Taking a bite out of costs: Procurement transformation on track to help deliver $1 billion savings
Overview

Accenture Strategy teamed with a global snack food company, to architect and design a new procurement capability that is helping them realize their transformation goals of enhancing profitability and reducing overhead costs.

Through benchmarking and detailed assessments of the global snack food company’s spending and cost base, Accenture identified significant opportunities for savings. The team then worked closely with the client to design and implement a Zero-Based Budgeting (ZBB) Organization Design Model and a new, cost-effective procurement function. Today, the transformed procurement organization acts as a true strategic partner to the business and continually maximizes the effectiveness and efficiency of both strategic and operational procurement activities.

Over the next three years, the global snack food company’s restructured procurement organization is expected to increase spend under management from 75 percent to 100 percent and contribute to a $1 billion reduction in SG&A costs and the cost of sold goods (COGS) by 2018. By reducing costs so significantly and instituting a sustainable cost structure, the company can focus on differentiating itself in the competitive market and investing in initiatives that will grow the business and drive profitability.

“With the zero-based-budgeting approach, we significantly reduced overhead in 2014 and are on track to reduce overheads by at least 200 basis points by 2016.”

Executive Vice President and CFO
Global Snack Food Company

Opportunity

The global snack food company’s relatively low profit margins limited its ability to invest in initiatives that would grow the business. A main culprit was the food company’s higher-than-average sales, general and administrative (SG&A) costs. Within this category, the operating cost of the procurement function was particularly high—almost twice as high, in fact, as the 1st quartile Consumer Goods Benchmark.

The company wanted a partner that could help define a new cost-control strategy, streamline operations in a variety of areas, including procurement, and improve profit margins. Accenture Strategy, which had a proven record of establishing rapid and sustainable cost-reduction programs at other leading food and beverage companies, was a logical choice.

Solution

The Accenture Strategy team conducted detailed as-is assessments of the global snack food company’s spending, interviewed key client stakeholders, and leveraged peer benchmarks to help the food manufacturer identify significant savings opportunities. Next, the team worked closely with the company to create an implementation guide (complete with policies and controls) to capture the identified savings. In addition to leveraging the Accenture SG&A Category Playbook, the team applied a proprietary Zero-Based Budgeting (ZBB) Closed Loop Spend Management approach. This innovative approach, which Accenture had successfully executed at a number of other leading food companies, requires managers to build budgets from scratch rather than basing them on the previous year’s plan. The procurement function played a critical role in enabling these savings.

The team also collaborated with the global snack food company to redesign the entire procurement function, optimize strategic and operational activities, and reduce the costs associated with running the organization. In addition to leveraging Accenture tools and the team’s deep procurement transformation experience, this effort involved introducing five global spend towers and a strong business partnering model among the brands.

Results

With Accenture’s help, the global snack food company has a much more cost-effective procurement operating model, as well as a completely redesigned procurement organization that acts as a true strategic partner to the business. The transformed procurement function is highly process-driven. It is characterized by clear responsibilities and accountabilities to meet the demands of the business. And it demonstrates procurement mastery by maximizing the effectiveness and efficiency of both strategic and operational procurement activities.

Over the next three years, the global snack food company’s restructured procurement organization is expected to:

• Reduce the procurement function cost from 0.5 percent of net revenue to 0.26 percent
• Increase spend under management from 75 percent to 100 percent
• Contribute to a $1 billion cost reduction by 2018
• Enable $1 billion revenue growth through supplier innovation
• Source 100% of goods and services against sustainability standards

By reducing nonproductive SG&A cost so significantly and instituting a sustainable procurement cost structure, the company can focus on differentiating itself in the competitive snack food market and making profit-enhancing investments in its brands, innovation platforms, routes to market and supply chain.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 336,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

About Accenture Strategy

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy