

# Spend Your Way To Greater Profitability



*Implement spend management and  
advanced procurement methods to  
optimize procurement enterprise-wide*

Administrative Services • Animal Materials • Anti-Corrosive Materials • Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals  
Cleaning Equipment • Commercial • Components • Conditioning Systems • Construction • Construction Machinery • Crafts • Defense  
Design • Distribution • Domestic Appliances • Drugs • Editorial • Education • Educational Equipment • Elastomeric Materials  
Electrical Systems • Electrical Components • Engineering • Entertainment Services • Environmental Services • Facility Construction  
Farming • Film • Financial • Fine Art Services • Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services  
Gemstone Products • Healthcare Services • Industrial Cleaning Services • Industrial Manufacturing • Industrial Production  
Inedible Plant • Information Technology Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging  
Lubricants • Luggage • Mail Services • Management • Manufacturing Components • Material Handling Equipment • Materials  
Medical Equipment • Military • Mineral • Mining • Musical Instruments • National Defense • Observing • Office Equipment • Organizations  
Paper Materials • Personal • Pharmaceutical Products • Politics • Power Generation • Printing • Public Utilities • Published Products  
Research • Resin • Rubber • Safety Equipment • Safety Services • Security • Service Industry Machinery • Sports  
Storage Machinery • Structures • Testing Equipment • Timepieces • Tools • Toys • Training Services • Transportation  
Travel • Visual Equipment • Wildlife Contracting Services • Wildlife Machinery • Administrative Services • Animal Materials  
Anti-Corrosive Materials • Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals  
Cleaning Equipment • Commercial • Components • Conditioning Systems • Construction • Construction Machinery • Crafts • Defense • Design • Distribution  
Domestic Appliances • Drugs • Editorial • Education • Educational Equipment • Elastomeric Materials • Electrical Systems  
Electrical Components • Engineering • Entertainment Services • Environmental Services • Facility Construction • Farming • Film  
Financial • Fine Art Services • Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services • Gemstone Products  
Healthcare Services • Industrial Cleaning Services • Industrial Manufacturing • Industrial Production • Inedible Plant  
Information Technology Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging  
Lubricants • Luggage • Mail Services • Management • Manufacturing Components • Material Handling Equipment • Materials  
Medical Equipment • Military • Mineral • Mining • Musical Instruments • National Defense • Observing • Office Equipment • Organizations  
Paper Materials • Personal • Pharmaceutical Products • Politics • Power Generation • Printing • Public Utilities • Published Products  
Research • Resin • Rubber • Safety Equipment • Safety Services • Security • Service Industry Machinery • Sports • Storage Machinery  
Structures • Testing Equipment • Timepieces • Tools • Toys • Training Services • Transportation Travel • Visual Equipment  
Wildlife Contracting Services • Wildlife Machinery • Administrative Services • Animal Materials • Anti-Corrosive Materials  
Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals • Cleaning Equipment • Commercial • Components  
Conditioning Systems • Construction • Construction Machinery • Crafts • Defense • Design • Distribution • Domestic Appliances • Drugs  
Editorial • Education • Educational Equipment • Elastomeric Materials • Electrical Systems • Electrical Components  
Engineering • Entertainment Services • Environmental Services • Facility Construction • Farming • Film • Financial • Fine Art Services  
Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services • Gemstone Products • Healthcare Services  
Industrial Cleaning Services • Industrial Manufacturing • Industrial Production • Inedible Plant • Information Technology  
Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging • Lubricants • Luggage • Mail Service  
Management • Manufacturing Components • Material Handling Equipment • Materials Medical Equipment • Military • Mineral • Mining  
Musical Instruments • National Defense • Observing • Office Equipment • Organizations • Paper Materials • Personal • Pharmaceutical Products  
Politics • Power Generation • Printing • Public Utilities • Published Products Research • Resin • Rubber • Safety Equipment  
Safety Services • Security • Service Industry Machinery • Sports • Storage Machinery • Structures • Testing Equipment  
Timepieces • Tools • Toys • Training Services • Transportation Travel • Visual Equipment • Wildlife Contracting Services  
Wildlife Machinery • Administrative Services • Animal Materials • Anti-Corrosive Materials • Apparel • Arts • Audio • Building

## Introduction

The adage that you can't manage what you can't measure has great applicability to the area of spend management, a frequently overlooked opportunity to improve EBITDA in even the best performing companies.

The reality is that most companies don't have their total spend completely, or even mostly, under management. A recent survey<sup>1</sup> estimated that best-in-class companies averaged 88% of all non-payroll, tax, tariff, and fee-related expense under management while average performers had slightly less than two thirds of these same expenditures under control.

Of even greater significance was the fact that the former companies were enjoying an average 8.5% cost savings vs. 5.2% cost savings of total spend for the latter while laggards, with just 23% of spend under management, were saving a mere 3.7% of total spend.

The same research has shown that, "Enterprises have been able to achieve a 8 - 30% cost savings for each new dollar of spend brought under management." More and more, spend management is being viewed as a strategic imperative. With so much at stake, you can ill afford to leave it unattended.

<sup>1</sup>Aberdeen Group © 2009

## Spend Management Defined

In its simplest terms spend management is about creating long-term, sustainable savings relative to the acquisition of material and services. This normally entails five key areas of focus:

*Spend Analysis*-knowing and classifying what you are spending enterprise-wide;

*Material Specification*-understanding what you are buying and why;

*Sourcing Strategy*-determining how best to purchase certain classes of materials based on a combination of their uniqueness and criticality to your business;

*Process Effectiveness*-eliminating nonvalue-adding activities and unneeded features or services;

*Supplier Management*-selecting, orienting, retaining and developing an optimal working relationship with the right vendors.

## A Systematic Approach

In uncertain economic times, cost reduction and cash flow generation represent major business issues for every senior executive. But how do you deal with them? USC Consulting Group employs a systematic approach to bringing spend under management and implementing identified savings. Our goal is to help you become a world class procurement organization by reducing the cost of purchased goods and services, enabling processes, collaborating with supplier partners to reduce the cost of doing business, aligning the organization, and providing tools to ensure compliance.

## Feasibility Study

We start with a feasibility study during which we'll conduct a category sourcing assessment and an organizational assessment. With the goal of maximizing value delivered, the purpose of the cate-

gory sourcing assessment is to uncover all spend within a company and classify it into categories and family groupings. From there we'll analyze outlays, estimate implementable savings, and formulate sourcing strategies by commodity group based on our knowledge of supply markets. The purpose of the organizational assessment is to benchmark the current procurement organization toward the goal of increasing its overall efficiency. We'll look at the number of people involved, their skill sets, procurement practices and processes, the tools they use, etc., and assess them against our best practices. Frequently, this will lead us to define a high-level future state procurement model, along with a series of steps on how to achieve it, and a list of improvement opportunities to be harvested along the way. Once these assessments have been completed, we will begin to implement identified savings using a five-phase process.

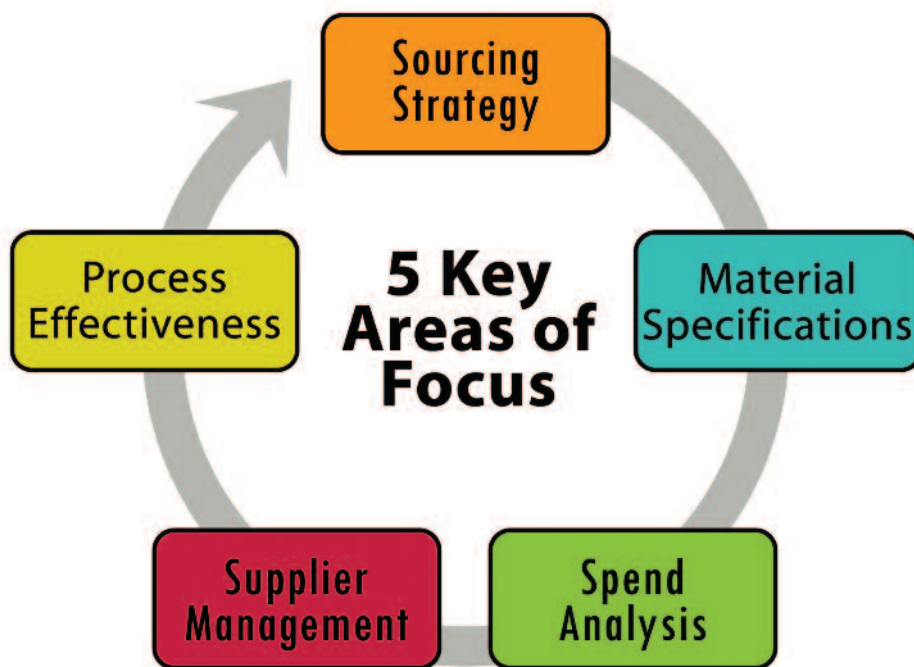


Figure 1. Five key areas of focus.

## Spend Category, Business Impact Determines Sourcing Strategy

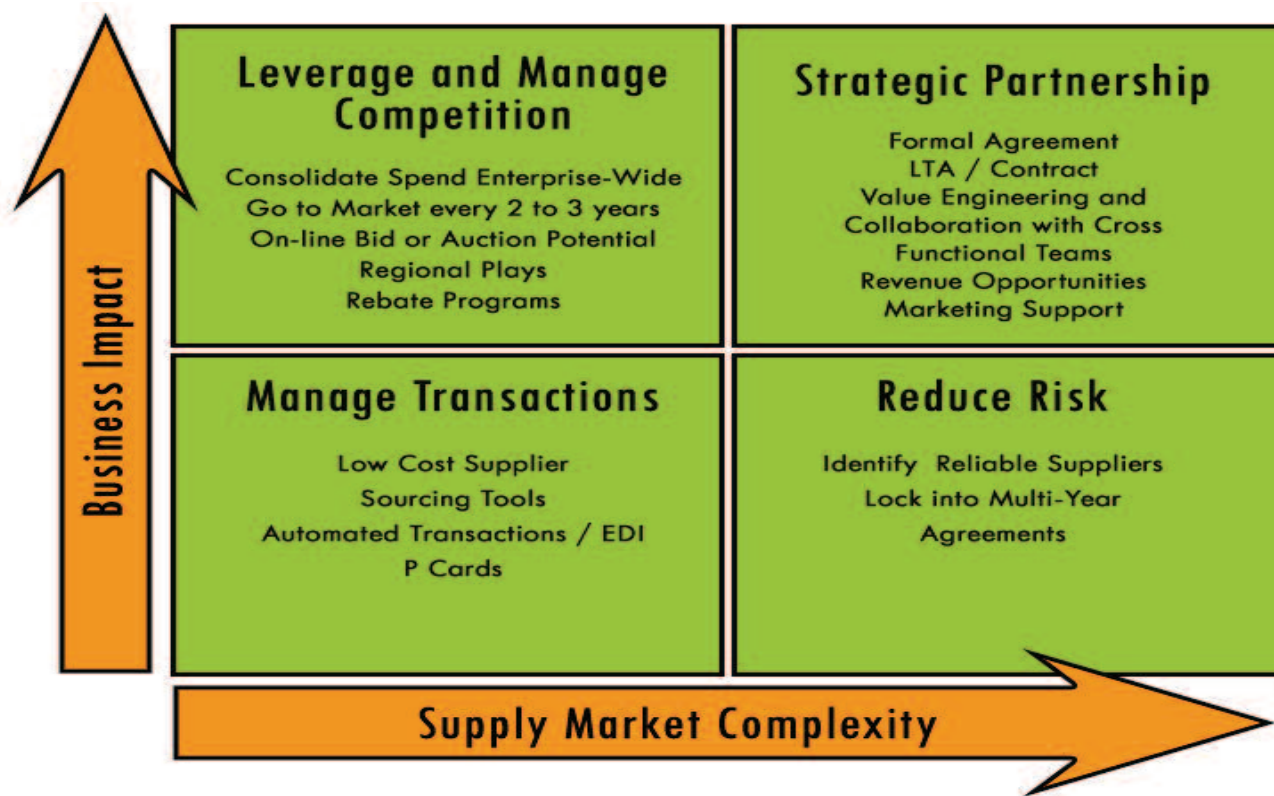


Figure 2. A quadrant analysis is commonly used to determine the best strategy for each category of goods or services to be purchased.

### Data Gathering and Preparation

We start by gathering and preparing data for subsequent analysis. This phase involves systematically determining what is being purchased across the enterprise by whom, at what price, to what specifications, under what terms, from which suppliers, and why. We use custom templates to collect and format the spend history by category and by item. We gather and validate specifications. We review business agreements including payment terms, shipping and freight covenants, and inventory requirements. We'll also identify and evaluate incumbent and recommended suppliers and the bid process.

### Develop the Supplier Market and Category Strategy

In this phase we seek to broaden and/or improve the quality of the supplier base. We'll brief and help manage the incumbents, actively recruit and invite new suppliers to bid, respond to their technical questions, and train them on the bidding platform. This entails using outside resources to identify and develop potential suppliers, conducting a formal outreach program, refining and forwarding RFIs and CDAs to elicit basic information and new supplier attributes, and collecting and reviewing financial data to establish their qualifications. At this point, we'll determine whether to pursue a sourcing or collaborative strategy for

each category (See Figure 2 above) based on criticality weighed against a combination of market complexity and supplier availability.

### Selection

Once we've identified and vetted the supplier pool, we'll begin the selection process by developing and publishing an RFQ. We'll review the content of the RFQ with suppliers and coordinate answers to their questions, updating the RFQ along the way as/if necessary. Once the bids are in we'll analyze them, check supplier references, review terms, and visit top supplier candidates to net down to a pool of semi-finalists, if not an outright winner. In the former case, we may initiate a second round of bidding to determine the finalist.

# Optimized Supplier Hierarchy

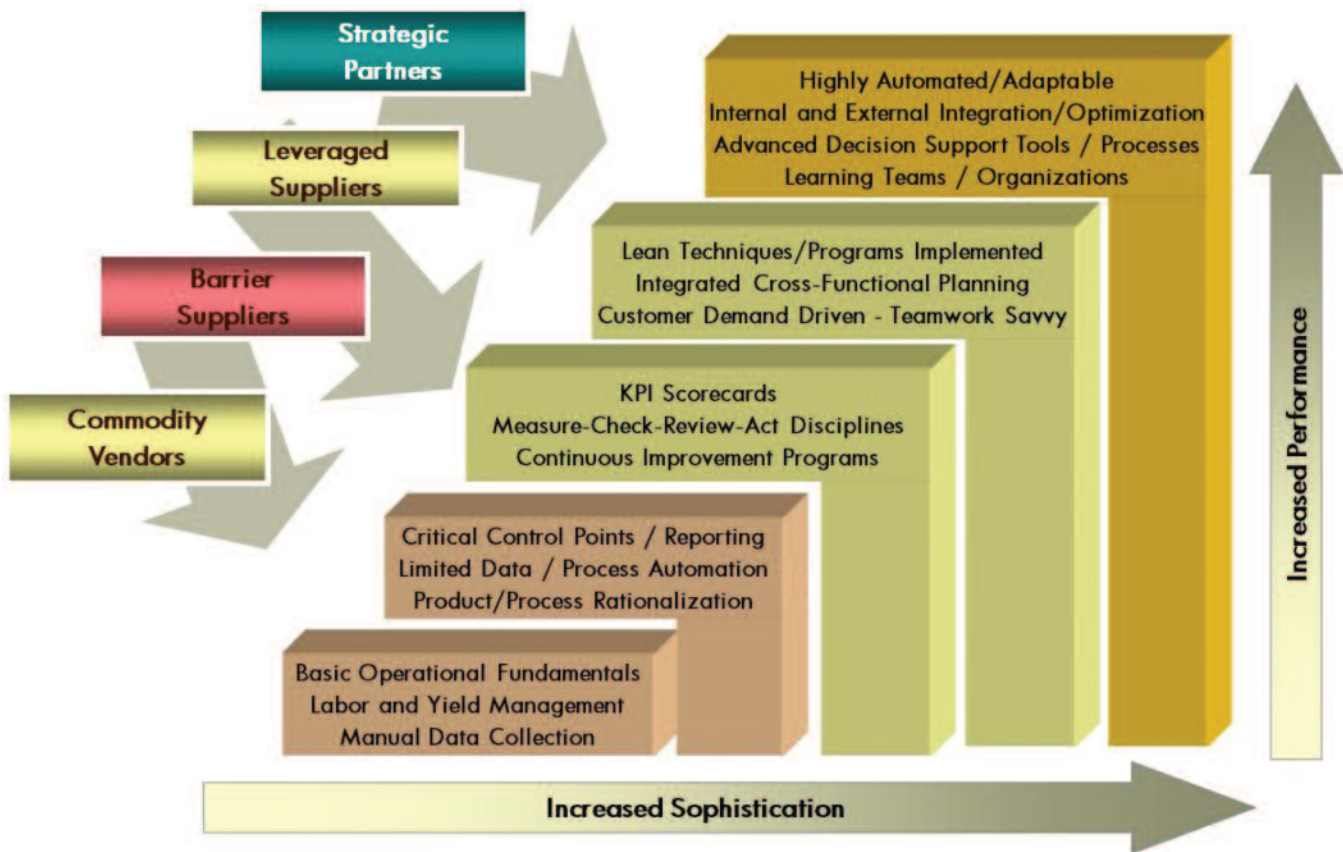


Figure 3. Vendors optimized by category of goods and strategic importance.

## Negotiation

Having selected a finalist, we will assist you in preparing and submitting a draft contract to them for review. Any differences will be resolved through bi-lateral negotiations and reflected in a final contract for both parties to sign. We may elect to suspend inventory build at this time as appropriate to circumstances.

## Analyze and Reward

In this final phase, the outcome is communicated to all bidding non-winning suppliers. The winning bidder may be asked to provide sample parts, if appropriate, for testing and approval. Logistics are discussed and finalized and a quarterly review process put into place to ensure compliance.

## Value Proposition and Benefits

Businesses face many challenges today including rising materials costs, poor supplier quality and/or delivery performance, SKU proliferation, organizational inertia and resistance, and fragmented spend. All of these are exacerbated by an inability to obtain and interpret company-wide information. Under these trying circumstances, USCCG's process provides the structure and tools to achieve material cost reductions:

- Technologies to automate, aggregate, classify, and analyze spend data;
- Discipline to develop, communicate, and execute project plans and planned key events;
- Standardized metrics and summary scorecard;
- Automated supplier registration, improvement plans, and corrective action;

- Cross-functional and divisional teams to leverage category spend and improve processes;
- Enterprise-wide integrated supply management.

Buyers and suppliers alike benefit from improved sourcing. Buyers are able to more accurately determine true market pricing and availability for the goods and services they want or need to purchase. They're able to identify potential new sources, reduce negotiation cycle time, and consolidate procurement among fewer, more strategic suppliers.

Suppliers, on the other hand, are able to identify potential new customers, get clear and immediate market feedback on their offerings, and, ultimately, reduce their cost of sales.

Administrative Services • Animal Materials • Anti-Corrosive Materials • Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals  
Cleaning Equipment • Commercial • Components • Conditioning Systems • Construction • Construction Machinery • Crafts • Defense  
Design • Distribution • Domestic Appliances • Drugs • Editorial • Education • Educational Equipment • Elastomeric Materials  
Electrical Systems • Electrical Components • Engineering • Entertainment Services • Environmental Services • Facility Construction  
Farming • Film • Financial • Fine Art Services • Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services  
Gemstone Products • Healthcare Services • Industrial Cleaning Services • Industrial Manufacturing • Industrial Production  
Inedible Plant • Information Technology Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging  
Lubricants • Luggage • Mail Services • Management • Manufacturing Components • Material Handling Equipment • Materials  
Medical Equipment • Military • Mineral • Mining • Musical Instruments • National Defense • Observing • Office Equipment • Organizations  
Paper Materials • Personal • Pharmaceutical Products • Politics • Power Generation • Printing • Public Utilities • Published Products  
Research • Resin • Rubber • Safety Equipment • Safety Services • Security • Service Industry Machinery • Sports  
Storage Machinery • Structures • Testing Equipment • Timepieces • Tools • Toys • Training Services • Transportation  
Travel • Visual Equipment • Wildlife Contracting Services • Wildlife Machinery • Administrative Services • Animal Materials  
Anti-Corrosive Materials • Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals  
Cleaning Equipment • Commercial • Components • Conditioning Systems • Construction • Construction Machinery • Crafts • Defense • Design • Distribution  
Domestic Appliances • Drugs • Editorial • Education • Educational Equipment • Elastomeric Materials • Electrical Systems  
Electrical Components • Engineering • Entertainment Services • Environmental Services • Facility Construction • Farming • Film  
Financial • Fine Art Services • Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services • Gemstone Products  
Healthcare Services • Industrial Cleaning Services • Industrial Manufacturing • Industrial Production • Inedible Plant  
Information Technology Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging  
Lubricants • Luggage • Mail Services • Management • Manufacturing Components • Material Handling Equipment • Materials  
Medical Equipment • Military • Mineral • Mining • Musical Instruments • National Defense • Observing • Office Equipment • Organizations  
Paper Materials • Personal • Pharmaceutical Products • Politics • Power Generation • Printing • Public Utilities • Published Products  
Research • Resin • Rubber • Safety Equipment • Safety Services • Security • Service Industry Machinery • Sports • Storage Machinery  
Structures • Testing Equipment • Timepieces • Tools • Toys • Training Services • Transportation Travel • Visual Equipment  
Wildlife Contracting Services • Wildlife Machinery • Administrative Services • Animal Materials • Anti-Corrosive Materials  
Apparel • Arts • Audio • Building • Chemicals including Bio Chemicals • Cleaning Equipment • Commercial • Components  
Conditioning Systems • Construction • Construction Machinery • Crafts • Defense • Design • Distribution • Domestic Appliances • Drugs  
Editorial • Education • Educational Equipment • Elastomeric Materials • Electrical Systems • Electrical Components  
Engineering • Entertainment Services • Environmental Services • Facility Construction • Farming • Film • Financial • Fine Art Services  
Foam • Food Beverage • Forestry • Fuels • Furniture • Gas Materials • Gas Services • Gemstone Products • Healthcare Services  
Industrial Cleaning Services • Industrial Manufacturing • Industrial Production • Inedible Plant • Information Technology  
Broadcasating • Laboratory • Law Enforcement • Lighting • Live Plant • Lodging • Lubricants • Luggage • Mail Service  
Management • Manufacturing Components • Material Handling Equipment • Materials Medical Equipment • Military • Mineral • Mining  
Musical Instruments • National Defense • Observing • Office Equipment • Organizations • Paper Materials • Personal • Pharmaceutical Products  
Politics • Power Generation • Printing • Public Utilities • Published Products Research • Resin • Rubber • Safety Equipment  
Safety Services • Security • Service Industry Machinery • Sports • Storage Machinery • Structures • Testing Equipment  
Timepieces • Tools • Toys • Training Services • Transportation Travel • Visual Equipment • Wildlife Contracting Services  
Wildlife Machinery • Administrative Services • Animal Materials • Anti-Corrosive Materials • Apparel • Arts • Audio • Building

## An Invitation

If you would like to consolidate and leverage spend to reduce the cost of procurement across your enterprise, call USC Consulting Group at (800) 888-8872 or visit us online at [www.usccg.com](http://www.usccg.com).

