

## Leverage a Spend Opportunity Assessment To Unlock your Saving Potential



Procurement cost optimization has always been an important but challenging task for many companies. Under the new normal of the economic development, companies are confronted with ever-increasing cost pressures from both customers and competitors. In order to turn actions into concrete results, spend opportunity assessment (“OA”) is an impactful tool by which company can identify potential cost improvements and ultimately unlock sustainable value for the organization

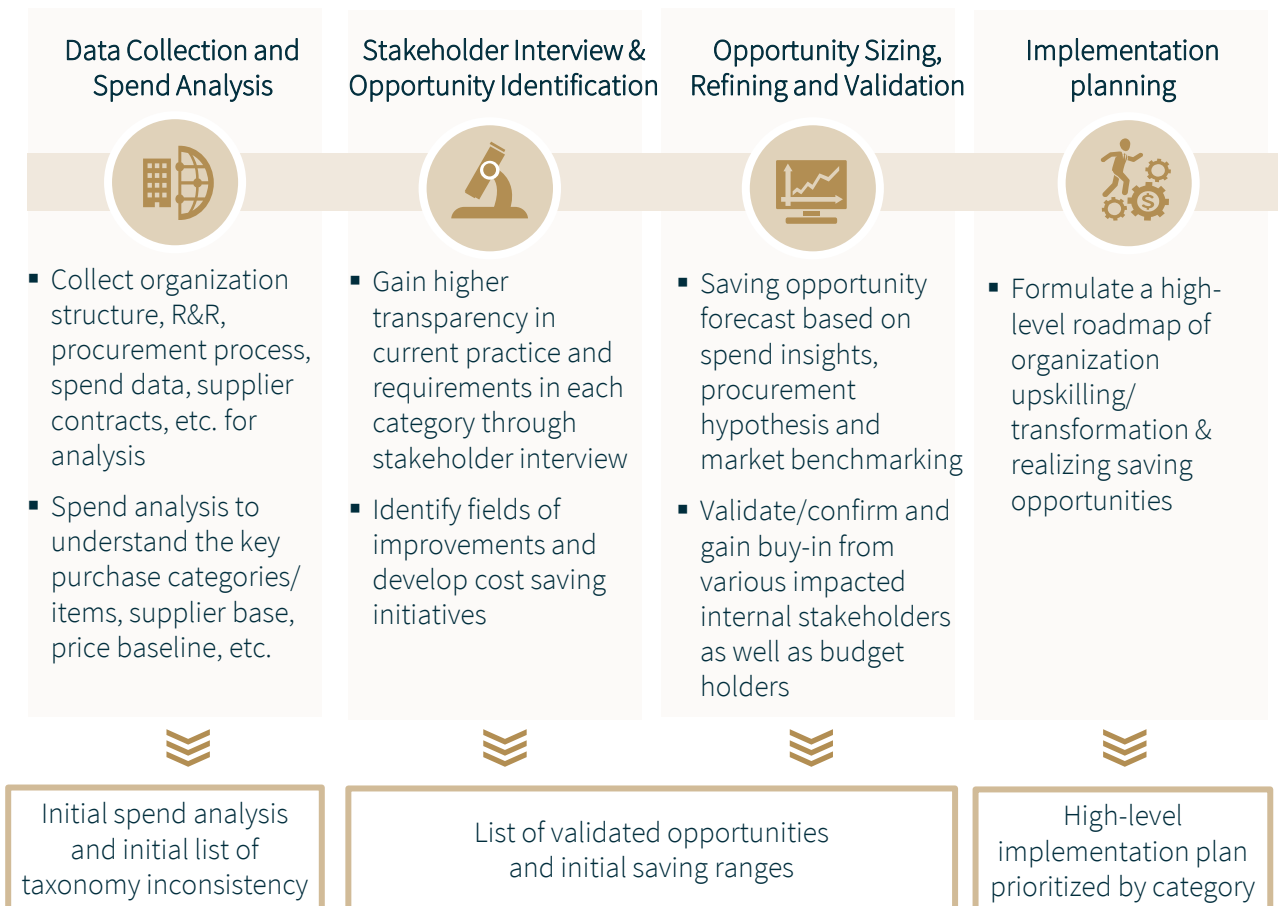
## Spend Opportunity Assessment

### What is an Opportunity Assessment and Why it matters?

Spend opportunity assessment (“OA”) is a systematic and data-driven analysis of the external spend, including both direct and indirect spend, to effectively identify, evaluate and prioritize potential procurement cost improvements within an organization, which typically involves 4 steps:

- Data collection and spend analysis
- Stakeholder interview and opportunity identification
- Opportunity sizing, refining and validation
- Implementation planning

Figure 1: EAC’s approach in spend opportunity assessment



By conducting an opportunity assessment, companies are able to gain valuable insights into their procurement operations, capability and capacity shortages or any gaps which they have against the leading practice and make informed decision to set the procurement target, allocate resources, build an optimization plan and ultimately realize the crucial savings to enhance overall competitiveness and profitability



## Spend Opportunity Assessment Crucial Elements to Be Considered in OA

When evaluating spend opportunities and estimating the saving potential, it is essential to take into account various crucial factors that can significantly impact the outcome of the assessment. Below are some examples from our past engagements:



### 1. Addressability of the spend

Not all the spend can be influenced and optimized via strategic sourcing and procurement activities. The addressability of spend can be constrained under various circumstances. For example, company may have existing long-term supplier contract with high volume commitment and pre-determined price, or customer has designated specific suppliers with little room to negotiate.



### 2. Interdependency of sourcing items

When there are interdependencies between sourcing items, the cost analysis of a single item can become complex, because the cost of an item may be affected by the price, availability and other factor of other related items. This can lead to inaccurate forecasts and estimates of costs when evaluating spend opportunities. In addition, interdependency of the sourcing items increases the supply chain uncertainties and risks. For example, if we switch the supplier of one sourcing item, it may affect the supply of other related items.



### 3. Costs and risks to switch suppliers

When evaluating the cost down opportunities via switching to new suppliers, it is essential to consider the direct costs (e.g., supplier audit, sample testing, product certification, investment in new equipment or molds, etc.) and indirect costs (e.g., negotiation costs) associated with the supplier switch as well as the potential supply risks and quality risks after the switching.



### 4. Benchmarking volume and price

In the fast-changing market, the key purchased items, demand and price in this year may change significantly in the next year. Therefore, it is more meaningful for the company to conduct the opportunity assessment based on a forward-looking data rather than based on historical figures.



## Spend Opportunity Assessment

### How Can A Professional Managed External OA Help?

Typically, spend opportunity assessment shall be conducted on a regular basis to constantly optimize company's cost structure and operation. Some companies choose to set up internal task force to assess the cost down opportunities, which often have limitations and personal interests misaligned with overall company goal. Therefore, an independent, experienced professional 3<sup>rd</sup> party acts as a vital role in spearheading the spend opportunity assessment to eventually achieve the desired outcome. Our clients benefit from unbiased assessment and high transparency in spending data and categories from a professional external advisor who can formulate an aggressive yet realistic improvement plan for the procurement function.



#### OUTSIDE-IN VIEW HELPS TO ELIMINATE BIAS

- From an **outside-in perspective**, EAC conducts an assessment on the procurement organization and assesses its performance versus leading practice.
- Assessment results are completely fact-based, data-driven and **unbiased** that are not influenced by the subjective opinion of other functional roles



#### ENHANCE TRANSPARENCY WITH MARKET BENCHMARKING

- In addition, EAC is committed to providing procurement **best practices** and market pricing **benchmarks** to identify areas for improvement and cost saving initiatives.
- The deliverables are **practical**, and reality based, **without** taking into account the **politics** of the organization and its relationship with existing suppliers.



#### AMBITIOUS YET ACHIEVABLE IMPLEMENTATION PLANNING

- As a **neutral** partner, EAC can guarantee to formulate an **ambitious yet achievable** implementation plan that will accelerate the **elimination of bottlenecks** and losses in procurement.

## Spend Opportunity Assessment How Does Procurement Transformation Looks Alike Post-OA?

Once the cost optimization opportunities being identified, it is crucial to take immediate action to capitalize on them. Depending on the saving initiatives identified in the spend opportunity assessment, the implementation phase may involve the following workstreams:

### Transformation Project Management Office

- Set up project team and workstreams
- Monitor and track project progress & milestones of all workstreams
- Provide status report to project owner and steering committee on regular basis
- Escalate any unresolved issues and risks on a timely basis to PMO
- Coordinate with project stakeholders to ensure timely fulfillment of action items and drive execution efficiency

### Procurement transformation strategy and planning

- Formulate category prioritization strategy taking procurement security and reliability, saving realization potential and urgency into consideration
- Formulate supplier switch risk mitigation strategy
- Develop detailed planning of procurment transformtion

### Procurement transformation execution

- Leverage the market benchmarking outcome to re-negotiate with incumbent supplier to realize quick-wins
- Facilitate the new supplier on-boarding, incl. supplier audit and qualification, sample approvals, pilot orders, etc.
- Optimize the selection of suppliers and supplier structure

### Value Analysis and Engineering

- Work closely with both internal stakeholders and external experts, identify, evaluate and prioritize potential cost down opportunities from VA/VE
- Facilitate, monitor and track the implementation of the VA/VE initiatives



**If you would like to discuss a potential spend opportunity assessment, please reach out to one of the contacts below:**



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