



From trenches to transformation: Telecom puts the “PRO” in procurement

Keys to Success

CHANGE REQUESTED

Get a 360-degree view and better control of procurement in the wake of multiple acquisitions.

CHANGE ENVISIONED

Create an enterprisewide procurement organization for \$600 million in total annual spend; reduce costs on \$93 million of spend; improve processes and controls.

CHANGE ACHIEVED

A state-of-the-art, center-led procurement structure poised to deliver almost \$20 million in potential annual cost savings through a strategic sourcing initiative. First-year Wave 1 savings of \$7.5 million; overall cost reduction across all categories of 12.3 percent.

When companies grow quickly, through organic growth, acquisitions, or both, their original cohesiveness, if it existed, often suffers. This is especially true in business areas such as accounting and procurement. One Protiviti client, a national telecom company, nearly doubled in size over two years. The result was an annual spend of nearly \$600 million dispersed across the company without a comprehensive procurement strategy. The expanded procurement structure had few standardized policies and procedures, no standard tools, and unclear and inconsistent roles and responsibilities.

As growth continued, it became increasingly difficult to manage the coinciding spend. Specific challenges included:

- Poor visibility into what spend was occurring and where
- No ability to leverage spending power across business units
- Inability to manage contracts across the enterprise
- Decreasing supplier satisfaction due to inconsistent procedures and payment patterns
- Lack of confidence that the company was getting the best value from purchases
- Longer delays in processing purchase orders, obtaining approvals and processing payments

As companies grow and their business changes, it can become more difficult to get a big picture of spending practices in the absence of an enterprisewide procurement organization. Overspending can become an endemic problem in such cases. In an attempt to rein in spending, management often becomes focused on “counting the paperclips” while ignoring other, larger expenditures. Such spend can consume more than half of a company’s revenue, yet few companies know where that money is going.

Such a situation is not unique to one company, or even rare. As companies grow and their business changes, it can become more difficult to get a big picture of spending practices in the absence of an enterprisewide procurement organization. Overspending can become an endemic problem in such cases. In an attempt to rein in spending, management often becomes focused on “counting the paperclips” while ignoring other, larger expenditures. Such spend can consume more than half of a company’s revenue, yet few companies know where that money is going.

The call for change

Sometimes, it takes fresh eyes to see things clearly. In this case, a recently hired vice president of finance wanted to get a more clear picture of company spend overall and understand how to attain more control over a disjointed process, with the goal of helping the company save money.

The VP envisioned a transformation. The company procurement culture she had inherited was marked by a lack of collaboration, resulting from both the nature of the acquisitions and from the rapid growth of the company itself. However, she envisioned the transformation as a cost-reduction initiative. The company anticipated continued growth and wanted to ensure that funds would be available to fund both future acquisitions and additional operations improvements.

Executives reached out to Protiviti for an initial assessment of the situation. As a first task, the Protiviti procurement team performed a comprehensive spend and category analysis to identify savings opportunities. Specific deliverables included a comprehensive spend cube and a plan to reduce spend through a strategic sourcing wave plan.

The analysis revealed opportunities for savings in nearly all spend categories. Strategies for realizing the savings included the soliciting of competitive RFPs, outsourcing select activities and services, conducting negotiations with current and alternative suppliers and updating/strengthening existing company policies and procedures. Overall, the analysis identified over \$20 million in reduced spend opportunities over the next 24 months.

Transforming procurement

With this comprehensive picture of the company’s procurement practices in hand, Protiviti mapped out the plan for a future-state enterprise procurement organization (EPO) that could achieve both goals of the vice president of finance: help capture the identified savings as well as provide management with control over spend as the company continues to grow. The plan also

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included revised policies and procedures, process recommendations (including the use of standard tools and templates), key performance indicators (KPIs) and metrics to help manage the spend, and a recommended organizational structure with detailed roles and responsibilities to support the businesses with its procurement needs.

Finally, all stakeholders across the organization received comprehensive training and training materials to better understand the processes and benefits of the EPO.

Keys to success

Half the battle in a project of this magnitude is getting the right people in the room. In addition to the vice president of finance, this project had the support of the chief operating officer, the chief financial officer and the chief executive officer.

The support and trust of the executive team was key in the ability to negotiate with vendors and realize the \$7.5 million in first-year savings.

Top-level support was also particularly important in getting the previously disconnected procurement groups to embrace the new EPO. The collaborative approach, augmented by an understanding of the culture and objectives of each group and supported by an extensive training program for employees at every level, ensured the adoption rather than rejection of the redesigned procurement system by the end users.

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By working within the company's cultural norms, opening an active dialogue with internal stakeholders and external suppliers, and building an effective business case based on the initial comprehensive analysis, Protiviti was able to deliver the desired results: An ambitious goal by a future-minded vice president of finance fully achieved!

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