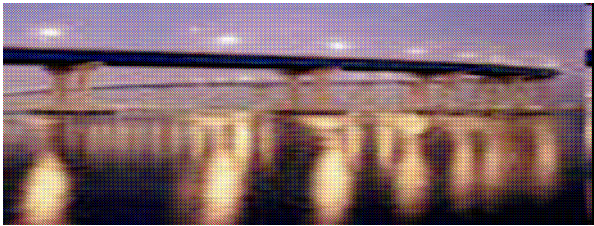


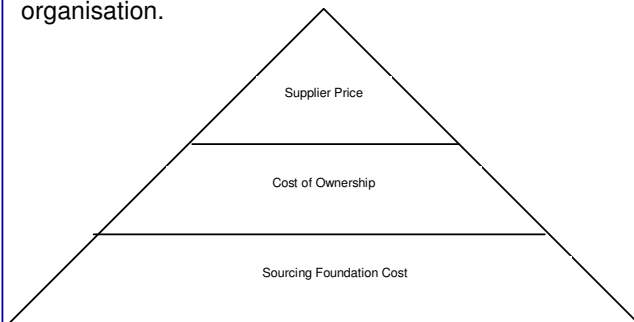
Maximizing Shareholder value: Centralisation of Procurement



Discrete manufacturers have found themselves squeezed in today's environment. Input costs have risen, but the market has not accepted price increases. Companies have often been forced to lower prices or increase promotions to stimulate demand. The result has been pressure on margins and hence material cost has been the key source of cost reductions.

Procurement: From Best practice to Next practice

Procurement as a function has evolved over time. With the focus shifting from Supplier price reduction to reducing the total 'Cost of Ownership', organisations are able to generate significant value for the organisation.



While the Cost of Ownership concept addresses and tries to optimise the

- Cost of Execution
- Cost of Inventory
- Cost of poor Quality

The Sourcing Foundation Cost is based on the structure of the procurement organisation within multiple locations/organisation, within group companies.

Creating and leveraging Purchasing synergy is the fundamental principle used while addressing the 'Sourcing Foundation Cost'

Companies are shifting to centralization of procurement

Benchmark data indicates that companies are shifting to more centralized procurement functions to curb maverick spending and redundant efforts. Centralized procurement organizations can more easily leverage supplier relationships and facilitate bulk purchases to create economics of scale. Companies with a decentralized corporate culture can centralize some activities, such as drafting policies and setting overall cost reduction goals.

Central procurement organization helps reduce staffing and budget needs

In comparison with decentralized procurement functions, centralized procurement organizations require smaller staffs and budgets to operate. The main reason is that in a decentralized company, each business unit is responsible for similar functions.

Benefits achieved

- Economies of scale leading to cost reduction of 10 – 12%
- Reduction in cost of duplication (manpower, space, overheads etc.) : 5% to 10% reduction in costs
- Standardisation of components/assemblies
- Reduction in clashes in priorities between units with same supplier
- Standardisation of processes and controls & ease of compliance

CEO's dilemma

- Should I centralise my procurement? If yes, how should I structure the centralised set up?
- How do I resolve the change management issues that are likely to come in way of centralisation?
- What process change should I make to get full value out of centralisation without affecting the end customer?

Most procurement experts believe 15-20% of purchased materials and services can be saved (billions of dollars in a large company) by centralizing procurement and leveraging a far-flung corporation's buying power.

Despite this expert opinion, backed by numerous examples, many medium and large companies have tried implementing centralized procurement without much success

Four Key Success factors are essential to effect the centralization of procurement successfully:

- Top management belief that centralized procurement is the best way to optimize procurement effectiveness.
- A carefully designed organization structure – lean and responsive
- Developing effective business processes which would leverage the centralized environment – the right flexibility and control
- An effective and efficient Change Management programme across locations/companies

Burning Change Management Issues which need to be addresses during centralisation

- Managing changing roles of the employees
- Managing dilution of power equations
- Managing job insecurity
- Redeployment of people
- Managing Supplier interface and hand offs
- Managing Supplier queries on the centralised process at remote locations
- Managing iterative information and document/invoice flows
- Reliability of IT infrastructure
- Deciding the optimum manpower requirement
- Designing the most reliable process

ECS has helped large organisations centralise their operations from multiple location to one centralised unit in India

ECS is a premier management-consulting firm in India. Its consulting practice covers Strategy, Supply Chain & Full Value Spend, Operations and Human Resources.

In its Operations practice, ECS is active in helping clients to align their operations with their strategic goals using the latest concepts in **Business Process Reengineering, strategic cost reduction, policy deployment, new product development** etc. ECS has been pioneering the effort of transformation management in India and is well known in **process transformation, Lean, TQM, TPM & Six Sigma** consulting.

We always partner with our clients till implementation of solutions. We have a proven record of over a decade of successful implementation in large Indian Organization and Multinational organizations.

The interventions have helped its clients in significantly reducing cycle time, cost and defects and increasing throughput, productivity and reliability.

ECS follows a method of collaborative consulting with a strong emphasis on people involvement in the change process.

Our client-list includes well-known companies in India, such as Marico, Mother Dairy, Castrol, Godrej, Larsen & Toubro, Crompton Greaves, Electrolux, Rallis India Ltd., Torrent Cables, Deepak Fertilisers, Reckitt Benckiser, Electrosteel Castings, Goodlass Nerolac, Rallis, ITC, Grindwell Norton, Trident, Crompton Greaves and TAFE etc.

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