

LOVE AFFAIR OF PROCUREMENT AND FINANCE, IS IT POSSIBLE?

HE THINKS HE'S THE BEST

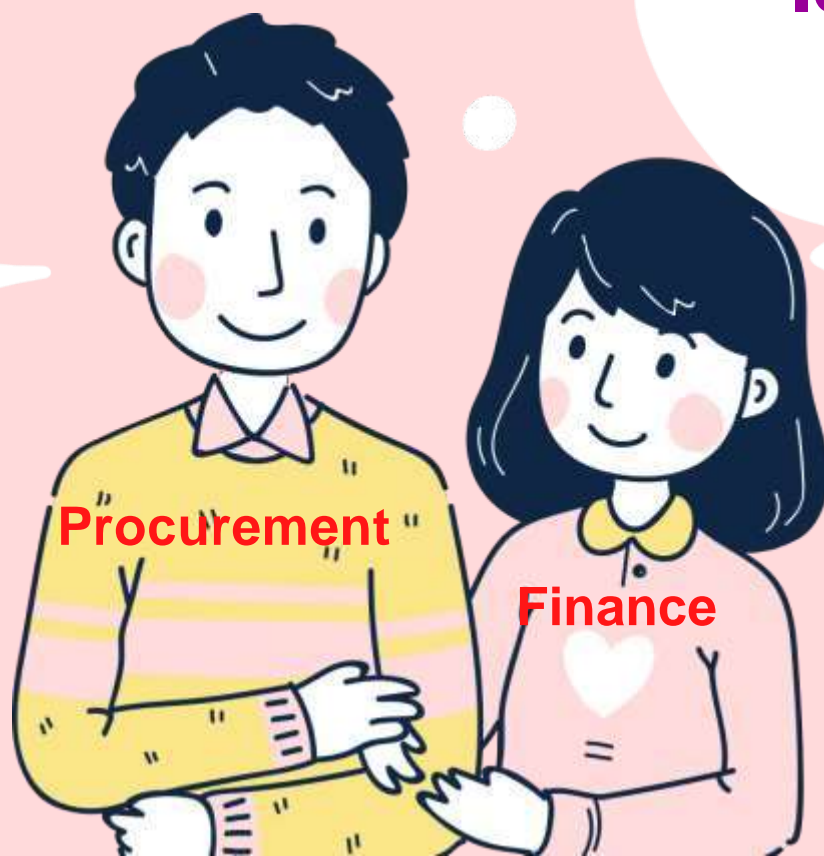
SHE THINKS SHE'S THE BEST

I
love
you

I
love you,
too!

Procurement

Finance



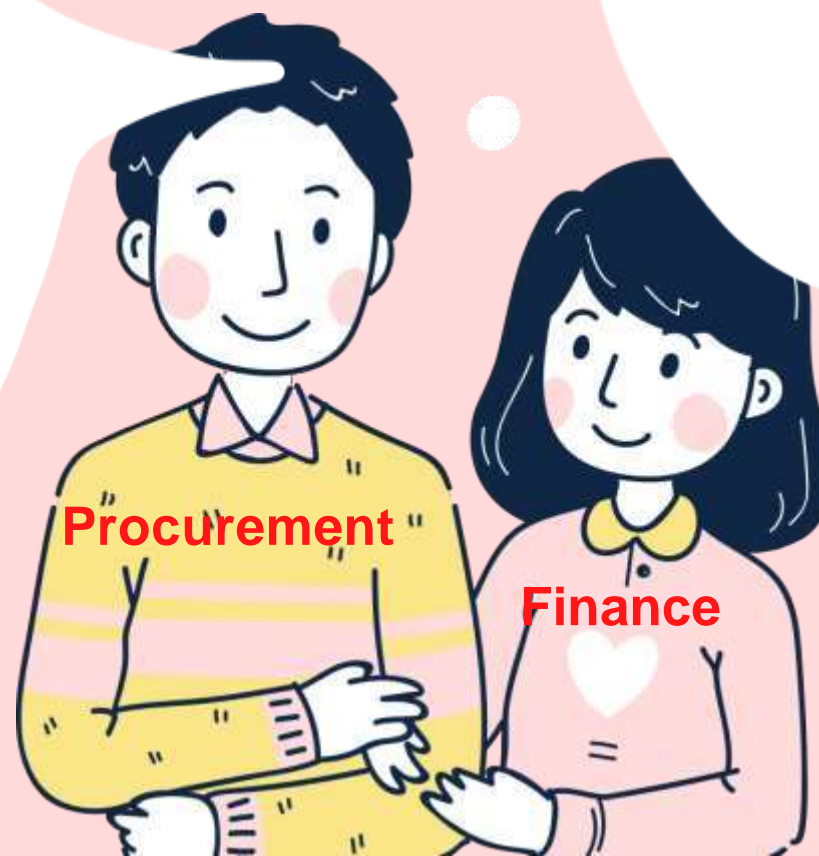
HOW? SAVINGS MEAN DIFFERENT THINGS TO THEM

HE LOVES COST SAVINGS+ COST AVOIDANCE

SHE LOVES REPORTABLE COST SAVINGS

*Saving=(Historical Price –
New price)X Forecasted
Volume*

*Nopes!
Saving=Budgeted Cost – Actual Cost*



Procurement

Finance

AND THE ARGUMENT CONTINUES.....



*Savings isn't getting the
lowest price today but
achieving value for money
over longer term*

*Savings which doesn't
impact profitability,
working capital, and cash
flow isn't saving.*

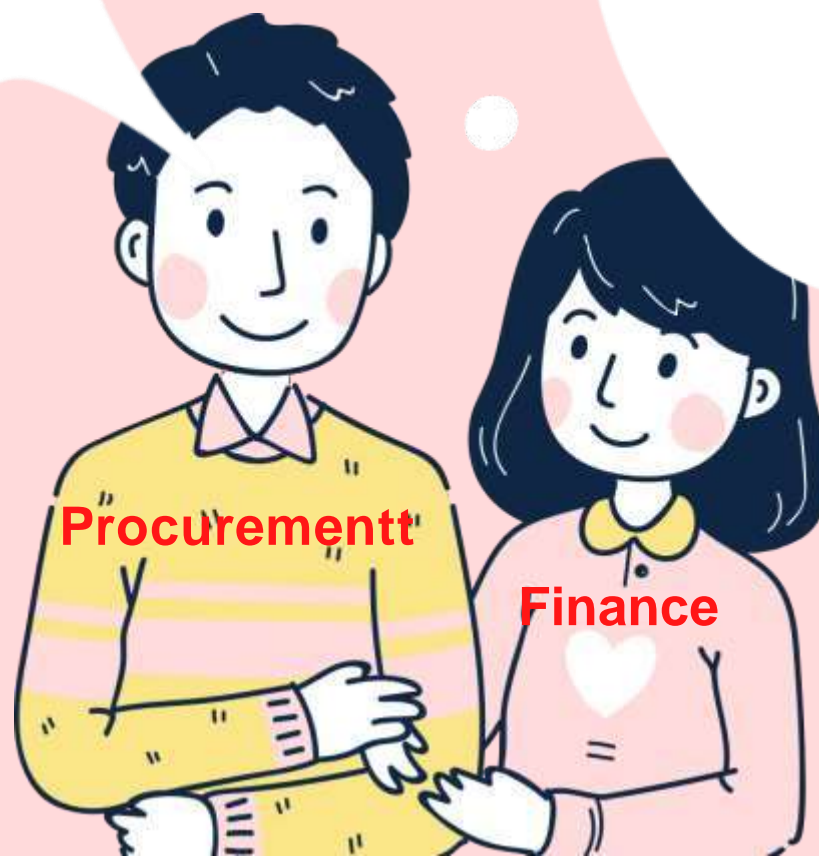
*You do not report them
accurately to me to
reflect on bottom line*



FURTHER.....

Cost savings, mean price reductions and that includes savings achieved by cost avoidance

Cost savings, are annual reduction in expenditure from the previous year and I do not accept your version of savings



Procurement

Finance

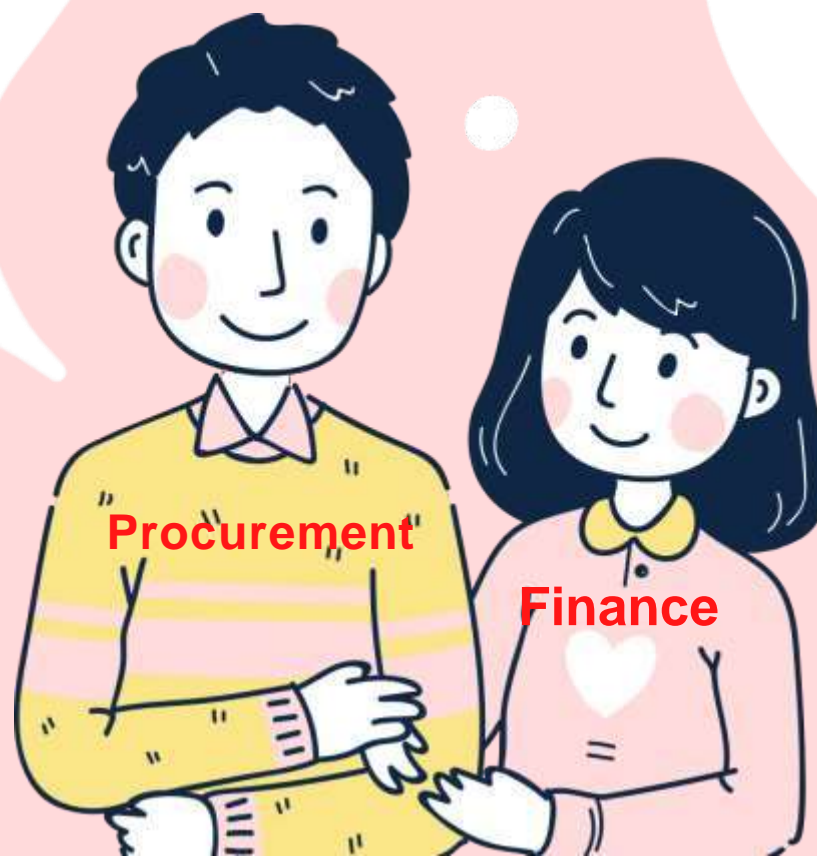
Things get complicated further because:

Not all procurement savings, can be measured against historical prices because:

1. A new service or commodity(A CAPEX) is being sourced. There is no baseline spend
2. There is a significant change in specifications. Buying Mild Steel now Vs Stainless Steel plate earlier. Hence Cost is going up.
3. “Savings” by Contracting and defending against price inflation is an avoided cost not a reported saving

YOU DON'T LOVE ME!

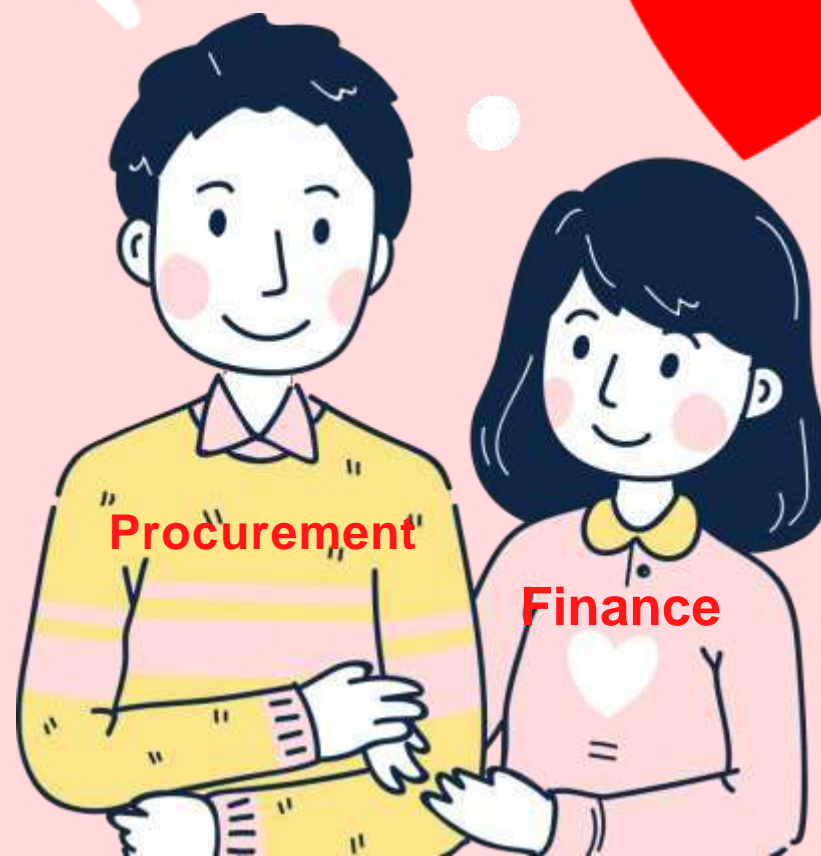
YOU LIAR!
YOU DON'T LOVE ME!



How Finance and Procurement Numbers Can be Made to Reconcile?

LET'S PATCHUP!

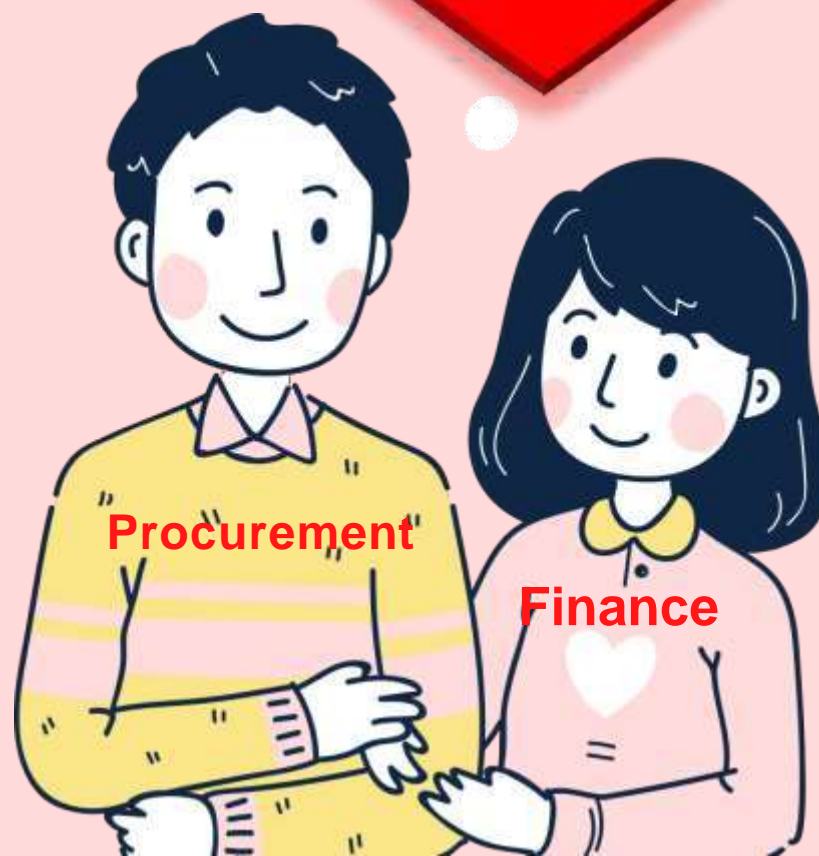
SURE LOVE!



Bridging the Gap

- Develop a reporting structure that promotes collaboration between the couple and align the metrics of savings:

- How savings is calculated?
- How you will monitor savings?
- How you will track avoidance?
- How you will identify other value adds?
- Who signs off on savings?
- How you will document savings?



A sign-off form like this for each project for the Couple

Project name: _____

High Level Project Summary

Sourced Revenue (EUR)	
Estimated 12 month C/F savings	
Expected start date	

Overview:

eg We have negotiated reduced rates with the current provider Acme Ltd for the supply of widgets

Baseline Definition:

eg Previous price paid for the supply of widgets

Identified Savings

eg New negotiated price for the supply of widgets compared to the previous price multiplied by forecast volume

Approved by:

Finance

Budget holder

Procurement

Savings Type

- ☒ Last Price Paid Savings
☐ Cash Savings

Financial Statement Area (Check all that apply, add allocation percentage)

- ☐ COGS _____
☐ Overhead _____
☐ Capital _____

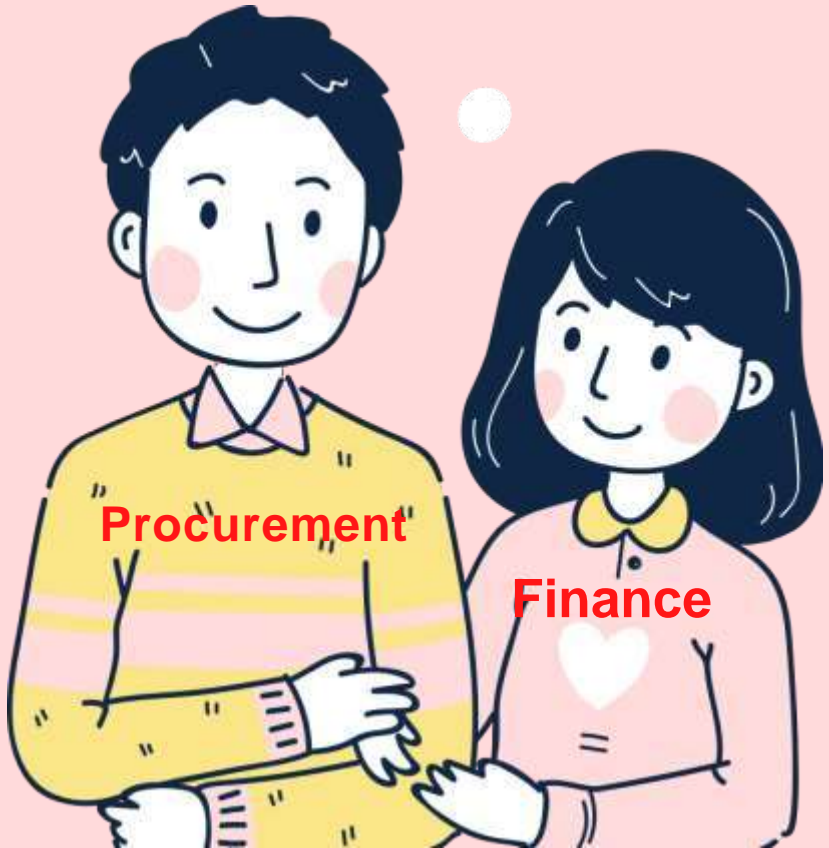
Business Unit (Check all that Apply, add allocation percentage)

- ☐ Corporate _____
☐ UK plant _____
☐ Germany plant _____
☐ France plant _____
☐ US plant _____
☐ China plant _____
☐ India plant _____
☐ Brazil plant _____

Category

- ☐ Raw materials
☐ Finished goods
☐ Packaging
☐ MRO
☐ Logistics
☐ Capital/Engineering
☐ Marketing
☐ IT/telecoms
☐ General & Professional
- ☐ Energy and utilities
☐ Contract manufacturing

PATCH UP PROCESS STEPS SUMMARIZED



And then they lived happily ever after.....

I CAN'T LIVE
WITHOUT
YOU!

LIAR! I
CAN'T LIVE
WITHOUT
YOU!

