



Business Process Services

White Paper

# Harmonizing Procurement Processes to Strengthen the Bottom Line after M&A

# About the Author

**Chand K Raina**

Chand Raina has over 13 years of industry experience in leading varied functions such as production and logistics (P&L), business development, sales and marketing, marketing research, technology consulting, and supply chain management (SCM). He is an expert in strategic cost optimization in various areas of SCM including planning, inventory management, distribution, and reverse logistics. Chand has implemented several out-of-the-box ideas to enhance efficiency and reduce the turnaround time for various processes and operations. He brings in extensive experience working with large global clients across North America, Europe, and the Asia Pacific (APAC) region. He is a mechanical engineer with an MBA degree in Finance.

# Abstract

One of the biggest challenges facing organizations is understanding how to leverage sourcing to enhance the bottom line. Irrespective of the size and type of business, organizations struggle to align their procurement strategies with their vision.

The situation is further complicated when organizations merge with or acquire other entities. Mergers and acquisitions (M&A) result in increasingly disparate procurement processes, raising the need for organizations to choose between decentralized, centralized, or center-led procurement set-ups.

This paper suggests an approach that focuses on harmonizing procurement to meet business needs. The paper also enumerates the challenges involved in creating synergies within organizational units. It details how existing lacunae in systems and processes can be identified to devise a total value management system that takes a long-term approach to procurement. The procurement function can then be customized to align with the organizational structure and business strategy.

# Contents

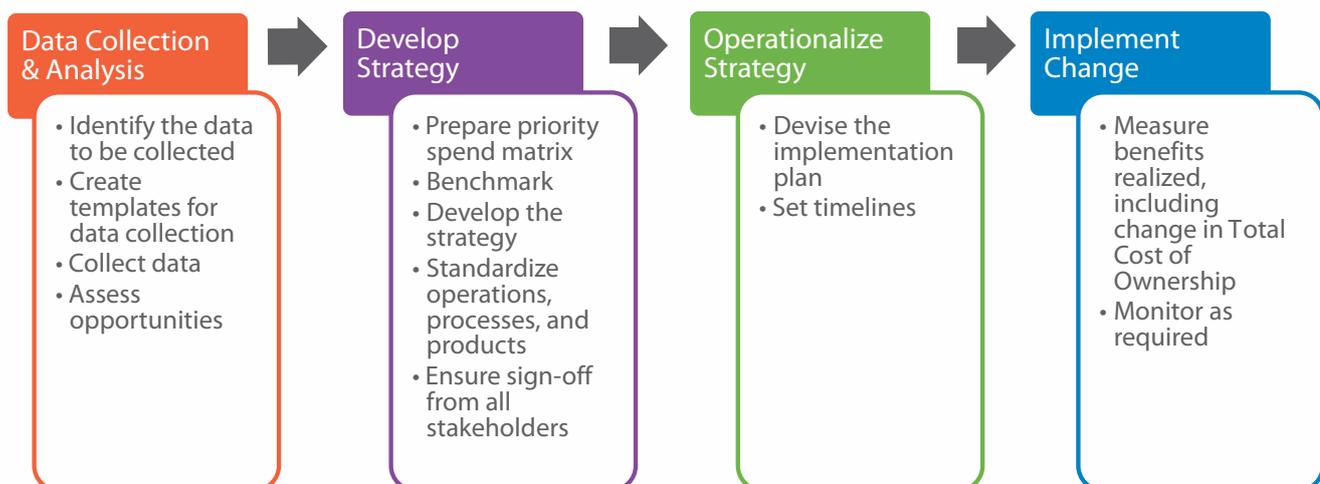
|   |           |
|---|-----------|
| <b>Introduction</b>   | <b>5</b>  |
| <b>Creating Procurement Synergies in a Distributed Environment</b>        | <b>6</b>  |
| <b>Spend Analysis: Identifying Gaps in the Existing System</b>            | <b>7</b>  |
| <b>Benchmarking: Understanding Best Practices and Designing Synergies</b> | <b>10</b> |
| <b>Synergistic Processes in Procurement Help Enhance the Bottom Line</b>  | <b>12</b> |
| <b>Conclusion</b>   | <b>13</b> |

## Introduction

Large, globally distributed organizations are as much a reality today as mergers and acquisitions. Yet, many businesses still face challenges in ensuring smooth procurement and operations in such an environment. While cost-effective sourcing contributes to a strong bottom line, organizations often continue to use highly-distributed and non-synergized procurement systems due to corporate inertia. This becomes even more challenging in the case of mergers, where corporations continue with existing systems just to give a 'business-as-usual' feel to internal stakeholders.

Chief procurement officers (CPOs) and chief financial officers (CFOs) across organizations, irrespective of size, type of business, and growth strategies, need to align their procurement strategies with the organization's vision. The most critical issue is disparate focus and incongruous strategies between procurement and corporate functions. The decision process for effective sourcing has many facets: determining the degree of centralization required within the procurement organization, creating the right technological support for the supply chain, and ensuring good program governance and communication management.

We believe that the right approach is to acquire a thorough understanding of the real dynamics in procurement. Our proposed approach, as shown in Figure 1, entails an in-depth analysis of the target elements and a study of industry best practices for effective benchmarking. The results of the analysis are then used to create a Synergistic approach that aligns procurement goals with the organization's goals.



**Figure 1 : Proposed approach for synergizing procurement across an organization**

# Creating Procurement Synergies in a Distributed Environment

A geographically-dispersed organization or one that has seen inorganic growth typically tends to have distributed systems across several functions. When it comes to procurement, this creates a challenge in maintaining discipline and effective governance.

Centralized procurement lends a strategic advantage to organizations through economies of scale as well as collective buying power. However, in some cases, a federal, coordinated, or center-led structure may work better. These models allow individual business units to act autonomously and minimize corporate overhead. However, due to lack of coordination, each unit may end up with different prices and contractual conditions for the same set of supplies. This can lead to reduced margins for the organization as ineffective procurement directly impacts the bottom line.

In the case of acquisitions or mergers, organizations need to focus on creating synergies between different locations, businesses, cost centers, commodities, and categories. This can be achieved by synergizing processes and systems across various organizational units. The process involves:

1. Identifying problems in current systems and processes using spend analysis
2. Benchmarking expenditure for various industry verticals
3. Developing a long-term focus on procurement

To gain synergies, it is essential to adopt a synergistic governance model along with best practices for program governance and communication management. Distributed systems lead to technological challenges, which also hampers an organization's efforts to leverage the cloud to its benefit. While creating common procurement systems, organizations need to choose the right technological platform and IT systems. The system needs to be flexible enough to ensure that variances in locations, regulations, and categories are fully accounted for.

The involvement of senior management is imperative for creating such synergies. Their inputs are required not only during the early stages to help design the right processes and systems, but also during the implementation phase to ensure organizational buy-in.

We recommend starting with a 'spend assessment' of existing processes in order to synergize the procurement processes across the enterprise, including acquired or merged organizations.

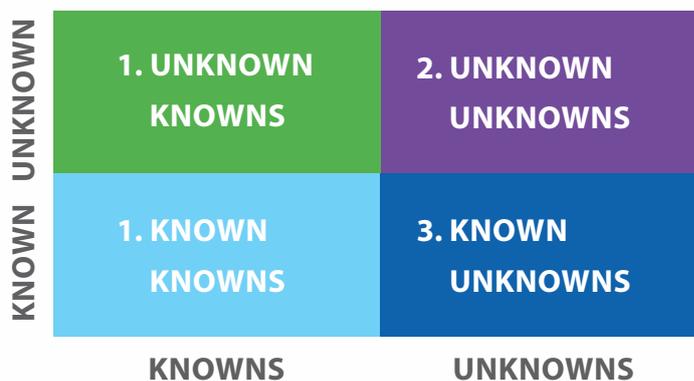
# Spend Analysis: Identifying Gaps in the Existing System

Spend analysis is the process of understanding expenditure data in order to reduce procurement costs and improve efficiency. Here, we focus on the use of spend analysis for creating procurement synergy.

We recommend starting with the formulation of a hypothesis that revolves around expected outcomes. The objective of spend analysis may be to categorize spend to ensure aggregation or consolidation of benefits, or for effective benchmarking. A cross-functional team (CFT) with relevant expertise and internal stakeholder participation can help outline and validate the hypothesis.

**Stage 1:** For the first stage of spend analysis, the CFT requires limited participation from internal stakeholders. However, subsequently, the CFT needs to be expanded to represent every independent entity including, but not limited to, other functional units and regions. The team should also be equipped with the right skill set and a willingness to work in complex and possibly antagonistic situations.

To outline the hypothesis, the team can start by detailing both the known and unknown elements within the set of defined processes. We suggest constructing a 2 X 2 matrix as shown in Figure 2 to understand the high-level state of processes within the organization.



**Figure 2 : Matrix for identifying the problems in the existing procurement processes and systems of an organization**

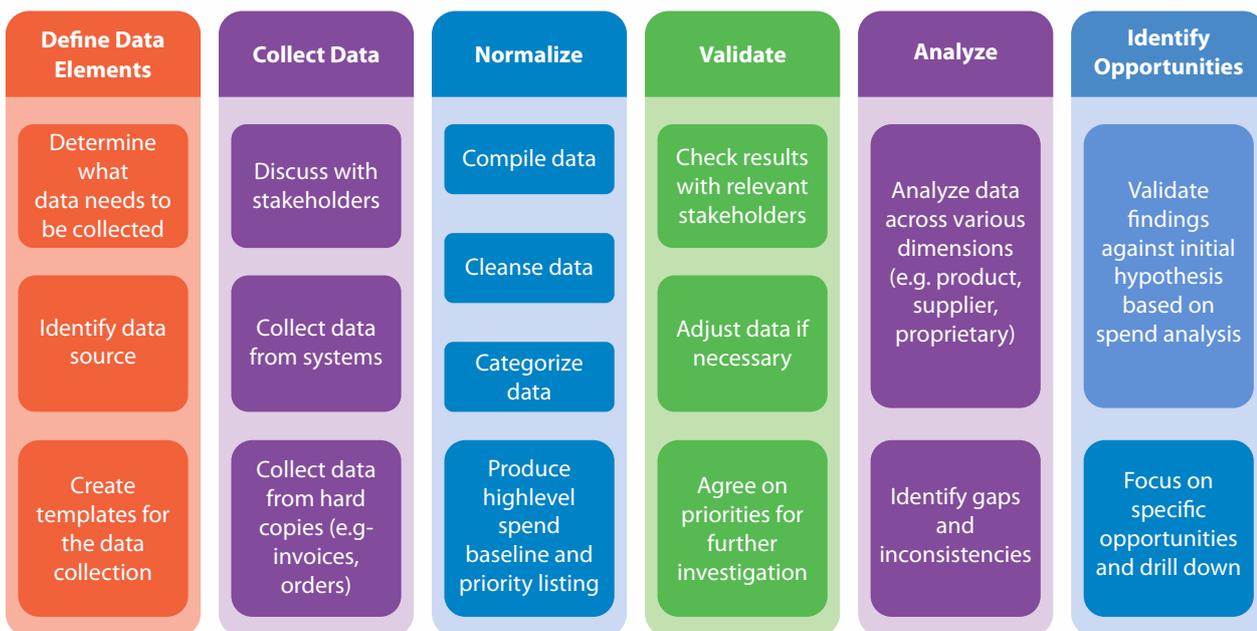
The aim of the initiative is to move all items eventually to the fourth quadrant. The organization needs a different strategy and set of solutions for each of the quadrants. It is advisable that the team begin with the third quadrant ('known – unknowns') and identify an appropriate strategy to address the issues relevant to that quadrant.

For the first and second quadrants, it is essential to look into all processes and conduct a detailed study. This helps the CFT discover the unknowns and helps move processes, products, and issues into the third, and finally on to the fourth quadrant.

**Stage 2:** After a high-level analysis, a detailed scrutiny of processes and operations helps understand procurement operations and product, category, and unit costs across the organization.

The next set of steps requires a little more effort - data needs to be collected from each business unit across regions and levels. Enhanced participation from CFT members with regard to their procurement of products and their volume is required at this stage. This helps to understand the nature of procurement across the departments in an organization.

The CFT needs the support of a structured data collection process and templates. The process must cover all data requirements, maintain consistency, and ensure that no aspect of the overall hypothesis is neglected. The recommended process for collecting suitable data and analyzing it to identify synergistic procurement opportunities is shown in Figure 3.



**Figure 3 : Framework for identifying opportunities that create synergistic in procurement**

While following the process outlined in Figure 3, the CFT needs to keep in mind two important factors:

- 1. The functional commonality of each item or category:** A functional analysis will help build a functional hierarchy, show dependencies, and identify any missing functions. It will also enable categorization of functions as necessary and unnecessary, or as an additional function.
- 2. The strategic value of the item or category:** This depends upon the core business of the organization. For example, in the case of an automotive manufacturing company, bearings or motors have high strategic value, since they are direct inputs for the final product. Any issues with their supply or quality will impact the output. But in a steel or petroleum company, the same bearings might be parts required for maintenance, repairs, and operations. Hence, in the latter case, they can be rated much lower.

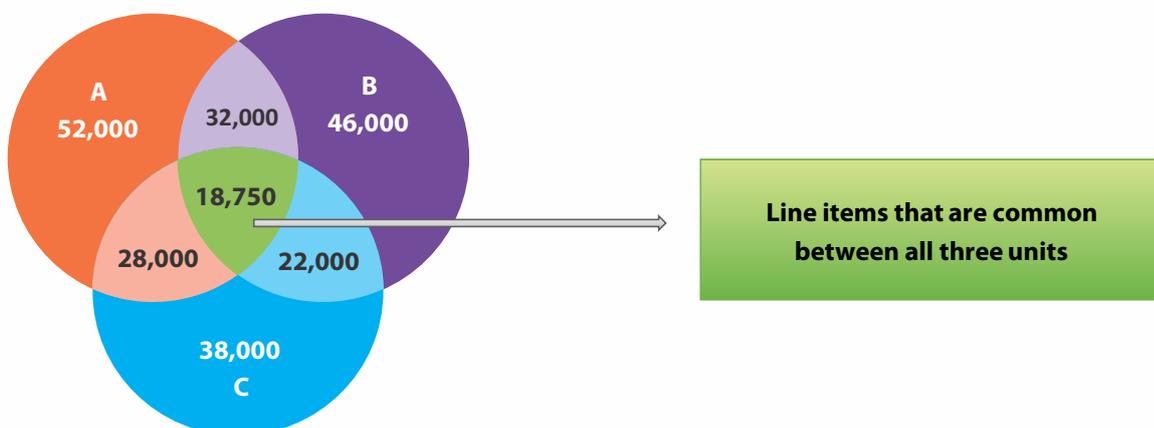
The analyzed categories should be plotted on a 2 X 2 matrix to prioritize them on the basis of their potential as shown in Figure 4.



**Figure 4 : Plot of analyzed categories to decide priorities**

The matrix indicates that the categories and units in the quadrant named 'high potential' represent 'quick wins'. Synergies can be created in these units and categories within a short period of time. The timeframe for other quadrants can be defined based on the overall complexity and type of categories.

**Stage 3:** We recommend finding common line items across various units and addressing them first. A typical output of this exercise is depicted in Figure 5. Numbers in each section represent the number of line items within the respective unit. The commonalities identified between the units should be targeted to achieve synergies within the organization.



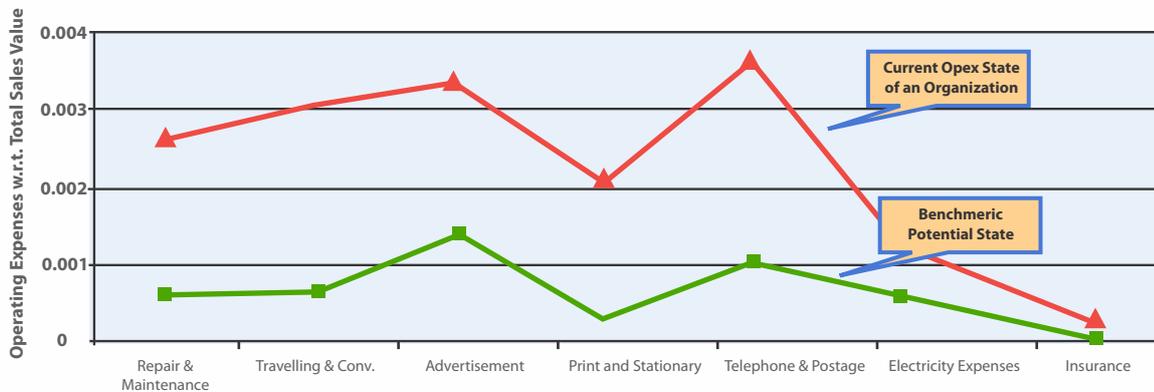
**Figure 5 : Venn diagram that plots commonalities between units to decide specific items to target**

The Venn diagram in Figure 5 shows that over 36 percent (18,750) of the items in Unit A are common with 40 percent of the items in Unit B and 49 percent of the items in Unit C. Hence, this overlapping portion should be targeted first. Typically, a center-led model works best for the aforementioned scenario. Once these synergies are achieved, the focus can be shifted to other common areas (A and B, B and C, and A and C) and finally to the remaining areas.

In the next section, we propose ways to devise the best proposition for each of these commonalities.

## Benchmarking: Understanding Best Practices and Designing Synergies

By this stage, the existing state of the units should be fully documented. This is followed by the visualization of the potential state of the item or unit as foreseen by the hypothesis. For this, it is important to understand the target state that synergies can help the organization achieve. The graph in Figure 6 depicts an example of comparing the current and potential states.



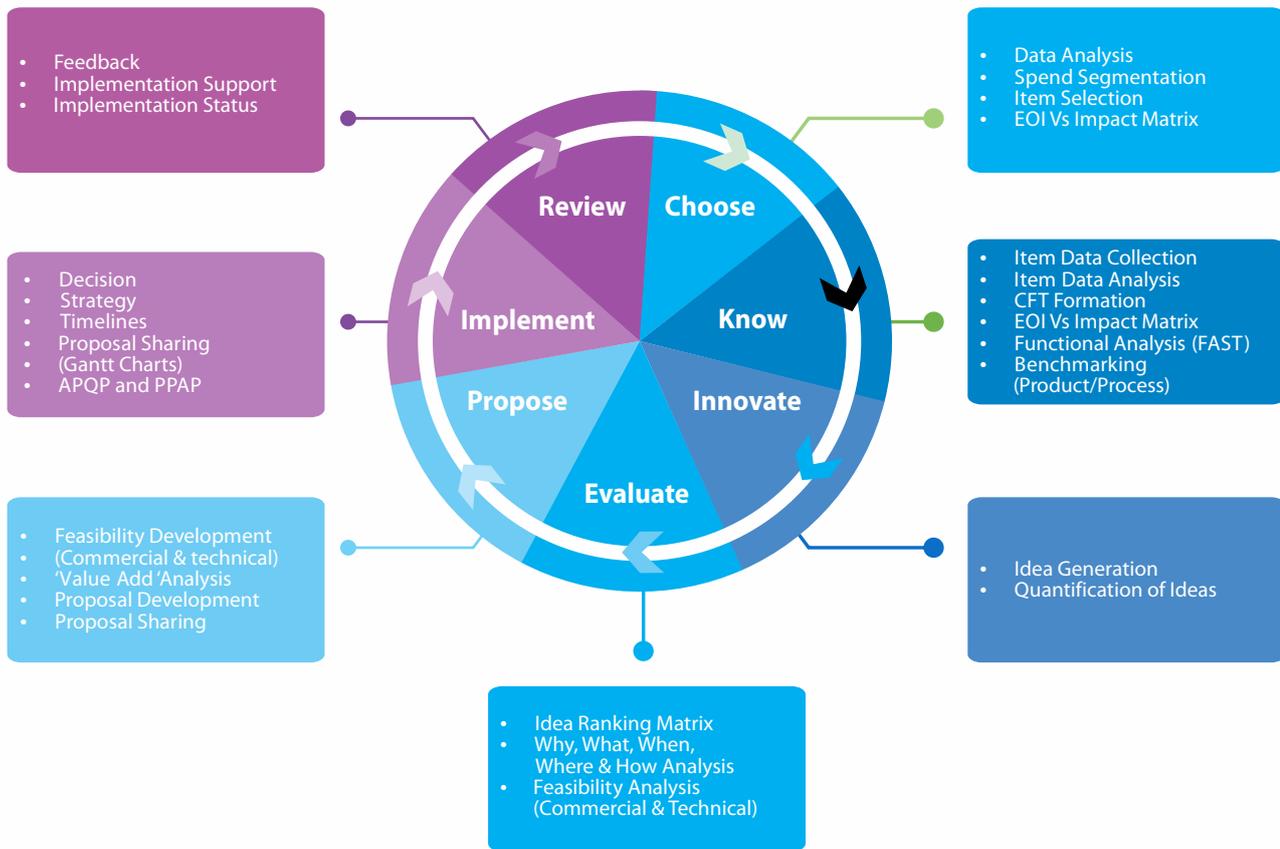
**Figure 6 : Evaluation of the current state versus potential state once synergies are realized**

With the potential state in mind, the CFT needs to devise and execute the best procurement practices after a merger or acquisition. Important points to be considered are:

**Organizational Structure:** During the benchmarking assessment, it is critical to identify the purchasing model that will work best with the existing organizational structure. This also depends upon the size and supply network in which the organization's procurement function operates.

Though it is tempting to adopt a center-led procurement strategy after a merger, an in-depth analysis helps identify the best fit for the organization. Depending on the results of the analysis, the management can consider other models such as decentralized, federal, or coordinated sourcing structures.

**Potential Value Engineering:** Value engineering needs to target product and process portfolio standardization across the organization in order to enhance functionality and reduce costs. The CFT needs to define the parameters of valuation for each unit, bundle the quantities as needed, as well as identify and rationalize the terms and conditions of each unit. Detailed functional analysis and benchmarking can provide significant inputs for this exercise. The CFT can take the approach suggested in Figure 7.



**Figure 7 : Suggested approach for potential value engineering with inputs derived from functional analysis and benchmarking**

**Strategic Sourcing:** The CFT must exercise due diligence while identifying categories based on the availability of category aggregators and acquiring a vendor base capable of catering to the most number of requirements. Among other things, the request for information (RFI) should cover aspects of quality, cost, delivery, design, management, and finance. Vendors chosen should demonstrate competence across key parameters and follow industry best practices for delivery, contract terms and conditions, inventory models, and so on. The decision also needs to consider the total cost of ownership (TCO) of products and services.

**Contracting:** The design of contracts in a synergistic atmosphere is challenging since centralized contracts are not always possible. Challenges also arise due to varied tax structures and regulations in different geographies and complexities in deliveries. In such cases, a center-led approach can be adopted instead of a fully-centralized model. The central procurement cell can enter into a memorandum of understanding (MOU) with the vendors and suppliers. Based on the MOU, separate contracts can be created at the local or regional level. For this model to be effective, the delegation of authority must be modified appropriately at different sections and levels within the organization.

**Technology:** Once the procurement strategy has been formulated for the product category, choosing the right technology helps achieve significant cost savings. For instance, e-procurement helps improve profitability. Another emerging model is cloud-based procurement where a vendor manages all services, and the organization pays annual subscription charges.

Depending upon their maturity, organizations can choose the right technology to support procurement and create synergies.

## Synergistic Processes in Procurement Help Enhance the Bottom Line

### **Synergizing procurement processes across the organization helps:**

- Bundle volumes of the same function, specification, item, and category to gain economies of scale and productivity
- Strengthen centralized control of global strategic purchases while decentralizing the management of local needs to align with the organizational structure
- Enhance management-controlled spend to establish a blanket purchase order contract for a specific period as opposed to placing multiple orders, ensure price protection and adequate availability of supplies, and maximize negotiated savings
- Lower costs with focused efforts on controlling and optimized direct and indirect spend

## Conclusion

C-level executives realize that procurement can be a game changer in maintaining and improving the profitability of an organization. To enhance procurement, managers need to understand the overall requirements and existing processes within the organization. This helps identify the gaps and develop suitable solutions aligned with the organization's strategy. Synergizing products and processes across functions can bring in this alignment.

We do not recommend a blind emulation of best practices, since every organization is unique and has a different mix of challenges and advantages. Instead, our approach helps design a customized sourcing strategy that factors in the organization's needs and capabilities. A synergistic procurement structure ensures that each purchase passes through the same stages consistently and incurs the least possible cost.

Organizations need to treat procurement not as a local activity but as a global function. This is especially true in the case of mergers or acquisitions. In certain organizations, it is advisable to create a separate entity with independent responsibilities to design and carry out sourcing responsibilities.

In every case, the procurement function must have clearly defined service level agreements (SLAs) that meet cross-functional requirements. Organizations that create a strong and tested procurement model can deliver better business outcomes.

**About TCS Business Process Services Unit**

Enterprises seek to drive business growth and agility through innovation in an increasingly regulated, competitive, and global market. TCS helps clients achieve these goals by managing and executing their business operations effectively and efficiently.

TCS' Business Process Services (BPS) include core industry-specific processes, analytics and insights, and enterprise services such as finance and accounting, HR, and supply chain management. TCS creates value through its FORE™ simplification and transformation methodology, backed by its deep domain expertise, extensive technology experience, and TRAPEZE™ governance enablers and solutions. TCS complements its experience and expertise with innovative delivery models such as using robotic automation and providing Business Processes as a Service (BPaaS).

TCS' BPS unit has been positioned in the leaders' quadrant for various service lines by many leading analyst firms. With over four decades of global experience and a delivery footprint spanning six continents, TCS is one of the largest BPS providers today.

**Contact**

For more information about TCS' Business Process Services Unit, visit: [www.tcs.com/bps](http://www.tcs.com/bps)  
Email: [bps.connect@tcs.com](mailto:bps.connect@tcs.com)

**Subscribe to TCS White Papers**

TCS.com RSS: [http://www.tcs.com/rss\\_feeds/Pages/feed.aspx?f=w](http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w)  
Feedburner: <http://feeds2.feedburner.com/tcswhitepapers>

**About Tata Consultancy Services (TCS)**

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at [www.tcs.com](http://www.tcs.com)

**IT Services**  
**Business Solutions**  
**Consulting**

All content / information present here is the exclusive property of Tata Consultancy Services Limited (TCS). The content / information contained here is correct at the time of publishing. No material from here may be copied, modified, reproduced, republished, uploaded, transmitted, posted or distributed in any form without prior written permission from TCS. Unauthorized use of the content / information appearing here may violate copyright, trademark and other applicable laws, and could result in criminal or civil penalties. Copyright © 2015 Tata Consultancy Services Limited