

A Financial Perspective On Changing a Procurement Organization



FORUM 2015

Becoming a Thought
Partner

Presented by
Bob Matthews

Who Is Bob Matthews



- Northeastern University; Finance & Insurance Major
- 37 Year Career at GE & GE Capital
 - Financial Management Program
 - First Half of Career in Financial Management
 - Second Half in Operations and Procurement
- Paladin Associates Co-Founder
 - Work with Clients to Improve the Strategic Value of Procurement Organizations and Drive Cost Reductions

Transitioning from Finance to Procurement



Financial
Management

- Cost Focus
- “Analytical Environment”

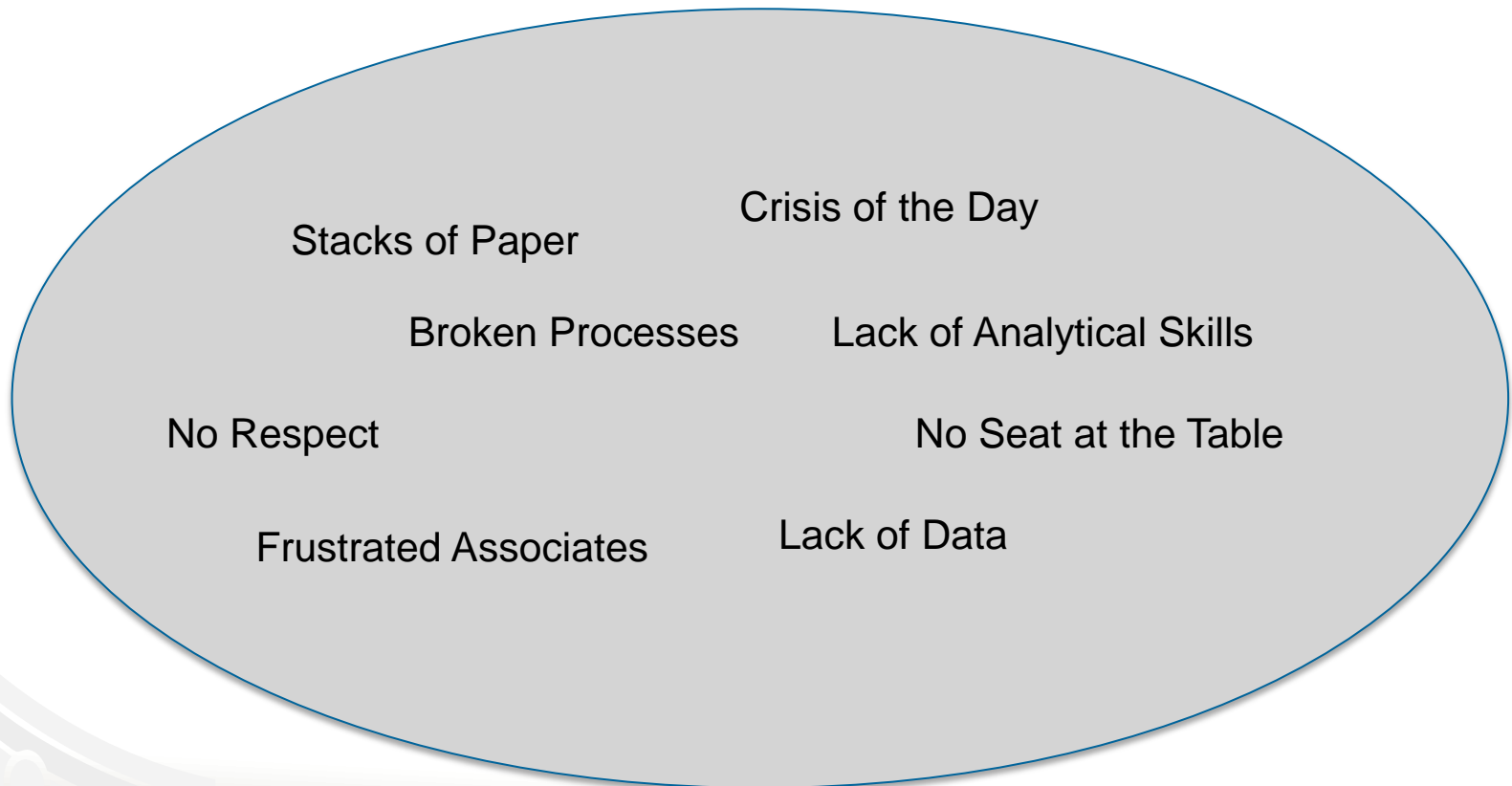
Business
Leadership

- Turnaround Situation
- Sales Management Issues

Procurement

- Organization in Turmoil
- Predecessor Indicted For Fraud

What Did I Find



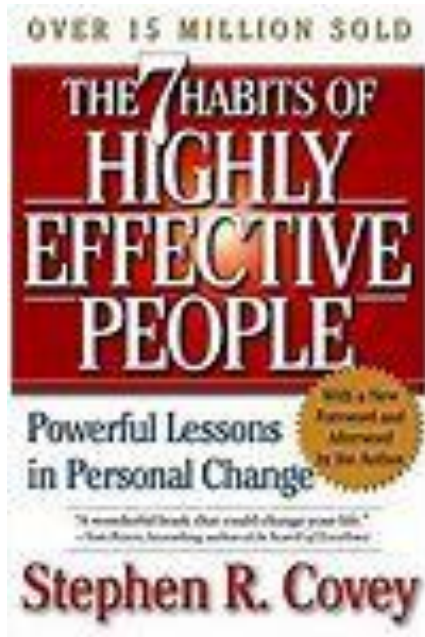
But I Was Lucky



- Understood the Business Financials
- Strong Analytical Background
- Management Support
- But Most Important- Caught and Rode the Jack Welch Strategic Sourcing Initiative

But...Enough About Me

CFO Perspective



Habit 2 – “*Begin with the end in mind*”

End game is to be considered Finance’s
“Thought Partner” on cost issues



CFO Mindset

- Not all CFO's are strategic
- Focused on results; not activities
- “What have you done for me today”
- Skeptical of claimed “savings”

CFO Perspective



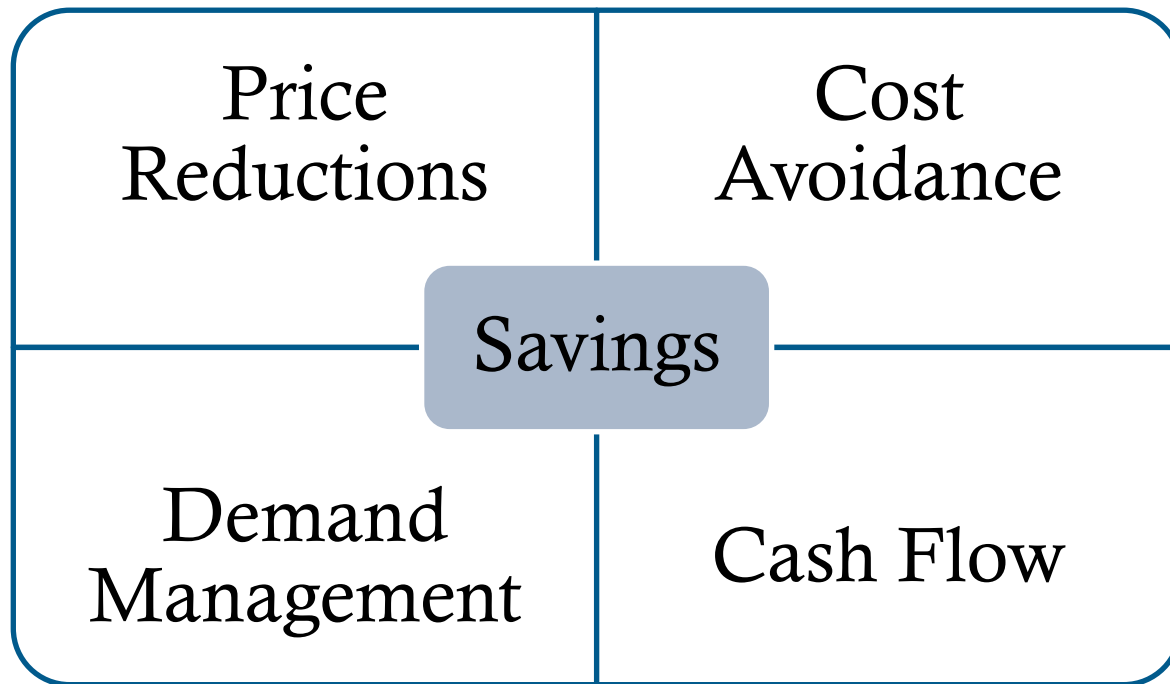
Typical Areas of CFO Focus

- Operations (Savings)
- Balance Sheet
- Risk Mitigation
- Stakeholder Satisfaction

Savings



What Constitutes Savings?



Savings



Price Reduction

- Decrease in actual price paid

Cost Avoidance

- Negotiated lower price on first-time buy
- Negotiated reduction or elimination of a formal price increase request

Cash Flow

- Improved payment terms

Demand Management

- Reduced usage (demand)

Impact of Usage on Savings Calculation

Budget

- Unit price \$100
- Usage 100
- Budget \$10,000

Actual

- Unit price \$90
- Usage 110
- Budget \$9,900

Is the savings \$1,000 or \$100?

Risk Mitigation



Risk is Everywhere in the Supply Chain

- Financial risk
- Reputational risk

Supply Chains are more complicated; more parties; more opportunities for risk

Social Media can spread incorrect information

Opportunity for Procurement to Adding Strategic Thinking

Strategic Process Overview



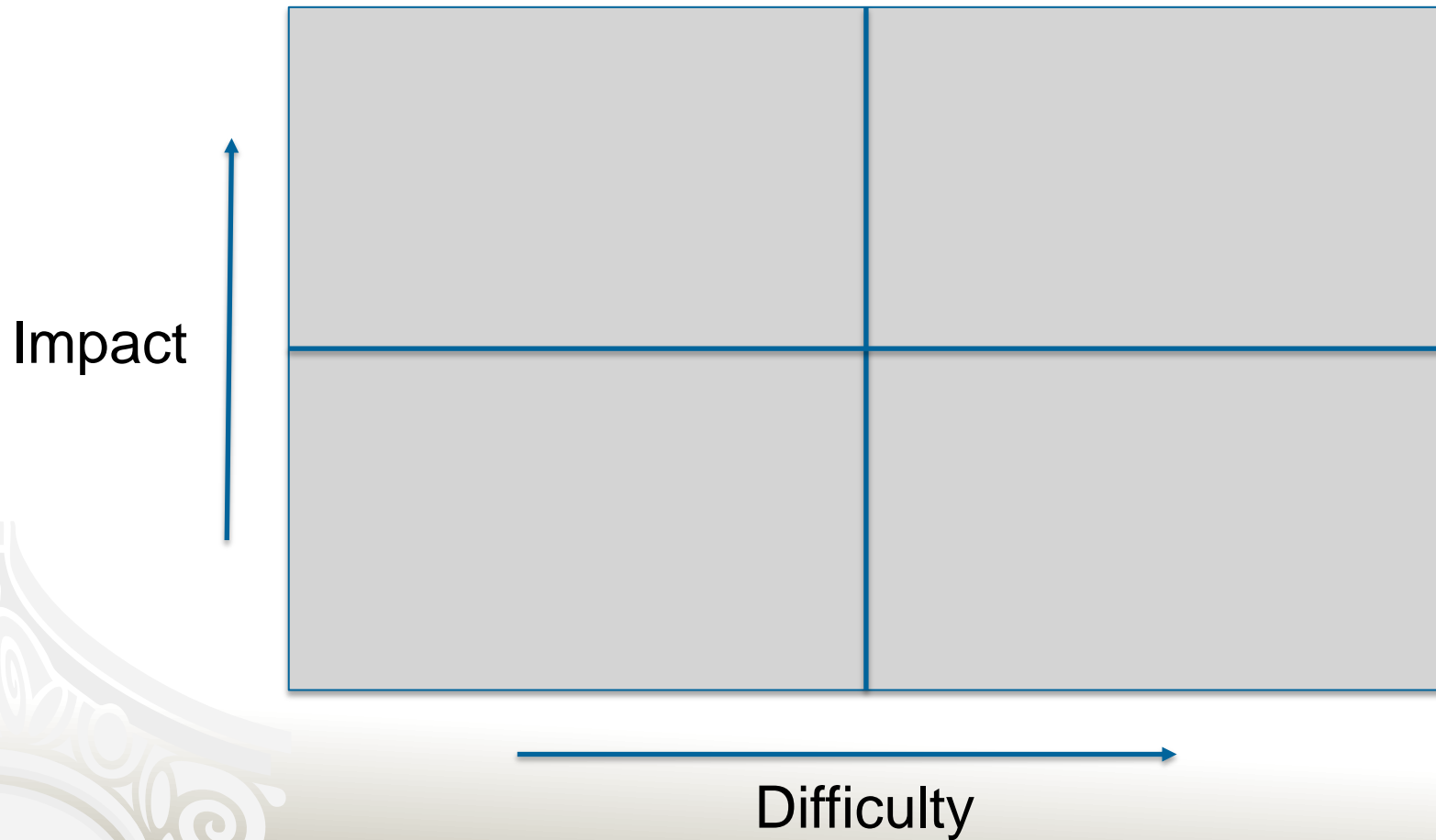
- Follow the cash
- Start with Accounts Payable
- Summarize by sourcing category
- Holistic view of cash out-the-door

Strategic Process Overview

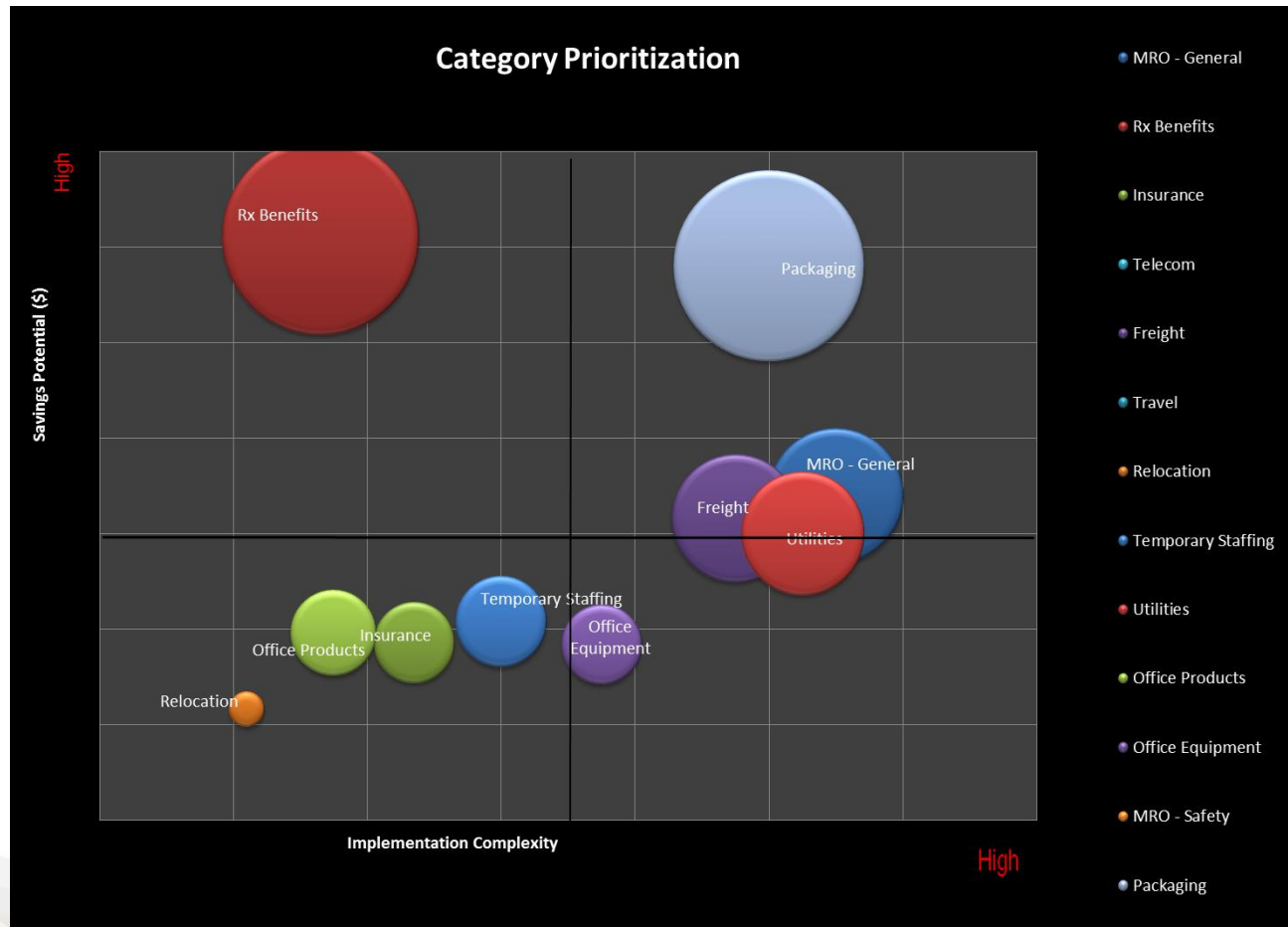


- Identify sourcing projects
- Prioritize projects considering both potential impact and difficulty to implement

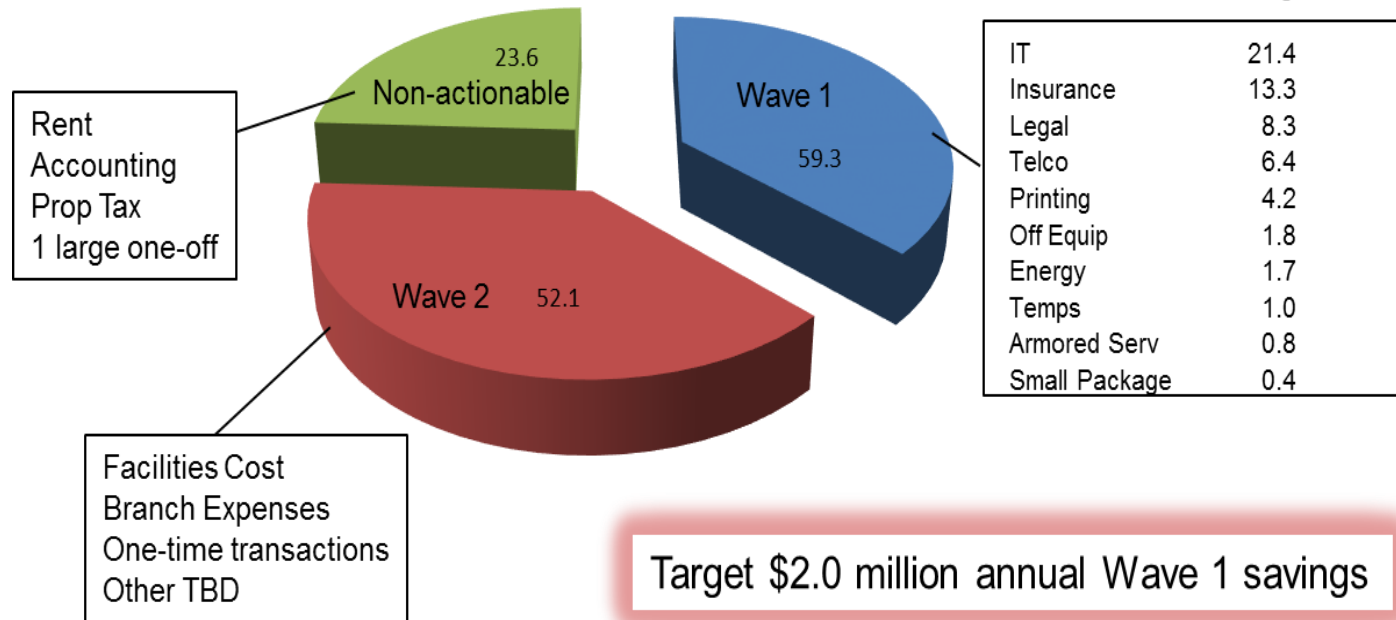
Prioritization



Prioritization



Prioritization



Strategic Process Overview



- Select and execute appropriate tactic
 - GPO agreement
 - Direct negotiation
 - RFI/RFP/e-Auction
- Introduce competition

Quote: "How do you know you have a competitive price if you have not introduced competition"

Strategic Process Overview



- Select on best value
 - Price
 - Terms
 - Balance sheet impact
 - Risk considerations

Strategic Process Overview



- Implementation is critical...many projects fail on execution
- Make stakeholders part of the process...drive buy-in
- Use Change Management techniques

Thanks for Your Time



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