



Optimize procurement

A CPO's roadmap to
cost-efficiency gains

June 2023

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CPOs as leaders of change

The current environment has placed an enormous amount of pressure on Chief Procurement Officers (CPOs) to create value. CPOs are partnering with leaders across their companies to transform overall enterprise performance and cost management efforts. CPOs must also maintain a long-term, comprehensive view of the entire organization and consider all options to help manage costs, while identifying and driving initiatives across multiple functions, departments, and business units.

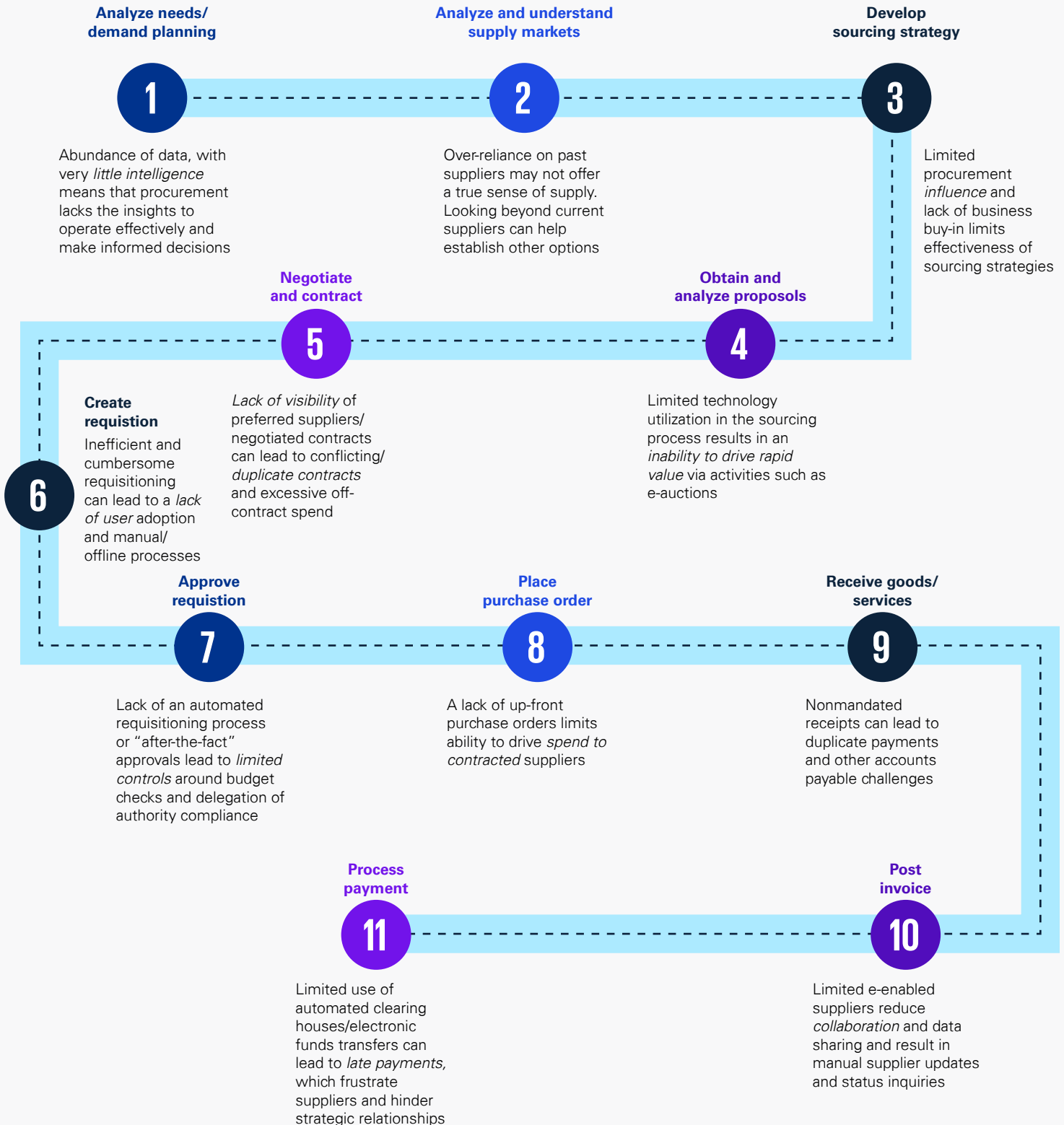
Based on our experience, CPOs tend to generate value within several contexts:

- Savings via reductions in cost of goods sold and selling, general, and administrative (SG&A) expenses
- Improvements in working capital or tax advantaged sourcing
- Risk mitigation and increased controls
- Improved analytics and data management
- Technology enablement to drive efficiencies and compliance across the function.

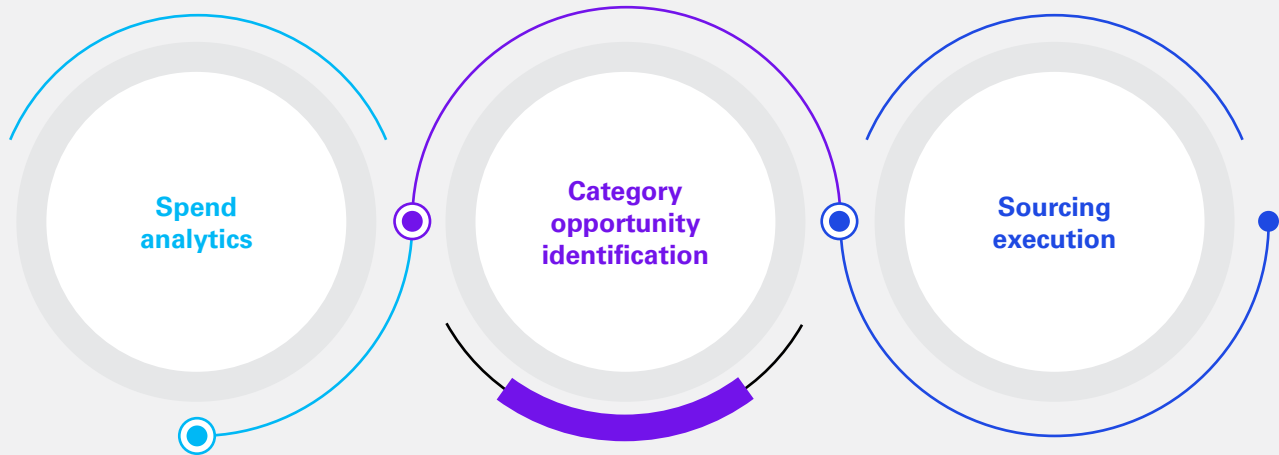
All of these should be viewed as components of a broad structured approach to overall value generation that is integral to supporting cost efficiency for short-term quick wins, ongoing improvements, and longer-term competitive advantages.

Develop a recession-ready procurement plan

Potential “leakage” across the procurement lifecycle is the result of a suboptimal operating model



How CPOs can improve cost efficiency right now



Key deliverables:

- Categorized spend cube covering indirect spend and services
- Spend data dashboard
- Detailed spend analytics output

Key deliverables:

- Prioritized initiatives for savings/improvement, including quick-wins analysis
- Time-phased plan for implementation
- Category savings roadmap

Key deliverables:

- Sourcing strategy definition
- Bid management and evaluation
- Negotiation strategy development
- Contract transition planning

Five strategies for identifying cost-efficiency gains:

1 Practice center-led procurement

In a centralized procurement model, all purchasing is done at the center. By contrast, in a center-led model, strategy is developed in the middle and purchasing is executed wherever it is the most efficient throughout the organization. Determination of where purchasing is done should be made by a category-by-category evaluation to determine if the goods/services are better served by localized team due to their uniqueness or whether a more centralized approach can offer additional benefits in driving additional discounts through spend and volume leverage.

2 Strengthen supplier relationships

In the face of recent geopolitical and market disruptions, organizations rely on outside suppliers more than ever. Procurement plays a critical role in managing supplier relationships to deliver improved performance and creating a joint value proposition beyond cost reduction. Organizations that become the “customer of choice” for business-critical suppliers can benefit from improved collaboration, better-defined service-level agreements (SLAs), and greater supply certainty.

3 Reviewing contracts

Contracts are a rich source of information, and legacy contracts that haven't been reviewed for years can offer significant opportunities for cost reduction. Changes in the economic situation, the evolution of the supplier's relationship across the enterprise, and the introduction of other competitive alternatives are all triggers for potential contract renegotiations involving items such as prices or SLAs.

4 Optimizing working capital

Procurement often plays a key role in improving working capital. Working with treasury to deploy payment terms with suppliers at the time of contract renewals or new sourcing activity enables the enterprise to strike the right balance between liquidity and cash flow. This can help reduce debt, fund growth, and deliver better returns to stakeholders, even in a recession.

5 Improving policy and governance

Procurement is integral to devising, operationalizing, and governing spend management policies to control the SG&A costs for the enterprise. Controlling the dial on spending based on the market outlook by enforcing policies and guidelines is an effective measure to drive cost containment.

Procurement cost savings with KPMG and Coupa

Seeking better insight into and control of their purchasing, Magellan Midstream Partners worked with KPMG to transform their procurement function, leveraging KPMG Powered Enterprise Procurement enabled by Coupa's business-spend management cloud solution.

Challenges

As a leading U.S.-based pipeline company, Magellan Midstream Partners was steadily expanding despite operating as a decentralized organization with many manual nonstandard processes. These contributed to a limited view into procurement and spend and limited data on exactly what was being spent, when, and on what.

Faced with these hurdles, alongside concerns about user adoption success and an impending contract renewal, the company recognized the imperative to digitally mature their procurement function. For guidance, the company turned to KPMG, their trusted adviser with a demonstrated, Coupa-specific technology approach.

How KPMG helped

To successfully improve process standardization, simplify user experience, and deliver rapid data insights, KPMG performed the following initiatives:

- Leveraged the KPMG Powered Enterprise prebuilt tools and methodology to deliver a target operating model and close 85 percent of all design decisions through the first two weeks of validation, thereby driving speed to value for our client.
- Achieved critical buy-in from executive leadership to remove barriers and positively influence support from their teams and end users, resulting in cross-functional "champions" of the newly implemented technology.
- Increased company savings projections by designing and standardizing procurement approval processes.
- Employed leading practices for change management, including "trusted training," which involved functional champions training their own teams, gathering team member feedback along the process, and gaining true advocacy to adopt and utilize the new system.

Benefits to the client

The client experienced a digital procurement transformation that resulted in hundreds of thousands of dollars in annual savings from Coupa Advantage as well as a projected total annual benefit in the millions from various operational and processing savings. Key benefits include:

- Wide-ranging spend visibility across the organization, delivering clear, accurate data points and moving the company from a costly reactive approach to a proactive spend management approach
- An easy-to-use system with self-service and mobile capabilities, offering scalability for future improvements, innovations, and growth
- A newly created category and vendor management team that can deliver powerful, accurate insights for effective decision-making in real time
- A dramatic increase in preapproved spend and spend compliance, along with the adoption of compliant e-invoicing
- Timely payments as well as the improved transactional efficiency of automatically matched invoices and the increased overall user adoption of the tool.



A recession-ready outsourcing strategy

The great resignation, the pivot to a work-from-anywhere model, and seemingly ever-present economic and market uncertainty have conspired to present leaders across the enterprise with a new set of challenges. Next-generation, recession-ready procurement has moved beyond a narrow focus on cost-cutting and is now a tool for enabling broad business transformation. Indeed, the end goal must be future-focused, prioritizing activities and relationships that are less transactional and more transformational to drive value and operational excellence.

For companies considering outsourcing:







- While cost benefits will continue to remain a strong reason to outsource, expect a higher cost to outsource as service providers include a risk premium in a volatile business environment.
- Pursue a higher degree of innovation and automation to offset increased outsourcing costs.
- Plan for shorter contracts—for example, three years with additional option years—to see transformation agendas through.
- Protect your ability to renegotiate key terms based on market dynamics.
- Evaluate the vertical and horizontal scalability of service providers.
- Invest in change management and ongoing governance to maintain outsourcing viability across the enterprise.

For companies currently outsourcing:

- Evaluate your pricing provisions to understand impacts of inflation and work with service providers to initiate required contract changes.
 - Understand where your services are coming from and align your needs with market dynamics and economic risks in those countries.
 - Minimize the impact of talent attrition among service providers by clearly documenting institutional knowledge in the procedure manual and ensure new hires are well trained on the key nuances of your operations.
 - Facilitate a partner-based relationship—visit service providers often and work to make them feel like they are part of your team.
 - Encourage service providers to prioritize innovation, automation, and continuous improvement.
 - Continue to focus on customer experience—the strain of volatile economic conditions can have an increased effect on negative experiences.
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Use technology as a driver to unlock cost savings

A technology-enabled transformation can deliver tangible value

Savings lever			Savings range ¹
	Process automation	Transaction automation, cycle time reduction, and invoice processing efficiencies can yield significant savings when moving away from manual processes	3.0%–5.0%
	Strategic sourcing	Use of a standardized tool-enabled sourcing methodology can yield savings through spend and demand aggregation	4.0%–12.5%
	Spend compliance	Increased spend on contracts driven by a tool-enabled P2P process helps drive greater realization of sourcing savings	2.5%–10.0%
	Spend visibility	Increased visibility to category spend and transaction detail enables the sourcing team to make more effective supplier decisions that yield incremental savings	1.0%–2.1%
	Working capital improvement	Automated P2P process with greater integration between the supplier contract and transactions enables improvements in working capital via the capture of early payment discounts	0.5%–2.0%
	Control effectiveness	Streamlined processes enabled by technology results in greater controls effectiveness, especially in the areas of delegation of authority, segregation of duties, and user roles administration	0%–2.0%

Source: “Based on KPMG client experience”

A three-pronged approach to overhauling your procurement operating model

1

Rapid assessment

- Develop high-level current-state hypotheses, based on an initial understanding of process, technology, and organizational operating model capabilities.
- Review and validate hypotheses with stakeholders and identify associated operating model challenges.
- Conduct deep-dives with internal function leaders and shared services teams to establish further detail and develop current-state operating model.

Future-state operating model

- Define the future-state operating model (including organizational structure) to address previously identified challenges and inconsistencies.
- Refresh benchmark analyses with input from relevant peer groups to reflect current-state organization while considering desired outcomes.
- Identify areas of potential risk associated with the future-state operating model.
- Review and validate operating model with key stakeholders, and refine as required.

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Initiative definition and roadmap development

- Define a series of initiatives required to implement the future-state operating model and organizational structures.
- Perform a comparison against existing/in-flight initiatives to eliminate the risk of duplication.
- Estimate savings and costs associated with identified initiatives.
- Include cost savings and levels of investment for each initiative.

Get started

Don't wait for difficult market conditions. CPOs should always be exploring actions that can serve the enterprise well in challenging times while also positioning the firm for future success.

To uncover value in an economic downturn, CPOs need to be proactive about finding and capturing value through a broad array of strategies, including:

- Leveraging data-driven market insights to drive improved decision-making
- Strengthening supplier relationships to prioritize supply sources and capture long-term value
- Analyzing categories and core business needs to identify savings opportunities
- Improving spend visibility to effectively track savings.

CPOs can start their cost-efficiency journey by asking themselves questions like these:

- How can procurement drive innovation, generate value, and mitigate risk?
- Does your procurement strategy anticipate and enable dynamic business objectives?
- How are cost savings aligned with your stakeholders and overall business strategy?
- What skills, training, and tools are required and how can we recruit and retain top talent to fill gaps?
- What is the value case and road map for a sustainable, digitally focused future?

Whether engaged for full-scale transformation or targeted improvements, KPMG can help embed leading practices and technologies into your organization to drive meaningful benefits and deliver tangible value. KPMG offers a holistic set of capabilities that enable procurement and business service organizations to manage change and deal with disruption.



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