Becoming Best in Class

How to maintain savings over time

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Executive summary

The role of the Chief Financial Officer (CFO) is continuously evolving. Over the next five years, CFOs will be directly affected by (and in some cases directly oversee) changes due to digital technologies and processes affecting all operational aspects of an organization.

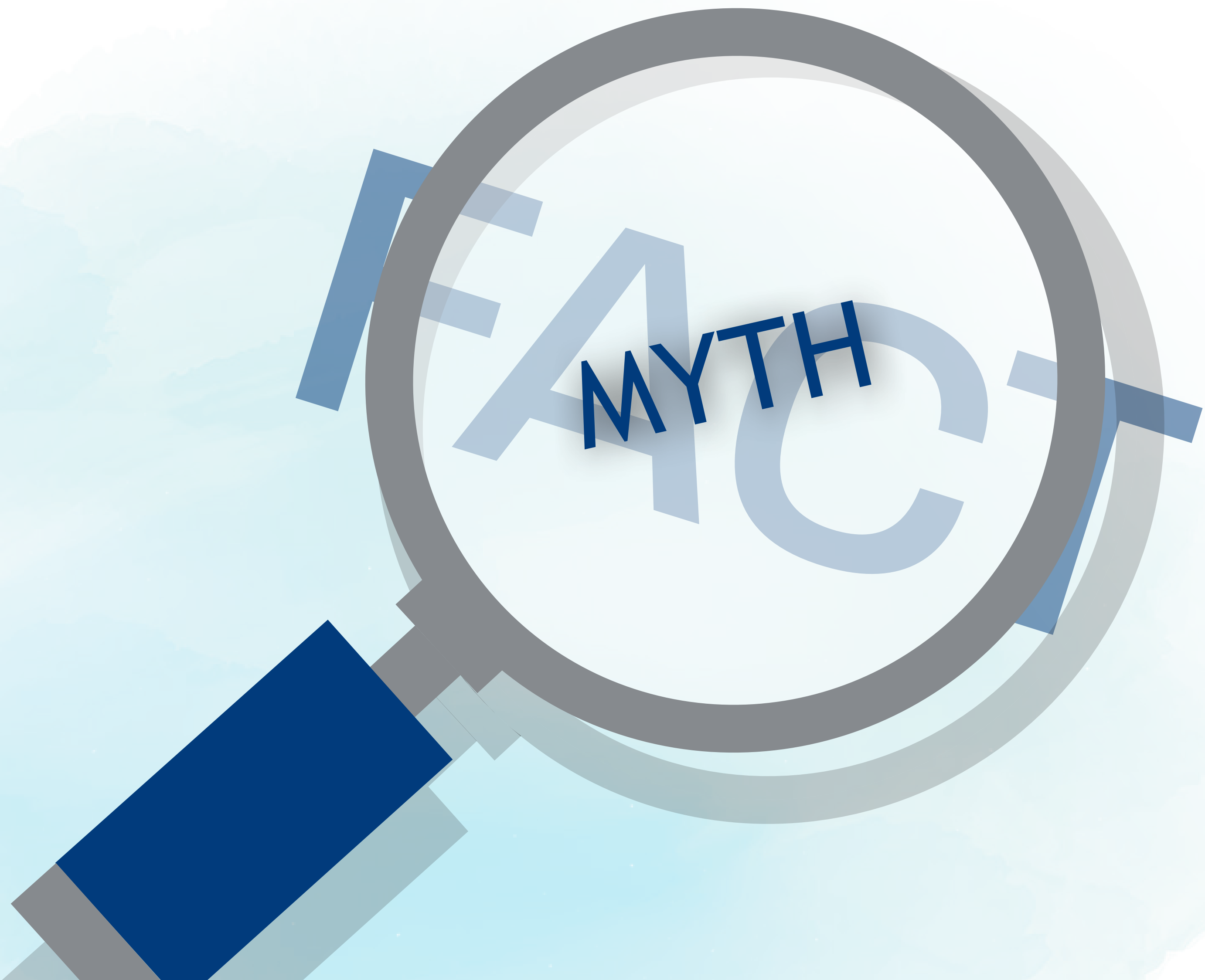
Over the past twenty years, advancements in technology have propelled (and forever altered) the way we do business. From dial-up to 5G, the speed at which information is exchanged has opened a new world of possibility - and accessibility. Organizations that have adapted to and embraced this technology revolution have fared well; while others have struggled to maintain.

But it doesn’t stop there. The business super-stars of the past two decades have gone beyond embracing new technology; in addition, they have a well-defined path for innovation. They invest in the right people, tools, and ideas to continuously grow and evolve their organization and to stay agile as market conditions change.

An important aspect of an optimal supplier relationship is knowing how to ask the right questions. Our whitepaper, Becoming Best in Class: How to Maintain Savings Over Time, reviews simple pro-active methods to help your organization maximize supplier relationships, without compromising quality.

Common myths to keep in mind:

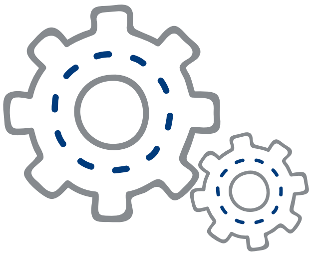
- Group Purchasing Organizations will always get you the lowest price
- You are asking the right questions in your RFPs
- National pricing agreements are always better than local/regional agreements with the same supplier



Understanding how suppliers work to get what you need

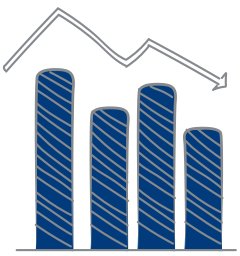
Suppliers typically develop contracts with their best interest in mind. The ability to successfully negotiate favorable agreements can yield significant savings for your organization. Nonetheless, it's imperative to understand how suppliers glean profit within their contracts.

Depending on the industry, suppliers can incorporate multiple profit-generating components into their agreements - including non-contract products/items, accessorial charges, or termination clauses. Each itemized fee may be negligible. However, when combined within a multi-year agreement, the costs can add up quickly.



Whether you are considering negotiations with an incumbent supplier or kickstarting the bidding process, review your organization's current needs and what products and services will be necessary to keep your organization running smoothly.

By keeping your organization's must-have requirements top of mind, you'll be able to articulate this during the negotiation process better. Providing suppliers with greater context can reduce their risk and potentially secure you with improved services (compared to their standard offer).



Industry benchmarking is important to ensure the offer you're receiving from a supplier is competitive. Confirm that you are getting the best pricing as compared to your peers and other industries.

Negotiation tactics to utilize

Separate negotiator and relationship owner

One effective technique to manage a fair negotiation process is to consider bringing in a third-party or designating a different employee within the company to be responsible for facilitating a new contract. Doing so removes the emotional aspect of discussions - and it takes the pressure off the individual who directly deals with the supplier. A third party can also help negotiate more significant savings. For example, a supplier may initially offer a 5 percent discount, whereas a knowledgeable third party may get a vendor to agree to a 20-25 percent discount.

Help the supplier save money

A supplier will likely be more accommodating during the negotiation process if you can convey your organization's willingness to find ways to satisfy their "What's in it for me?" curiosity. For example, if your organization can consolidate deliveries from multiple times per week to once a week, it will streamline your supplier's delivery process. If there are fewer deliveries placed or shipments are sent to a centralized facility, it is ultimately more economical for your supplier. As a result, they may provide you with a bonus or incentives that allow your organization to capture savings as well.

Quickly carry out a favorable contract offer

Once a contract with favorable terms has been reached, it's important to sign and put it into effect before the offer expires. Most offers are good for 30-60 days. Stakeholders should move forward with the vendor to maintain momentum and secure advantageous terms. This also helps lock in competitive pricing that can ultimately save money throughout the duration of the contract.

> "It's crucial to consider the supplier as an extension of your internal organization."

Establishing checks and balances

Once your organization has secured savings by implementing a contract with favorable terms, the next step is to ensure improved savings over time. No matter how great your agreement, rising costs will eventually occur.

If your organization has multiple facilities (or departments) in which staff members have purchasing responsibilities, it's likely that organizational procurement practices have become siloed. As a result, different departments or facilities may have separate contracts with various suppliers, at varying rates, for the same needs. Additionally, staff members are likely making off-list purchases that are not subject to discounted pricing or rebates. There is an opportunity to streamline this process to ensure that all facility contracts are consolidated and serviced by the same vendor (when possible) at a better rate.

A designated department or facility staff member should maintain current contracts and check supplier invoices for errors, new fees or additional charges. This is a critical component to streamlining contracts, processes and relationships with suppliers. This individual should also keep track of when contracts are set to expire so that they do not automatically renew at a higher rate. As a result, this will give the staff enough time to renegotiate a new contract or start the bidding process, if necessary. The introduction of new players creates competitive tension and gives your current supplier more incentive to provide optimal pricing to keep your business.

Ask suppliers what new technology or services are available

To ensure that your organization is getting the most up to date and valuable services for your money, ask your suppliers what new technologies are (or soon will be) available. New equipment, streamlined delivery options, or a new supplier platform (that allows you to track orders or automatically load orders into your accounting software) can make your ordering process much more efficient. Additionally, when it takes less time for your staff to reorder products and manage invoices, your organization will save money.

Keep the three Ms in mind

Key performance indicators (KPIs) are essential for measuring the value of a contract over time. These KPIs should be monitored on a regular basis to ensure the current contract still serves the needs for your organization. Subsequently, tracking trends and changes afford insight to determine how your bottom line is impacted.

When developing cost savings KPIs, keep the three Ms in mind:

Meaningful
What criteria are necessary for your specific organization?

Measurable
How can data be monitored to ensure results are being achieved and maintained over time?

Manageable
What methods will be accepted and followed by all key players to ensure the implementation of cost-saving processes throughout your organization?

Conclusion

Effectively improving savings over time is critical to developing a culture of cost reduction within your organization. Additionally, finding ways to incorporate new technological advances will ensure your business stays in front of the curve. When combined with incorporating strategies that lead to improved purchasing practices and cultivating a better understanding of supplier industries, your organization can thrive. This will build a competitive advantage that will allow you to source products optimally and cultivate high-quality service relationships from suppliers, to continue to grow your business.

About ERA Group

ERA Group partners with business leaders to tackle their challenges and illuminate their greatest opportunities hidden within their cost base.

ERA has been a pioneer in business strategy and cost optimization since 1992. Today, we help clients validate, improve processes and turn insight into opportunities - enabling organizations to grow, build competitive advantage, and drive bottom-line impact. ERA's success is built on transparency and trust.

We've helped and are helping thousands of clients, from some of the world's largest organizations through to local businesses you might not recognize. But not only with local projects – often with complex global projects, teams and stakeholders.

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