

# The Ultimate Guide to Cost Savings

15 Cost Reduction Strategies in Procurement



# 15 Ways to Save Money, Add Value and Make an Impact

Procurement is poised to make a massive impact in terms of slashing costs and uncovering new value for the organization.

Here's how...

# 01

## Build a Cost-Conscious Culture

Organizations without this type of culture typically have out-of-control spend on everything from office supplies to corporate travel. In a cost-conscious culture, employees treat every dollar of company money as if it were their own, seeking the best value for their money.

Build a cost-conscious culture by winning management support for cultural change and through ongoing training, starting with new employee onboarding.

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## Implement Category Management

Just like a household budget, spend can be difficult to understand and manage if it's all lumped together in a single sum.

Categorizing spend avoids a one-size-fits-all approach to procurement, enabling category management, category-specific spend analytics, supplier consolidation, and other techniques that drive cost reduction.

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## Manage Tail Spend

Tail spend consists of high-volume, low-value, decentralized purchasing. Typically containing 80% of suppliers but only 20% of spend, it's tempting to ignore tail spend, but it adds up.

With the help of procurement software, the visibility of tail spend can be improved, analytics applied, risks mitigated, and significant savings uncovered.



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## Manage Indirect Spend

Overlapping with tail spend, indirect spend refers to the many costs of running a business that are not directly related to creating the organization's key product or service.

Bringing indirect spend under the central procurement team's control allows for better spend management, lower risk, and increased savings.



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## Address Maverick Spend

Spend mavericks can undo all the great work of procurement by ignoring guidelines and policies altogether or not understanding the procurement process.

Instead of seeing mavericks as the enemy, think of them as an opportunity for vital feedback. Maverick spenders can alert you to clunky procurement processes, poor stakeholder communication, and other issues.

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## Consolidate Suppliers

Spend analytics in indirect and tail spend often reveals duplication issues where different people in the business are sourcing the same product or service from multiple suppliers.

Consolidating suppliers will increase spend volumes and the chances of successfully negotiating a high-volume discount with a single supplier.



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## Drive Efficiency

Cutting your time-to-source will help your business save money and increase profits by getting the end-product to the customer faster.

Review the end-to-end sourcing process to look for bottlenecks and lengthy or manual tasks, then improve processes and automate wherever possible.



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## Reduce Risk

Risk reduction in procurement and supply chain management is like insurance. You'll need to spend some money and effort on risk mitigation, but the payoff will be worth it when disruption occurs.

For example, organizations that took a Just-in-Case approach to sourcing were in a more resilient position when the Covid-19 crisis first emerged.

# 09

## Protect Against Price Hikes

A carefully constructed category strategy and budget can be disrupted in a moment by unexpected price hikes.

Protect yourself against price hikes with strategies including hedging, purchasing a futures contract, shifting to a Just-in-Case model, or partnering with a group purchasing organization.



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## Focus on Sustainability

Shifting to a circular economy has the potential to drive significant cost savings. Sourcing sustainable materials will also help mitigate risk as finite materials will inevitably become more expensive over time.

There are dozens of ways procurement can embrace sustainability, including nurturing supplier innovation in areas such as packaging and ingredients, looking at the Total Cost of Ownership (TCO), and shifting to local sourcing.



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## Encourage Supplier Innovation

Procurement and supply management professionals know that the best ideas come from a company's supply chain. Supplier innovation can take many forms, from finding better ways of working together to developing an innovative new gadget.

At scale, even the smallest cost-saving innovation can make a huge difference to overall spend.

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## Engage with Local Suppliers

Local sourcing is steadily becoming more cost effective.

It's cheaper in terms of logistics costs, suppliers can adapt faster to shifting demands, relationships are easier to build, and (most importantly), local suppliers are less vulnerable to major disruptions such as the shipping crisis caused by COVID-19.

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## Explore Lean Procurement

Lean procurement is generally it's about finding ways to cut down lengthy and complex processes wherever possible. It can also mean running a procurement function with a very small team or even with a single person.

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## Create an SRM Program

Supplier Relationship Management will inevitably create value over time with your strategically important suppliers.

A preferred customer/supplier relationship helps mitigate risk, makes it easier to work together, strengthens supply chains, and helps nurture supplier innovation.



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## Partner with a GPO

Last, but certainly not least, is the option to partner with a group purchasing organization to capitalize on savings.

Group purchasing provides access to massive cost savings through volume purchasing and deep supplier discounts across several common indirect categories.

Una membership is always **free of charge** and our pre-negotiated contracts save our members an average of 22%.



# Ready to start saving?

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