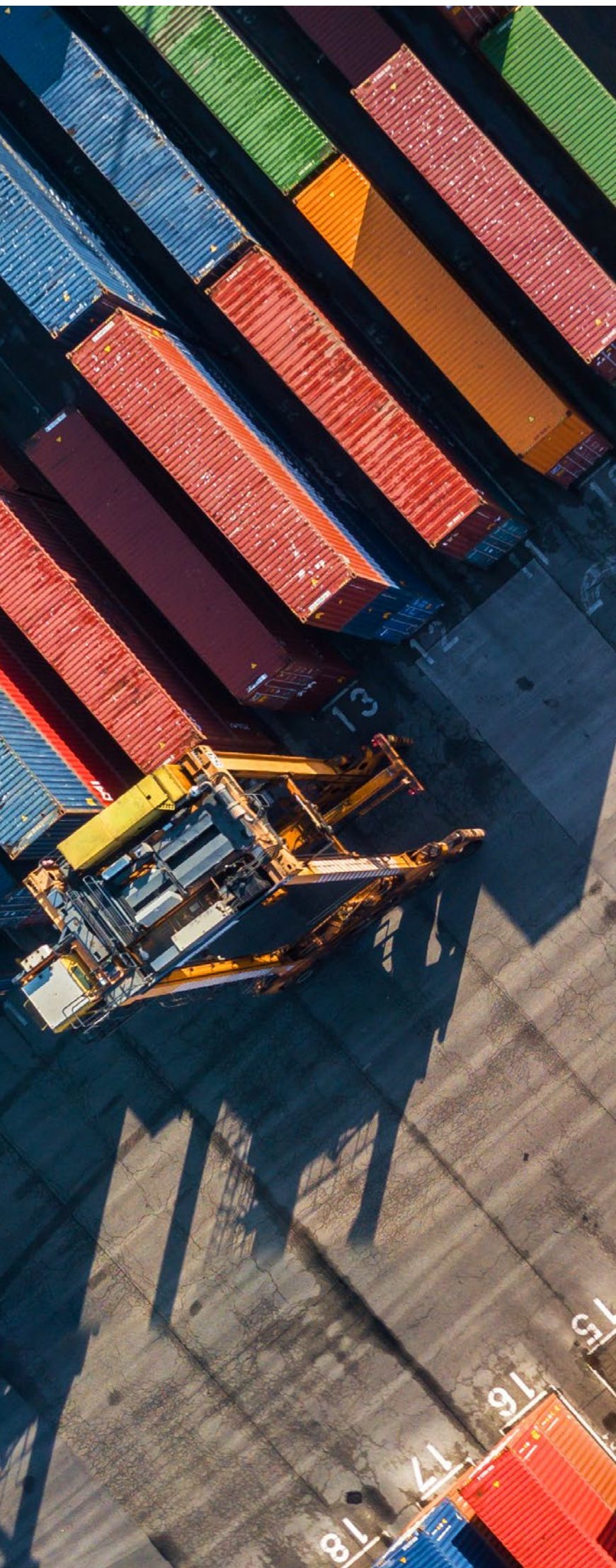


Closed Loop Spend Management

The Path to Growth
with a More Resilient and
Responsible Supply Chain





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A New Reality

The initial impact of the COVID-19 pandemic is behind us, but companies everywhere still face a difficult, new reality: one in which they're grappling with global economic uncertainty, continued supply chain disruptions, and in many cases, sharp top-line declines.

These converging factors are compounding pressure on companies to dramatically improve their value chain's resilience—to better respond to future disruptions so they can maintain or boost revenue while eliminating cost that doesn't deliver value.

It's a huge challenge, and many executives aren't sure exactly how they should approach it. We suggest taking a hard look at sourcing and procurement teams. These teams have significant opportunities to identify major cost savings from across the enterprise while helping the company to improve resilience, become more responsible, and grow more rapidly. In fact, companies that optimize how and where they spend their money can unlock four times more financial, environmental, and social value than their competitors.¹

Today's demand and supply disruptions make such value realization especially critical. Indeed, as the gatekeepers of third-party relationships, procurement organizations are in a unique position to influence a wide range of value levers. Consider, for instance, a company's multi-tier supply base, which plays a big role in a supply chain's ability to flexibly follow shifts in demand. This is where supply chains typically break down in the face of disruptions. It's also where procurement can leverage its supplier relationships to drive innovation. By fostering strong supplier relationships across the supply chain, procurement can help ensure **companies don't miss out on critical growth and revenue potential.**

At the same time, the multi-tier supply base also holds the key to responsibility. A company on its own can do a stellar job containing carbon dioxide (CO₂) emissions, ensuring inclusion and diversity, and mitigating social risks such as human rights violations and corruption. Yet it means little if the company does business with suppliers that don't share the same commitment.

Procurement can use its position of influence to support responsibility and sustainability across its suppliers.

Nonetheless, procurement still needs to excel in its primary role—managing spend. As many companies have discovered, effective spend management isn't easy and can't be done through traditional cost-cutting measures, which often overlook **actual savings opportunities** while rarely generating sustainable, long-term savings.

This leads to a recurring cycle of costs creeping up, a tactical intervention initiated to bring them down, and eventually another rise in costs—putting companies in **an endless state of reactively** fending off cost bloat. Furthermore, even if the procurement organization is successful in generating cost savings, a lack of visibility often prevents the CEO and Chief Financial Officer from ever seeing those savings in the bottom line.

In fact, according to Accenture research, as much as 70 percent of traditional cost-reduction programs fail because the costs removed ultimately return.²



Closed Loop Spend Management

A man with glasses and a beard, wearing a blue button-down shirt, is seen from the side, sitting at a desk and typing on a keyboard. He is looking at a large computer monitor that displays a data visualization, possibly a bar chart or table. The background is a warehouse or storage area with many cardboard boxes stacked on shelves. The overall lighting is soft and professional.

The antidote to unsustainable cost reduction

What's the answer? We advocate a more proactive approach to how companies manage their third-party spend. One that provides deep visibility into everything that influences their business spend, analyzes what they really should be spending, and puts in place the infrastructure to sustain savings over the long term. All while building a diverse, climate and society-friendly supplier base that will make the supply chain more resilient and responsible.

Our approach is based on the concept of closed loop spend management (CLSM), which is designed to help **drive end-to-end transformation across indirect and direct cost categories to achieve and sustain breakthrough value**. It uses the power of digital, data, and artificial intelligence (AI) to institutionalize new ways of working that result in a more efficient, resilient, and agile function, while embedding responsibility toward the environment and suppliers in a company's strategy and thinking. With CLSM, companies can identify excess spend across the enterprise and reinvest it in ways that can accelerate innovation and drive responsible growth.

Drive end-to-end transformation across indirect and direct cost categories to achieve and sustain breakthrough value.

CLSM benefits companies in five key ways

#1 Accelerates cost takeout with a zero-based mindset

CLSM uses analytics, proprietary market intelligence, and team-based sprints to identify and help execute quick wins for optimizing spend and reinvests the realized value across the organization.





#2 Unlocks new value with data-driven insights

CLSM extracts deep savings from direct spend and indirect spend, while optimizing inventory and connecting processes by moving to a data-driven procurement operating model that can help drive longer-term transformational projects.

#3 Makes responsibility and sustainability part of a company's DNA

CLSM embeds responsible sourcing practices across procurement that ensure sourcing is sustainable by design. It provides visibility into ethical, carbon-neutral and circular economy supply solutions, while reducing waste and risk, and considering social, ethical, inclusion and diversity impacts. With this visibility, companies can build trusted and transparent value chains.





#4 Enables companies to more effectively manage change for enduring growth

CLSM gives leaders full control over how quickly, and how much, they transform their operations and implement the organizational change—with the people and in the processes—to help achieve their long-term growth goals.

#5 Prepares companies for what's next

To be future-ready, companies need to work leaner, smarter, more flexibly, and collaboratively. CLSM employs a human + machine model for more intelligent automation, data-driven decision making, and seamless operations.



Moving to a CLSM model helps organizations to generate value in just a few weeks – and sustain that value over time.

This model includes two core elements:



Spend transformation

takes a forensic look at a company's entire spend to identify opportunities to turn non-working money into working money.



New ways of working

embeds new processes, capabilities, and behaviors needed to capture those opportunities and sustain the value generated over time.

Spend Transformation



Optimizing how and where money is spent

Over the years, procurement has been focused on purchasing direct and indirect goods and services and increasing the value it delivers to the broader enterprise.

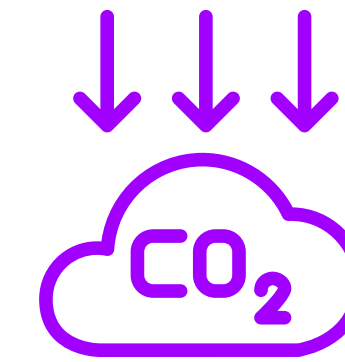
In some companies, procurement still operates in its most basic form, concentrating on driving what we call “committed value” from third-party spend. In other words, procurement negotiates the best possible terms from suppliers, puts in place the relevant contracts and buying channels,

and trusts the business to use those appropriately (which it may or may not always do). The limitation of this approach, of course, is that procurement has little influence over whether the company benefits from that committed value when the business makes its purchases.

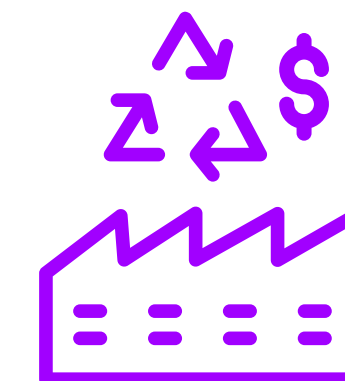


Recognizing this, some forward-looking procurement organizations have moved beyond a “commitment to value” focus to realizing value. In these organizations, procurement works closely with the finance organization to proactively manage the business’s spend and ensure the business is taking advantage of the terms and savings procurement has negotiated. But while a tight linkage between procurement and finance is better than procurement working in isolation, this approach still leaves value on the table because procurement remains focused primarily on price—which is just one of many levers that affect value.

For example, procurement has a golden opportunity to influence consumption of goods and services across the enterprise as well as product specifications—both of which have a major impact on costs. Procurement’s also the logical choice to help drive growth by engaging suppliers in the company’s innovation efforts. And, procurement’s best positioned to drive significant corporate-level benefits from responsible business by, for instance, advancing the decarbonization agenda with suppliers, minimizing social risks within the supply chain, and identifying new revenue opportunities through circular interventions.



We assessed the **Scope 3 emissions** (~80% of total) for a global automotive company and shortlisted decarbonization levers with **33% CO₂-reduction potential** and hot-spot supplier action plans.



A leading plastics manufacturer we’re working with is looking at an additional revenue potential of **US\$150 million** per year through recycling opportunities in one Asian country.

Embracing a zero-based state of mind

To take the next step in its evolution, procurement needs to identify the full range of opportunities to remove costs that aren't creating value by applying a zero-based perspective to all of the company's third-party expenses. We call this ZBx.

With ZBx, a company forgets about the past and reimagines its cost base not from what it was or is today, but what it should be if the company were to start from scratch—and then uses the resulting savings to fund investments in innovation, distinctive capabilities, and specific activities that drive growth. ZBx is about modeling the spend level that's optimal for running the business based on various internal and external factors. According to Accenture research, with

zero-basing, companies are seeing average cost reductions of 15 percent and average bottom-line savings of more than US\$260 million annually.³

There are two keys to zero-basing: visibility and value targeting.

ZBx creates full cost and supply base **visibility** by using standardized and unique cost definitions and harmonizing the chart of accounts. This gives a company real and trustworthy figures for powerful analyses and benchmarking to identify the right opportunities. AI and machine learning tools can provide a forensic understanding of everything a company's spending money on, and how much. In turn, the company can look at and categorize all spend—even the most granular—from the

bottom up and, subsequently, find significantly more savings opportunities, but in far less time than it would take a team of people to do.

One consumer goods company has realized \$0.4 billion in electricity savings along with a 12% carbon dioxide equivalent (CO2e) footprint reduction by using sustainability-enhanced ZBx—proving that sustainability doesn't have to come at a cost.

As part of visibility, it's important to incorporate a sustainability lens to understand the non-financial impact of decisions and explore new sources of value. Sustainability-enhanced ZBx goes beyond cost savings to help companies create a strong purpose for cost reduction and enhance trust. It also helps get buy-in for change among internal stakeholders and adds a dimension to savings that's attractive to the external investor community. Once costs are fully visible, **value targeting** uses top-down benchmarking, supported by detailed bottom-up data analyses across cost categories and cost drivers, to identify specific savings opportunities to pursue and how to capture them. And as is the case with visibility, a sustainability perspective can greatly enhance value targeting. Using responsible sourcing analytics tools, a company can visualize its current sustainability performance versus peers to illustrate how certain cost-savings initiatives can influence sustainability, as well as identify sustainability-specific interventions (such as required emissions reduction) that also help save money.

A global retailer used ZBx to design and implement a new organization-wide cost management program and create a cost-conscious culture. As part of the effort, the company leveraged AI to help categorize third-party spend. While this spend was fairly concentrated (the top 3% of vendors accounted for 70% of spend), there was a long tail of suppliers (more than 1,000 with less than \$50,000 spend per year). Spend classification was inconsistent, making it difficult to manage spend proactively.

An AI solution helped the company create normalized and democratized performance benchmarks—creating a single source of truth across all areas of the business to identify outliers and variances and highlight spending or behaviors that weren't aligned to cost consciousness.

The company also analyzed 16 months of invoice-level data and other internal and external data to statistically group peer stores by package and identify spend outliers. And the company built an invoice database to feed customized Tableau dashboards for store operations to more effectively control and monitor spend—significantly reducing the time the task took and enabling this team to focus on more strategic areas of the business.

Combined, these efforts helped the retailer generate \$2.2 billion in selling, general and administrative (SG&A) expense non-labor savings, with \$400 million of that coming in the first year.

New Ways of Working



Making new spend behaviors stick

With a reimagined cost structure and initial wins under its belt, a company can then execute its longer-term spend transformation plan by putting in place the capabilities and mechanisms needed to continue to operate CLSM effectively. This means creating the right organization and infrastructure to achieve sustainable, long-term value for the business through an intelligent operating model, with new roles, processes, policies, controls, reporting, metrics, technology, and skills.

With CLSM, a company can approach its business in an entirely new way. The visibility CLSM provides into the supply base, environmental and social impact, and potential efficiencies and savings opportunities enables a company to make faster, insights-driven business decisions and identify where new investments can have the most significant impact. At the heart of this transformation is bringing procurement, finance and the business together with a shared language to facilitate collaborative, insight-based decisions about the full range of savings opportunities given the new ways of working CLSM has uncovered. Doing so effectively “closes the loop” with planning and budgeting activities and ensures that procurement is an integral part of all purchasing decisions by the business.

Identifying emissions hotspots

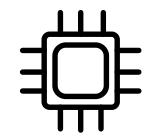
Many clients are looking to big data and analytics to give procurement visibility into where upstream emissions hotspots lie. A ZBx analytics tool conducts a spend-based analysis of sustainability impacts. To do this, it applies industry average emissions factors (calculated via Economic Input/Output analysis) across spend countries and categories to approximate emissions footprints, with a focus on carbon, water and jobs. This analysis allows procurement teams to compare X to Y and factor those sustainability costs into their sourcing recommendations.

New digital tools and capabilities

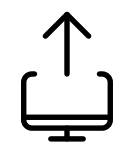
New digital tools, are critical to the success of this change. Important capabilities are supported by analytics, intelligent automation, AI and other frontline technologies such as:



Buyer portals that deliver an intuitive purchasing experience that makes the business eager to work with the procurement organization



AI-based supplier selection tools with carbon emissions embedded as a key criterion



Supplier onboarding portals that require suppliers to share Environmental, Social, and Governance (ESG) data



Compliance tracking with established contracts and associated deviation alerts



Visibility into the supply base on all types of potential risks (including human rights, labor rights, and other sustainability-related risks)



E-catalogs that list the carbon footprint of products to help users make green choices



Ability to understand budget-versus-actual variances



Continuous analysis of a wide range of market data to generate real-time insights that can help a company make better purchasing decisions.

As part of an enterprise-wide decision to embrace digital technologies to maximize the intelligent use of data, a fully integrated oil and gas multinational organization chose procurement as the first function to be fully digitized. The company deployed a holistic procurement analytical solution to areas such as internal and external data cost modelling, supplier identification, and bid analysis. The solution enabled procurement leaders to visualize current inventory trends and help predict safety stock levels; deploy the right tools to improve costs through tendering; leverage internal and external market insights; and gain in-depth visibility for the entire procurement spend.

The result: \$1.1 billion in value delivered at the project's completion.

New skills and behaviors

To take advantage of these new capabilities, companies will need to pay close attention to the people element of the change they're making.

For example, new skills related to data interpretation and insight analysis will become critical responsibilities for many procurement roles, while most compliance and data entry-related tasks may disappear. Building new skills and possibly recruiting for new capabilities will now need to be part of the transformation plan to sustain the new ways of working. In many cases, critical (and often scarce) new skills can be sourced from ecosystem partners, enabling a company to access what it needs when it needs it.

Early involvement of people at various levels of the company—and from different departments—is vital to helping reshape roles and responsibilities in an inclusive way, while building an understanding of the impact “spending smarter” has on the company’s bottom line. Effective communication and leveraging the latest techniques in behavior change can help shift people’s mindsets and actions in small steps throughout the journey, while using a pilot approach with a group of early adopters can powerfully showcase the benefits and create enthusiasm for designing the new way forward. In addition to infusing the right skills, companies will need to boost people’s technology quotient (TQ) so the workforce becomes more comfortable

and effective working with digital tools. Accenture Research⁴ has found that doing so requires building enthusiasm about digital, developing the competencies needed to be successful, and helping people understand digital’s value to their jobs and the broader organization.

A transnational consumer packaged goods giant set out to digitize its organization and transform procurement on a global scale—standardizing, simplifying and industrializing its processes. Moving to an intelligent procurement function, the company deployed intelligent automation. This led to increased efficiency and let team members focus on higher-value activities like analytics and insights. By creating an environment of continuous innovation, the team can dedicate time to strategic thinking, more process enhancements and future growth. With this new model in place, e-tendering has delivered more than US\$1B in savings, which will be reinvested in technology-led growth across the business.



Committed and engaged leadership

Strong advocacy from the top is also required for this transformation to succeed.

All those involved will need to hear from the company's leaders why the company's making this change and how it benefits the enterprise. It's the only way to break down longstanding organization siloes and spending habits that prevent a new way of viewing and managing spend to take root.

It's also critical to getting the company to commit to CLSM as the new way of working across the enterprise, rather than seeing it as a one-time project the company completes or an annual budgeting exercise. Senior executives need to reinforce the message that CLSM is a durable and repeatable process that becomes ingrained in the company's culture, and is a true decision-making and management tool that provides the visibility necessary to align an organization around the priorities in which it will invest.





When CLSM becomes simply the way a company does business, it helps to generate incredible results. Take, for instance, a multinational food producer, which is working to completely transform how the company spends its money. Despite robust growth, the company needed to improve its operating margins, which lagged those of competitors. The response was an initiative to establish a company-wide cultural change to help control indirect costs on an ongoing basis to improve margins and unlock funds for further growth. The company created new budgeting processes and embarked on a far-reaching change management program to establish accountability for cost management.

As part of the project, the company designed a new global operating model and supporting global business services unit to deliver cost-effective and efficient finance, HR, and procurement services. **The new operating model was ready in just three months, and is expected to generate savings of \$1.5 billion over three years.** Furthermore, the new budgeting processes and change management program have helped embed cost consciousness in the company's day-to-day operations and culture. This cultural change is delivering ongoing efficiency savings that can be continuously reinvested in growth initiatives.

Embrace change



A Transformative Approach

New realities call for new ideas, new ways of working, and new responses. And no one would deny that our current situation qualifies as a new reality. In this time of disruption and uncertainty, companies can't stick with the status quo—in any aspect of their business.

How they spend their money is especially in need of change, given the myriad financial challenges that often come with volatility. But it's not just about money. It's the need to be more agile as a business, and **more resilient and responsible**, that argues for a new approach to managing spend.

Companies can rely on CLSM to not only unlock huge cost savings, but also to make sure those savings are durable by scaling data and AI-powered solutions across the business and driving new ways of working. It can position companies to more effectively respond to changing conditions that could sink those with rigid cost structures and uncover excess spend that can be reinvested into value-adding activities and capabilities.

By bringing together procurement, finance, and the business—with full visibility into spend and the supply base—CLSM can help companies accelerate innovation and grow in uncertain times, while answering the call for more agile and sustainable operations and supply chains.

If the current environment has taught us anything, it's this: What's now “normal” is truly different from even a year ago and companies need to better respond to future disruptions.

There's no going back—only forward to embrace change with a transformative approach to deliver value.

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