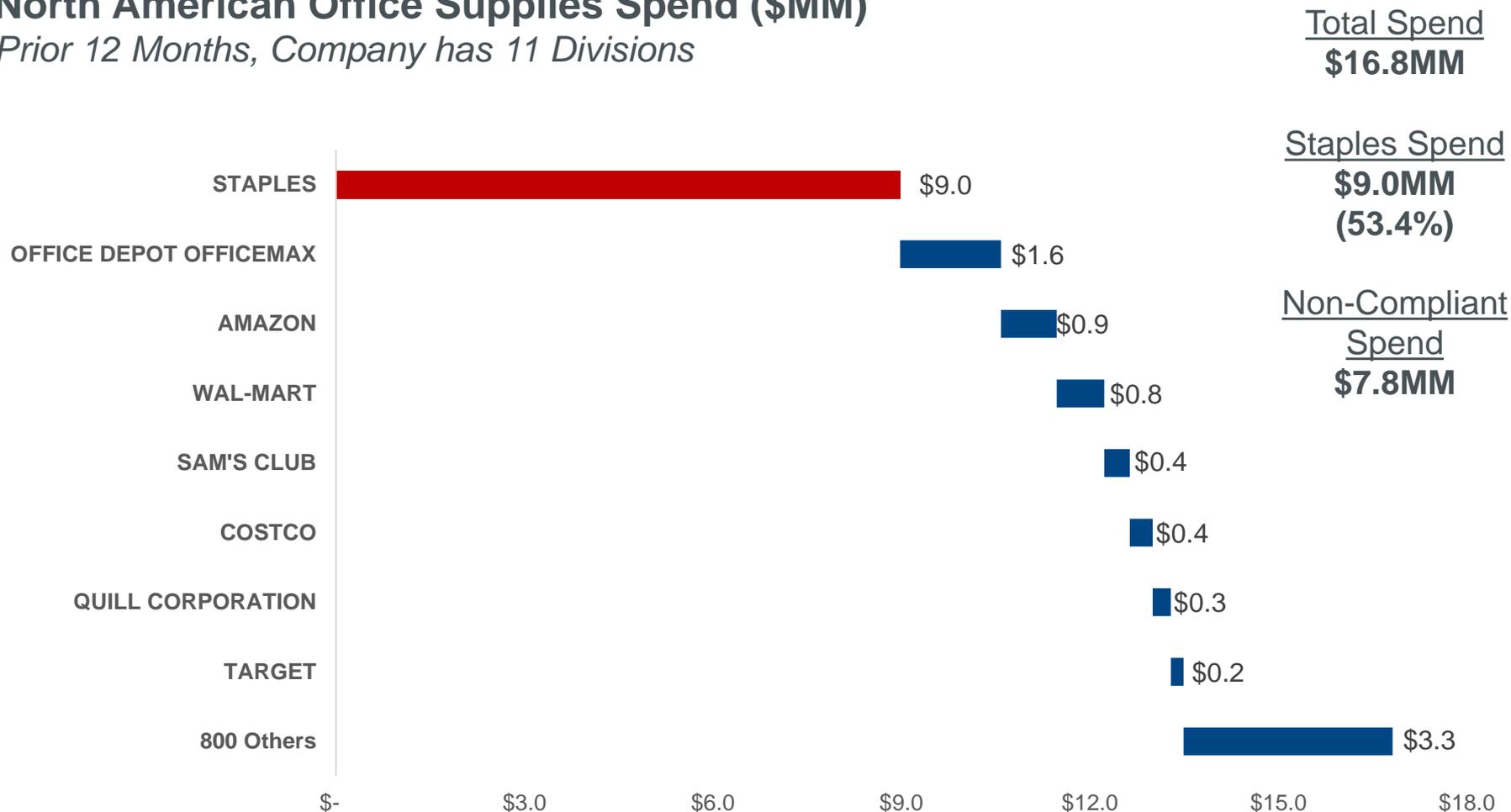
Up to 50% of savings appears to be lost, on average, without active management

Example of noncompliance within a single company & category

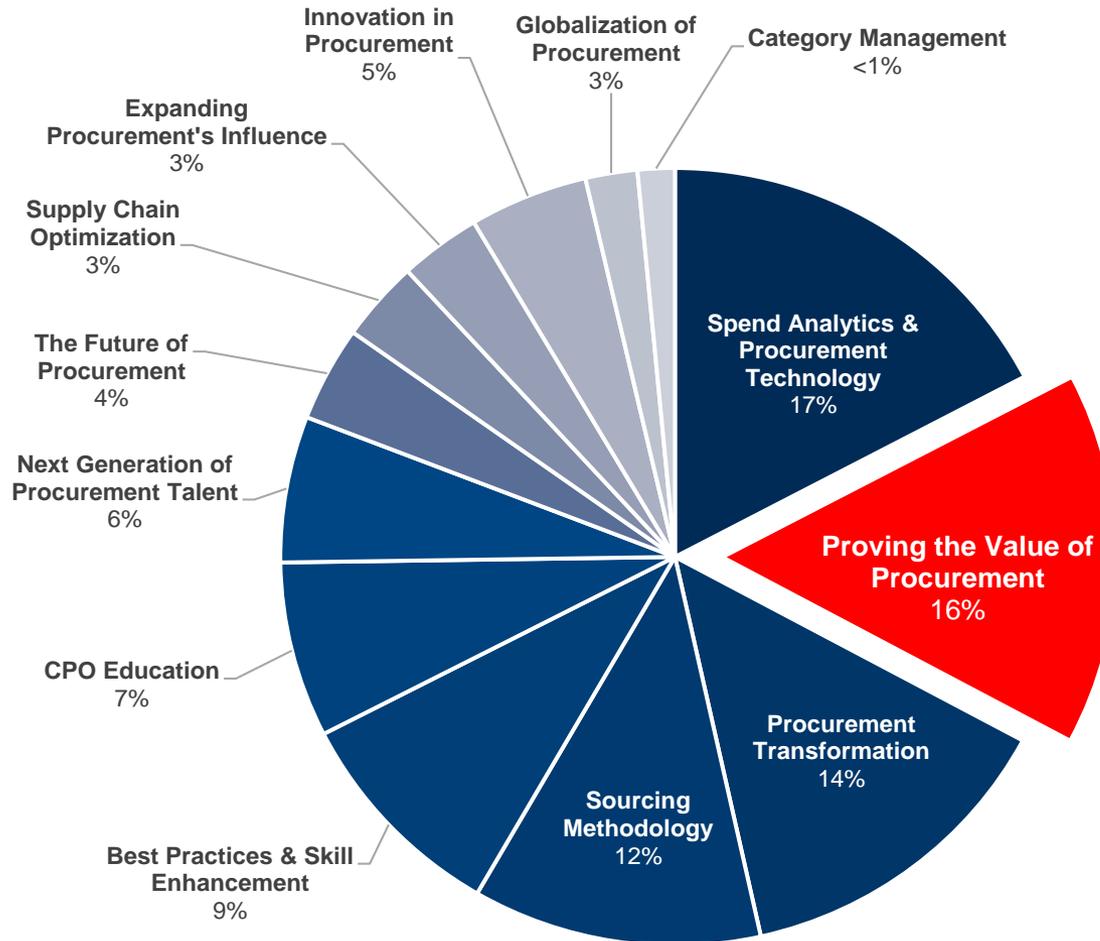


North American Office Supplies Spend (\$MM)

Prior 12 Months, Company has 11 Divisions



Conference topic analysis: 2013 - 2017



Theme	Sessions
Spend Analytics & Procurement Tech	57
Proving the Value of Procurement	51
Procurement Transformation	45
Sourcing Methodology	39
Best Practices & Skill Enhancement	30
CPO Education	24
Next Generation of Procurement Talent	20
The Future of Procurement	13
Supply Chain Optimization	11
Expanding Procurement's Influence	11
Innovation in Procurement	16
Globalization of Procurement	7
Category Management	5
Total Sessions	329

Miscellaneous one-off topics: 137

Given the risks & opportunities, why is Category Management not more common and effective?



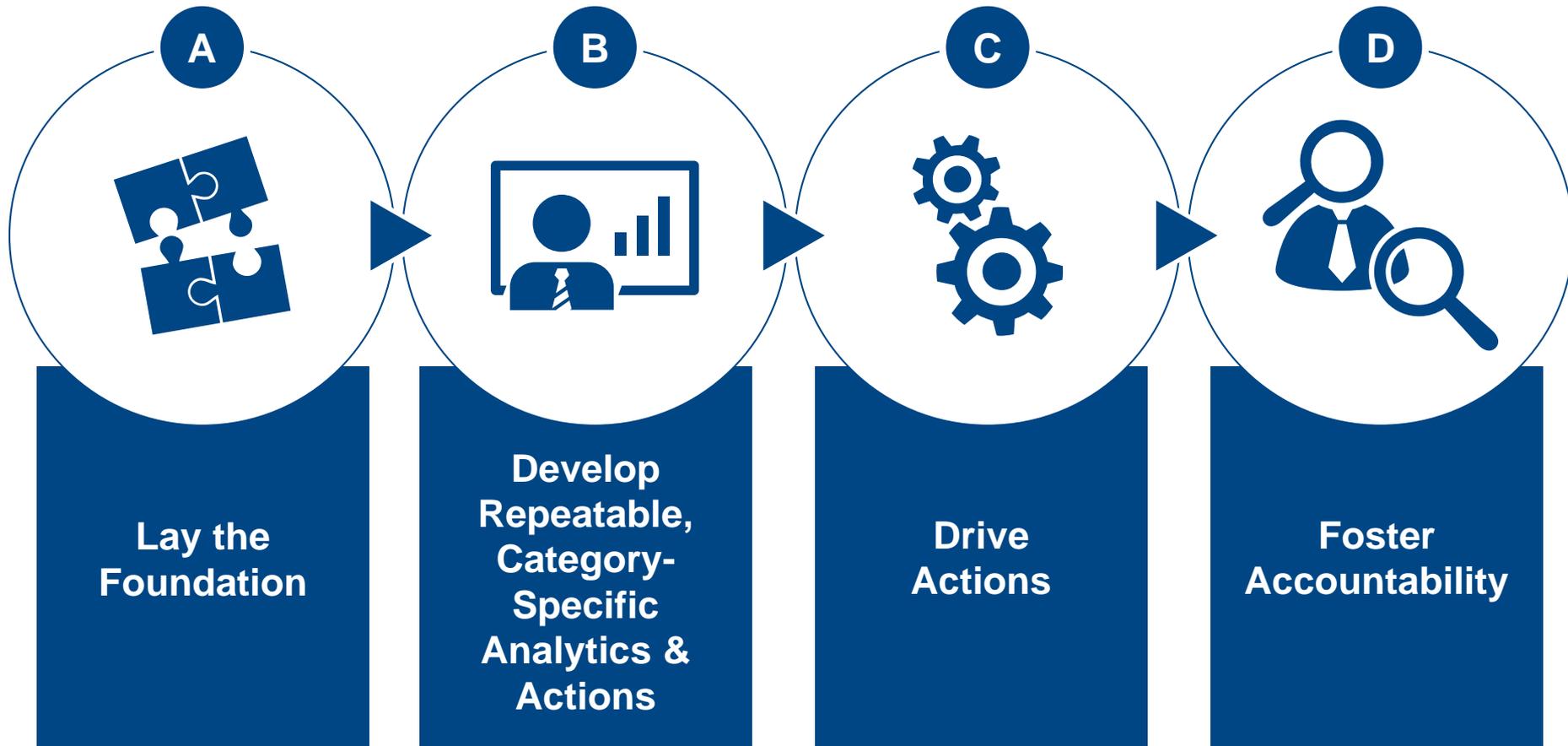
- Most procurement organizations are resource constrained and hardly have enough staff for sourcing.
- Suppliers actively seek to undermine CM efforts by withholding critical data or otherwise making it more difficult.
- Some procurement organizations lack the deep analytical and technical skills needed to process and derive value from the massive volumes of data associated with large categories.
- In addition to lost savings, Category Management failures result in lost of credibility with executives and stakeholders and strained vendor relationships.

This presentation will focus on lean strategies for stopping savings leakage and identifying ongoing savings opportunities within a category.

A Lean Category Management Strategy



Four steps for lean Category Management excellence





Internal



- Agree upon the Savings Measurement strategy with Finance and stakeholders **by category**
- Agree upon rules of engagement for addressing bad behavior

External (Vendors)



- Deploy a “Source-to-Manage” Strategy
 - Develop contractual language that enables you to enforce “Actions” and to respond to shifting demand patterns
 - Secure “Data Rights” with liquidated damages
- Create reporting standards that are contractually enforced

Step B: Develop repeatable, category-specific analytics & insights

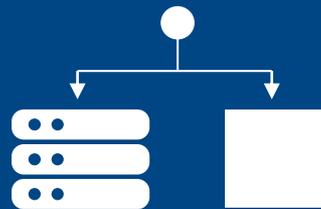


Strategy by Sub-Category

Periodic
(Monthly)
Reports from
Vendors 1,
2,...N



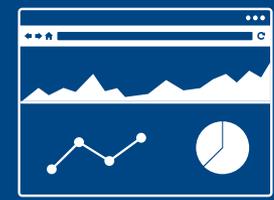
Import / Ingest
Data



Create Category
Specific
Analytics
Engines in Excel
or other Tools



Automatically
Generate
Insights



Step C: Drive actions



- If established correctly, the previous steps can be automated such that they are largely 'hands free' for future reporting periods.
- As future vendor reports arrive, the reports are automatically, or easily, pulled into the analytics engine / templates and the category specific insights are created.
- Some manual work may be required to update current pricing, for example, for price audits. But much of the analysis should be repeatable and automatic.
- At this point, the job of the sourcing or CM professional is to review the Insights, drill into the Analysis further as needed, and develop a list of Actions that will drive savings or other value.
- And then they either execute or distribute the Actions to the appropriate party.

Step D: Foster accountability



- In our eyes, great data is the currency of Influence.
- This process will give procurement professionals great data to leverage with finance and stakeholders.
- Leverage it to demonstrate insights, results, and to track savings to the P&L.
- Accountability also falls to internal stakeholders and to vendors. This process will provide the data needed to ensure everyone is fulfilling their responsibilities.



- Resource light and impact heavy
- After approximately nine months, supplier gamesmanship is typically curtailed dramatically
- Bad behavior by internal stakeholders is often reduced once the level of visibility is understood
- The data is highly valuable for stakeholder relationship development and executive presentations.
- In addition, you have perfect data for the next sourcing event significantly reducing the time investment, accuracy, and ability to drive additional value.

Questions?



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Workshop # 7

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