

E-book:

Uncover Hidden Value Across the S2P Spectrum with Enriched Data and **Analytics**

PRGX[®]

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Uncover Hidden Value Across the S2P Spectrum with Enriched Data and Analytics

Sometimes the bigger something gets, the harder it is to see.

This happens a lot with large multinational suppliers that own or control multiple brands, divisions, regional operations, and legal entities.

With globalization and rising mergers and acquisitions (M&A) activity*, ownership structures can be complicated and opaque. It's possible to have multiple supplier relationships with a parent company through its subsidiary offspring — and not even know it.

Finding the hidden links between the names in your supplier master file can show you the real spend you're committing to a significant supplier. Layer on data culled from annual reports, business information services, plus performance metrics for supplier sectors and product categories, and procurement teams can really see what's going on under the hood of their purchasing relationships.

Are suppliers maintaining their funding levels, planning strategic shifts that could leave you vulnerable, and benefiting from cheaper materials while not passing on the savings? Is your annual spend with a large supplier more than anyone realized? Are you getting payments terms that are outside the sector norm?

Building an enriched knowledge base about your key suppliers can answer questions like these, and provide vital ammunition for contract negotiations, giving procurement teams leverage to wring more value.

In this e-book, we'll explain how advanced source-to-pay analytics can provide opportunities to continually optimize contracts and working relationships.

**PwC: Global M&A Industry Trends*

What Do We Mean by Enriched Analytics?

Enriched source-to-pay (S2P) analytics can reveal several things about suppliers:

- Who your largest suppliers are and the connections they have to others.
- What you've actually paid for products and services.
- What's being spent in different categories and with each supplier.
- What the real cost of products is and how much profit is being realized by both parties.
- What the real cost of products is after discounts and rebates, and how much profit is being realized by both parties.

Knowing what you should have paid is vital for recovery activity and recouping value leakage, but combining the other analytical elements provides an even bigger potential opportunity in terms of future contracts and getting a better deal.

By mapping all the **parent-child relationships** between your suppliers, and creating **fact packs** that combine publicly available and proprietary information such as processes, methods, or financial plans, retailers and manufacturers can uncover aspects of financial performance, profitability, and payment terms that point to better margins and improved cash flow.

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Parent-child Data Enrichment

Multiple ERP systems, M&A activity, and low data quality all make it difficult for large organizations to quantify supplier performance.

If we take the example of IBM, a company could be buying products or services from a core IBM national division, or a division like Lotus, Cognos, or Red Hat, which are all owned by IBM.

How familiar procurement teams are with the group nature of a company like IBM and its many sub-brands and subsidiaries likely varies.

With parent-child mapping, research using a mix of public and private data sources can provide a complete picture of the extended relationship that may exist, and any opportunities for optimizing it that might be untapped.

For example it's often the case that payment terms can be inconsistent within the same parent-child relationship, so there may be an opportunity to harmonize these across the group and extend to the longest period currently in use within it. Analytics might also reveal that the size of your spend with IBM or another brand family is much bigger than believed. Depending on the purchase volume and other factors, if you can optimize terms or secure discounts on 2-3 of the child relationships within a group, the impact on working capital can be significant.



A clear view of the relationships between parent and child suppliers can also give you a harmonized view of the funding received for product promotions.

While parent-child mapping won't automatically generate savings, it offers fundamental transparency that was previously missing and helps prioritize where efforts should be focused when the next round of contract renewal negotiations begins.

Benefits of parent-child supplier mapping:

- Generate performance benchmarks by supplier.
- See what redundancies exist in the current supplier master.
- See how much is being spent overall with the parent supplier.
- See what the true supplier match rate is between regions.
- Gain insight and leverage on working capital by supplier

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Creating Fact Packs to Generate a Complete Picture of Your Suppliers

Businesses may have performance data already available in their ERP systems to evaluate how well supplier relationships are performing, but many neglect publicly available information sources.

By factoring in information gleaned from supplier annual reports, financials, earnings statements and analyst calls, and relevant price movements in the commodity markets they rely on, a much fuller picture can be gained about their underlying business performance.

Annual Reports

Annual reports can reveal what the supplier is doing in terms of their overall strategy, key projects and initiatives, notable partnerships, and any strategic investments that might impact the relationship and how you negotiate with them.

- Staying on top of supplier's M&A activity can show you when an acquisition relevant to your business could help consolidate suppliers.
- Alternatively, if a supplier is planning to spin off a division that's important to your operation, you may need to find an alternate supplier to backfill.

Supplier Financials

Financials will show you how the supplier is performing outside of their relationship with your organization. Are sales increasing? Are margins improving? Are they facing challenges in the trading environment? Blending that kind of information with your own performance data could indicate areas of opportunity where you could have additional leverage to shape terms, pricing, discounts or funding.

Retailers, in particular, will want to be able to compare their financial performance to the suppliers in the relevant product categories. How your sales growth compares to theirs, are margin trends in sync with the supplier's own margins, or is there a disconnect that could be addressed? Enriched data can give you benchmarks to ensure that both buyer and supplier are moving in the same direction.

Earnings

Earnings calls and analyst presentations can help you keep regular tabs on a publicly-traded supplier's financial results since the last annual report. You can see how any changes in market conditions might have affected their overall business. Earnings calls and reports can also provide an early indication of a change in direction.

- Is the supplier entering or exiting particular markets or product categories?

Commodity Prices

Commodity prices and their impact on supplier pricing is something many procurement teams consider, both to ensure some level of savings are being passed on when prices drop, and to capture the risk of a coming price rise when commodity prices increase. Tracking relevant commodity price movements regularly can provide a distant early warning system to an imminent change in the price of goods you buy regularly, or prompt you to ask for price concessions when you know commodity prices have softened.

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Putting Enriched Data to Work

Enriched data and analytics can also provide you with metrics to assess the operational efficiency of supplier relationships. Critical comparisons can be made among suppliers to understand who is benefitting from optimal payment terms and see the true cost of goods being purchased net of funding.

Days Payable Outstanding

Days payable outstanding (DPO) can be used as a metric to see how suppliers are treating your company versus others they sell to. Are your terms more favorable than others, or more or less in-line with what the supplier has negotiated elsewhere? If there's a gap, how can it be addressed?

You can also segment suppliers into specific industries and categories and rate their operational efficiencies against some of their peers. Is there consistency across categories or are some more competitive or favorable than others? Is there a quantifiable trend you can leverage in future negotiations?

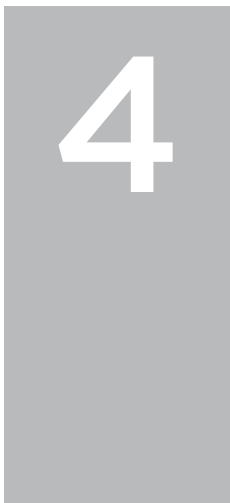
Invoice Cost Versus the True Net Cost

For retailers, the difference between what's been paid on an invoice and the true net cost is the application of the promotional funding to an item level. The variance can be significant, and knowing the true net cost is vital to understanding the actual margins being achieved in each category.



The invoiced price of a bottle of water might be \$3.25 before funding is factored in. After funding for that product is applied, true net cost drops to \$2.99. A 26-cent-per-unit variance drop would have a significant impact on margin for that product and could alter decisions in assortment planning while providing more accurate comparisons across the category.

Capturing this information enables you to see trends and make year-on-year and quarterly comparisons and know if funding levels are increasing or decreasing overall for that supplier.



What You Can See, You Can Optimize

In a time of enormous volatility and uncertainty, it makes sense to make procurement plans fully armed with as much information as possible.

Adding parent-child mapping and supplier fact packs to your performance data can show you where the performance and operational variances are between suppliers and show you areas where more value can be created.

For strategic suppliers, where a tread-lightly approach to contract negotiations is required, enriched S2P and analytics can give you the data and leverage you need to support requests and shore-up negotiating positions.

About PRGX

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data. We pioneered this industry 50 years ago, and today we

help clients in more than 30 countries take back \$1.2 billion in annual cash flow. It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

For additional information on PRGX, please visit www.prgx.com.