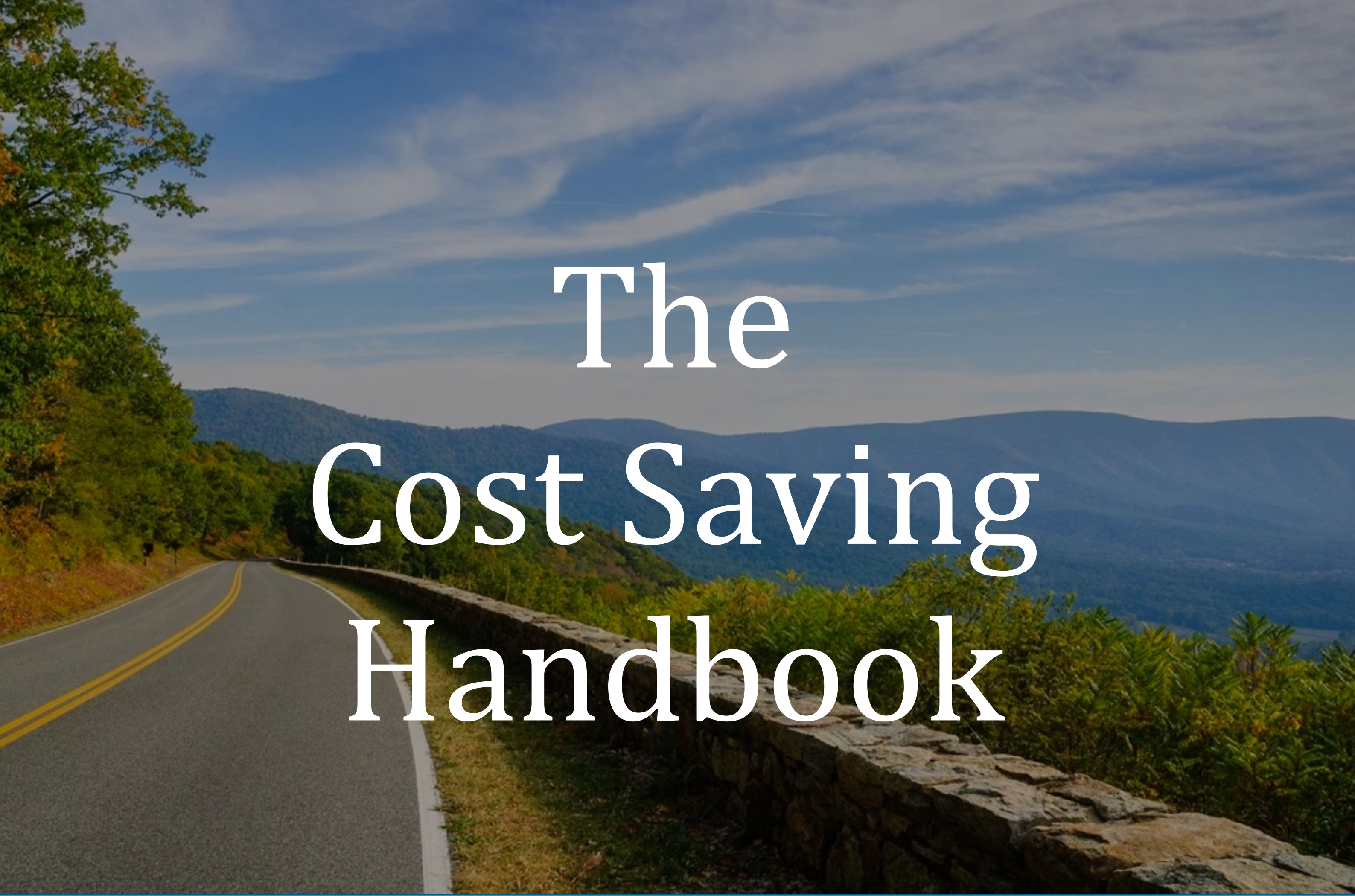

The Cost Saving Handbook

LeanLinking

Alternative ways to cost savings without any use of tenders or RFQs

June 2020

Introduction

Reducing costs that will have instant and lasting effects is crucial during these uncertain COVID-19 times of crisis where sales and turnover are under pressure in many companies.

Even if your business is not suffering during this crisis, this e-book is still relevant and offers you more opportunities to create greater cost savings, as you will have more levers to offer suppliers to gain cost reductions in return.

Often working with *existing* suppliers is a much faster route in creating real and lasting cost reductions, because you already know the suppliers who are fully implemented, and the suppliers already know your business.

Understand that if you were to follow the traditional route to cost savings, you would make a tender, negotiate, select a new supplier, implement and then maybe realize cost savings. In most cases, the problem with this approach is that it takes time and significant resources (costs) to do this exercise, and there is a significant time lag on cost saving, as it is not realized until the supplier is fully implemented, which requires considerable time and costs. In addition, there is a real risk of hurting the relationship with existing and good suppliers when you run tenders, which is why they should be carefully considered before executed.

So, in this short e-book we will present concrete suggestions to how companies can remove costs effectively via initiatives towards existing suppliers without running any tenders or RFQ processes. It is often a far easier and faster approach than having to replace existing suppliers, as the new suppliers need to be implemented fully before real cost savings can be generated.

I hope you enjoy the read.

Sincerely,
Lars Kuch Pedersen

#1 Remove costs you don't need

Your first step should be to remove costs that you do not actually need. In most larger companies there is a great lack of transparency between the people who actually approve and pay for products and services (your external costs/spend), and the people who actually use and utilize the associated product or service. The lack of transparency between buyer/approver and user increases the risk of companies actually paying for something that is not used at all, or only used to a very limited degree and not providing any value.

Your first step should therefore be to identify these products and services not being used or utilized. This can be done in different ways for different types of spend. Below we present a few different approaches you can utilize to identify these products and services:

Example - IT Spend: For IT spend you should identify the specific services or modules that are not really being used. You can do this by making a long list of all the IT solutions per service / module being bought by your company. Making this list can be a challenge, but the CIO and function leaders should be able to give their input to it. Another way could be to go through the invoices for 'IT' or 'Software' spend. When you have the list of IT providers you should identify how many logins, page views or similar measures have been completed during the last e.g. 3 months. You can use a table such as the one below:

IT provider	Module / Service	#Logins last 3 month	#Active users last 3 months	Yearly spend (EURO)	To be terminated?
Provider A	Module X	4	2	**200.000**	**Yes**
Provider A	Module Y	10	3	**30.000**	**No**
Provider B	Full suite	15	5	**55.000**	**Yes**
Provider C	Full suite	20	10	**65.000**	**No**
...		...	...	**...**	**...**

Based on the table above it should be easy to identify which IT-services could be potentially terminated. However, please understand there can be critical data stored on a service even though there is no activity, so make that sense check before you terminate the contract.

Example - Direct spend: For direct spend categories you typically build up stocks of the products/raw materials that suppliers supply. You need to measure you stock turn split down per supplier and per product. You do this by using this formula: Stock turn = (Yearly usage measured in cost value) / (Stock value in cost prices). Rank all suppliers and products in according to stock turn. See how this could be done in the tables below:

RANKED STOCK TURN ON SUPPLIERS:

Supplier name	Usage last 12 month in cost value	Stock value in cost prices	Stock turn per year
Supplier X	789.789	976.876	**0,8**
Supplier Y	1.256.675	786.761	**1,6**
Supplier Z	33.453	4.554	**7,3**
...	...	...	**...**
...	...	...	**...**

RANKED STOCK TURN ON PRODUCTS:

Product name	Usage last 12 month in cost value	Stock value in cost prices	Stock turn per year
Product H	394.895	610.548	**0,6**
Product G	628.338	314.704	**2,0**
Product F	16.727	1.822	**9,2**
...	...	...	**...**
...	...	...	**...**

For each of the suppliers and the product with the lowest stock turns you need to make the following evaluation:

1) Can the business function properly without this product or supplier?
2) Can we stop buying this product or from this supplier?

If the answer is 'Yes' to these questions, block the product (or supplier) from being open for purchase in your buying system.

This is a 'healthy' exercise that can reveal a great number of products and services that are not needed, and hereby you can reduce costs without affecting the business.

#2 Offer Top 20-30 suppliers help in return for helping you reduce costs

By focusing on your Top 20-30 suppliers you probably cover +60% of your total spend and therefore a large share of your total cost reduction potential. Invite all these top suppliers to an (online) business review meeting and ask them to bring their relevant representatives, and *not* only the key account. You need people in the meeting that can make decisions in relation to the topics you want to bring to the discussions (see more on this below).

Inform the suppliers about the situation as you see it and inform them in a polite and respectful manner that you need to explore opportunities regarding reducing your costs towards them. Also inform them that you want to bring something to the table and offer the supplier help in any way you can, except for cost increases. The last comment is very important!

Even in these tough times you or your company probably have something non-financial to offer the suppliers that is of great value to them. Maybe you have not realized you have this, so be creative here and spend some time making a 'catalogue' of initiatives you could take to help suppliers. Below are some examples of what you can offer your suppliers:

A: Offer to help the supplier make a business case with you as a customer reference that the supplier can use in their marketing. This is of great value to the supplier.

B: Offer to help the supplier get in contact with a relevant person in your network. You probably know someone who could benefit from the supplier's product/service. If you recommend the supplier, it can have a big effect and will be of significant help to the supplier.

C: Increase agreed delivery time from supplier to you, and/or delivery window/timeslot. Whether you can do this or not depends on how your supply chain is structured. But in some cases, it may not hurt your business, and it can be of significant value to the supplier.

D: Lower agreed credit terms. This depends on how you measure working capital. In some cases, your WACC (weighted average cost of capital) is lower than the suppliers' WACC, and in these cases it can make a lot of sense to lower credit terms for better pricing. It may be worth discussing with your CFO what can be done.

For each supplier prepare which of the your 'offers' you want to try and sell and prepare your arguments. If the suppliers themselves do not have any suggestions to what they would like from you, then present your 'catalogue'. Then initiate the discussion with the supplier and be open, honest and creative.

By doing so, new solutions might open where you can help each other, and you can reduce costs instantly with existing suppliers.

#3 Reduce non-conformance costs

Non-conformance costs are the costs arising from suppliers not delivering in accordance with the expected quality, quantity or time. To reduce these costs, you should start tracking supplier non-conformance experienced by the people in your company receiving and using the goods or services delivered by your suppliers. This is easier to implement than you think:

Identify the people in your company (or maybe for a specific category or process) who are the receivers and users. Have an (online) meeting with them where you identify the following:

- How many delivery/service non-conformance cases they experience per week?
- What types of non-conformance they experience?
- What the process is like in terms of solving these non-conformance cases?
- How much time these cases require of their time?
- How many costs these cases add to be corrected/handled?
- How they manage these cases? What system or solution they use, if any?

Based on the conclusions on the above questions, you should discuss how to set up a process where:

- The receivers/users report the issues/problems moving forward.
- The cases are visible to the relevant supplier managers.
- A 'non-conformance cost' is added to each case.
- A monthly statistic should be shared with each supplier regarding number of cases and added non-conformance costs.
- A monthly call with the key account on how to reduce the number of cases and a discussion on how much of these added non-conformance costs the supplier should cover.

This way you will start a fact-based process where you document the added costs from non-conformance supplier deliveries, and you will start reducing costs in two ways:

A: You get a kick-back from some suppliers covering some of the added costs you had realized due to supplier non-conformance.

B: You will reduce the number of non-conformance cases and related costs moving forward.

Note: Some might think that you need this kick-back stated in a cooperation agreement with the supplier. You do not, and the supplier will agree when she hears your argument, which is: These are added costs due to supplier non-conformance, and therefore the supplier should cover the added costs. The discussion should revolve around how much of the added costs the supplier should cover.

You can carry out all of the above in Excel or some other manual tool. However, if you need an easier-to-use solution built-for-purpose you can look into LeanLinking.

#4 Survey your suppliers to identify cost saving opportunities

Your suppliers can be a great source of information to understand how your company operates and how you can remove costs. Because what makes sense from your perspective might not always make sense from a supplier perspective, and maybe your company has some requirements or structures that add costs for suppliers.

So, to capture some valuable feedback from suppliers, you can simply make a supplier survey where you specifically ask them to identify areas of potential to remove costs. In the survey you can ask questions like:

- Please suggest a process or a requirement that we impose on you that we can terminate to remove costs.
- Please suggest products/services that we buy today that in a simpler form or with a simpler (more standardized) specification could be bought at a lower price.
- Please let us know how much we can reduce product pricing if we reduce our credit terms to you by 14 days?
- Please share your ideas on how we can simplify our joint processes and remove costs.

By collecting this feedback from suppliers, you get an 'idea catalogue' that you can start analysing. There will probably be many suggestions that cannot be implemented, but there will also be ideas that you had never thought of that might generate great cost savings.

You can carry out the above survey using e-mails and an Excel-based questionnaire, or some other manual tool. However, if you need an easier-to-use solution built-for-purpose you can again look into LeanLinking.

#5 Collect your ammunition for fact-based re-negotiations

For selected suppliers it can be necessary to enter a harder re-negotiation process with the target to achieve lower pricing. To get a great result from a re-negotiation process you need to be fully prepared with *all* the data and facts you can get access to. This means that you should collect the following data on a supplier:

- How has your spend developed? If it has increased, you can use this as an argument for requesting better pricing.
- How has delivery and quality performance developed? If the supplier has under-performed it could be an argument for demanding a refund now for keeping the business relationship, or you can seek to get better terms moving forward.
- How satisfied/dissatisfied are your stakeholders with the supplier? If you get negative feedback from stakeholders, it can be a good reason to put pressure on the supplier to offer you better pricing, as the supplier is creating problems in the cooperation, which in turn entails associated costs.

To collect the stakeholder feedback from your organization on the suppliers you want to run a re-negotiation process on, you can do the following:

1. Identify the suppliers to be evaluated. Initially, keep it simple and include a maximum of 20 suppliers in a survey. Later you can always expand to more suppliers.
2. Identify the internal stakeholders who are to evaluate the selected suppliers. For each stakeholder identify what strategic suppliers they each can/should evaluate. Again, keep it simple and later you can expand the number of stakeholders involved.
3. Identify what criteria/questions the suppliers should be evaluated on by your stakeholders. These could be questions (to be rated on a scale from 1=Highly Disagree and 5=Highly Agree) such as:

    - The supplier is easy to work with
    - The supplier does not add costs to our operations
    - The supplier solves problems without delay
    - The supplier offers us the support we need to work effectively

4. Make the survey and send it to the stakeholders for them to answer. You can do this using Excel, or if you need a more automated solution, you can use LeanLinking.
5. When stakeholders have replied, create one supplier report for each supplier. In the report make sure you rank the suppliers so you can use poor ranking as an argument for better pricing as well.
6. At the re-negotiation table use all the data and facts collected to create arguments that will help you get better pricing or better terms.

Closure

There are many ways to reduce costs without any use of tenders and RFQs, and I hope this e-book has provided you with a range of ideas to how this could be done in your business. Using the approaches outlined here combined with your understanding of your own business and your creative thinking can generate great cost reductions that will be instant and lasting.

I hope you have enjoyed reading this and that you find useful advice that can help you in building your own approach to cost reduction.

Feel free to contact us at LeanLinking (info@leanlinking.com) if you have any questions or if you need help in taking the next steps in relation to cost savings without any tenders or RFQs.

Sincerely,
Lars Kuch Pedersen
LeanLinking

Price is what you pay. Value is what you get

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