

# Enterprise-wide spend management\*

Immediate and sustained improvement in profits

In a world of ever increasing economic complexity, it is enormously important for businesses to be able to keep their costs under control. When sales are no longer growing, only cost leadership enables a business to prevent profits falling and to outdistance the competition.

Second only to salaries and wages, goods and services make up a substantial part of a business's expenses – depending on the business, between 10% (financial services) and 70% (industry) of every euro earned.

The increasing concentration on core skills means more outsourcing, and an increase in the ratio of external purchases to sales. The contribution of the procurement function is therefore of increasing importance to the profitability of the enterprise.

The rapid pace of change creates problems for many organisations. The quality and efficiency of the procurement process have been ignored for far too long, and there is often no clear understanding of what the expenses really are.

This is where enterprise-wide spend management comes in.



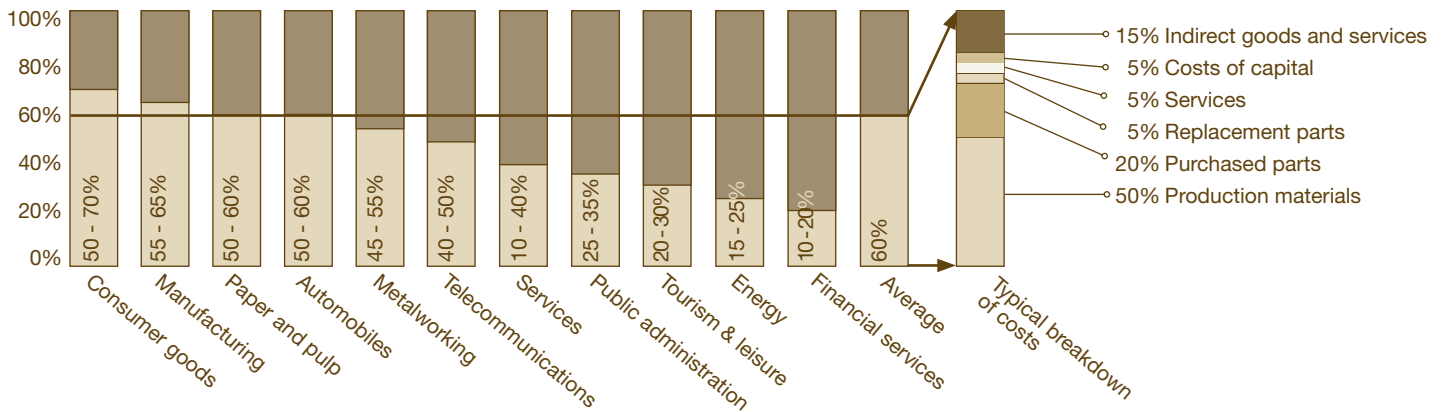
# Leveraging effect of enterprise-wide spend optimisation



Saving 5% on procurement can produce the same improvement in profits as an increase of 30% in sales. This assumes that fixed costs remain the same, that the costs of goods and services and employee compensation vary with sales and that purchases represent 60% of sales.

## Purchases / sales by industry

Goods and services make up a significant proportion of a business's expenses – between 10% (financial services) and 70% (industry) of every euro earned, depending on the business and the sector. The chart below shows the typical ratios of purchases to sales for different industries, based on actual data.



Reducing the cost of purchases has a direct and significant effect on profits. This is why a focused approach to procurement is becoming increasingly important.

## Savings benchmarks for typical costs

### Indirect goods and services

Office supplies	10 - 15%
Computer hardware	10 - 25%
Computer software	10 - 15%
Advertising	10 - 20%
Creative agencies	5 - 15%
Other marketing & public relations	8 - 12%
Travel costs & incidentals	10 - 20%
Services	5 - 10%
Short-term services	10 - 25%

Office furnishings & equipment	10 - 25%
Post and freight	10 - 20%
Telecommunications	10 - 20%
Stationery	10 - 20%
Production supplies	5 - 15%
Support services	10 - 15%
Maintenance & services	5 - 10%
Paper	5 - 15%
Repair & operation	5 - 25%

Indirect goods and services are often not part of the core responsibilities of professional procurement management, and thus escape attention. But – as the typical benchmarks show – there are substantial savings to be made here.

## Evaluate your business

	Typical business		Your company	
	Benchmark	EUR	% share	EUR
Sales		500 million		..... million
Purchase as % of sales	60% <sup>1</sup>	300 million	...% <sup>1</sup>	..... million
Of which, indirect goods	15% <sup>2</sup>	45 million	...% <sup>2</sup>	..... million
Ø Potential savings	Ø 10% <sup>3</sup>	4,5 million	Ø 10% <sup>3</sup>	..... million

▷ Your potential savings

<sup>1</sup> As shown in chart Purchases / sales by industry.  
Select the value for your industry.

<sup>2</sup> Typical value for the industry (values for other industries available on request).  
Select the value for your business.

<sup>3</sup> Average for indirect goods and services in practice (range: 5 - 15%).

## Optimised strategic procurement reduces purchase costs

Practical experience in different businesses shows that by concentrating purchases, reducing the number of suppliers and centralising procurement for all operations, purchase costs can be reduced by an average of 10%. In comparison, an operational focus (e.g. using e-procurement) only results in average cost savings of 2 - 4%. The return on investment (ROI) on enterprise-wide spend optimisation projects is often 5 times, and sometimes even 10 times the project costs.

Actual savings as % of purchases	
Average	10%
Range	5 - 15%

ROI on enterprise-wide spend optimisation	
Frequently	More than 5 times project costs
Partly	More than 10 times project costs

All too often, businesses' understanding of their costs of purchases is inadequate. It has been PricewaterhouseCoopers' experience that there is an enormous gap between the strategic aspiration to cost leadership and its achievement in practice.

Studies have shown that roughly 50% of all businesses have in fact implemented cost control measures in purchasing, but that these generally only cover a part of the goods and services purchased. It is quite common to find that only the orders that are captured electronically are monitored.

▷ An enterprise's permanent strategic objectives must include making sure that the system of cost recording, analysis and control is complete and consistent.

## How do you know whether your business has effective cost controls?

	Yes	No
Do you know the cost of indirect (direct) goods and services purchased?		
Do you know what proportion of those costs are the responsibility of the procurement department and what proportion is not?		
Are you familiar with all the long-term contracts in your business?		
Are the terms of long-term contracts observed in practice?		
Do you know how much your suppliers are charging you?		
Does your business concentrate purchases across the business?		
Are all purchases carried out using a computerised system?		

“No” answers suggest that costs will be excessively high and not under control.

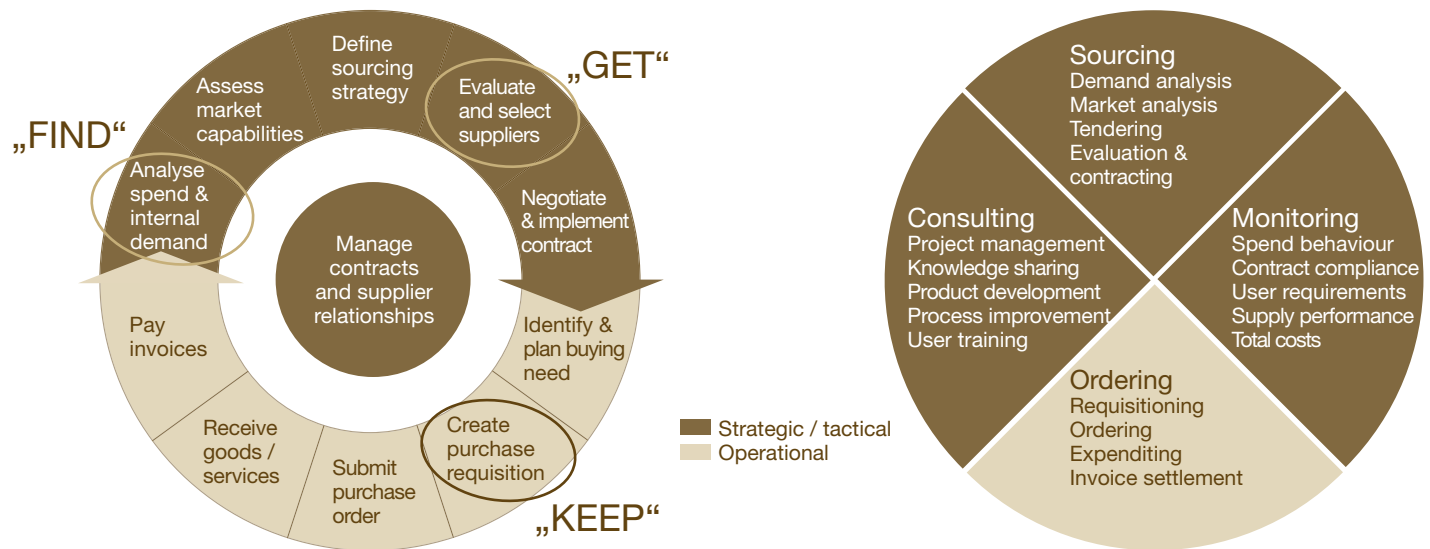
- It is important to capture all the data relevant to procurement in detail, to analyse it precisely and to monitor it on a regular basis.
- This is the only way to introduce a reliable, enterprise-wide, optimised procurement strategy which can be developed and improved.
- The measures needed to turn potential savings into reality must then be identified and implemented.

## Reasons for the absence of a complete system of cost controls, and the resulting effects

Reasons	Effects
Strategic procurement is rarely involved	Many different suppliers
Different data sources (ERP, e-procurement, Pcards, etc.)	Poor data quality
Different IT systems	Expenses only partly captured by procurement system
Little attention paid by management to procurement	Insufficient management information for strategic procurement
Traditional procurement methods and processes	

These effects result in there being an incomplete understanding of purchases – optimisation is seriously needed.

# Our approach to enterprise-wide spend management



Analysis of expenses is the first and the final stage of the procurement process. It can be applied to both direct and indirect goods and services and has the following benefits:

- Basis for definition of a successful procurement strategy
- Basis for cost control
- Ongoing optimisation of the whole procurement process
- Monitoring and realisation of savings potential

Analysis of expenses is therefore a key part of the whole procurement process: From “Find the money” (money in the air) to “Get the money” (money on the table) and finally “Keep the money” (money in your pocket).

## Our offer

PwC provides a step-by-step, structured approach to enterprise-wide spend optimisation.



## Your benefits

PwC will be happy to advise on the implementation of effective procurement management. This means analysing, controlling and shaping your cost structures.

In many cases, savings can amount to 5 - 15% of the cost of purchases. The total cost of an enterprise-wide spend management project is frequently only a fifth – and sometimes as little as a tenth – of the total savings.

Possible approaches to enterprise-wide spend optimisation can involve:

- Concentrating purchasing across the business
- Reduction in number of suppliers
- Reduction of inventories through better integration of suppliers into the supply chain
- Increased acceptance / use of long-term contracts
- Reduction and standardisation of supply range
- Introduction of supplier qualifications
- Change in product specifications (substitution)
- Reduction in transaction costs, materials usage and inventories
- Reduction in supply and quality risks through optimisation of supplier portfolio

## Your Contacts

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