



# SPOT BUY SAVINGS - AS SOUND AS A DOLLAR

## Abstract

While organizations cannot be completely rid of their immediate, unplanned purchases, incorporating compliance methodologies and buying channels can help procurement teams realize additional savings from spot buys. This case study details how Infosys BPM helped an American telecom major achieve savings of ~\$4 Mn through effective spot buy strategies.

## A key partner

Infosys BPM's client is among the largest communication technology companies in the US, connecting millions of people, companies, and communities. Using award-winning networks and powerful technologies, the company has made several breakthroughs in interactive

entertainment, digital media, the Internet of Things, and broadband services for customers.

Since 2010, Infosys BPM has been a key partner for several of the client's critical programs including sourcing operations,

procure to pay activities and various process standardization initiatives. Several of the projects managed by Infosys BPM such as contract/ price compliance, automation, global procurement operation (GPO) analytics have delivered significant business value.

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## Building on a serendipitous initiative

In many organizations, most unplanned for, low-value purchases are directly made by non-procurement professionals. Referred to as spot buying, these purchases are often undermanaged, leading to challenges such as poor spend visibility or maverick spending. In general, spot buying can contribute to high volumes of purchasing transactions and at times may even cover up to 40% of indirect spend. However, with incorporation of strategic approaches into spot buy, this can become an additional channel for delivering significant savings.

As Infosys BPM supported with the client's procurement operations, the team identified an opportunity to bring in additional value. While the client had an automated purchase order (PO) creation process, the team realized that often the purchases were made via single quotes or without focused negotiations, thereby presenting an opportunity which was proactively discussed with the client. Initially, the spot buy support was planned for one line of business (LOB) where the PO operations were still manual. In the very first project itself, the Infosys BPM buyers

were able to successfully negotiate with the suppliers to deliver savings of \$150k in that particular year without any target metrics being planned.

With this demonstrated benefit, the client stakeholders wanted to extend the scope for Infosys BPM to provide spot buying support to all its LOBs, leveraging optimized buying channels and negotiation with a savings target. The team willingly took it basis its deep expertise in managing the spend and delivering benefits in the past.

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## Exploring the spots

Infosys BPM aimed to deliver additional value by exploring spot buy for the client. With the go ahead from the client, Infosys BPM put together it's a robust of specialists. While the focus was to deliver savings by utilizing sourcing approach like analysis and negotiations, there was also an additional effort to identify and deploy other saving methodologies such as cost avoidance and payment terms standardization across the organization.

The process started with conducting several brainstorming sessions to explore savings opportunities where the team worked on identifying challenges that were crucial to resolve before the spot buying initiatives could be implemented. The challenges encountered included complex, non-standardized processes across

the different lines of business, pricing inconsistencies across separate ERPs used by the organization, and non-compliances in terms of supplier pricing. Other issues such as the absence of stakeholder participation in selecting suppliers and the system lacking a baseline spend for any new service or commodity further affected the potential for savings.

Once all the working areas were underlined, the team implemented standardized spot buy processes gradually across client's LOBs / select category / commodity areas. As an example, the team started spot buy initiatives in the large quantities of telecom splitters frequently purchased by the company. Based on analysis of spend and past prices, the teams jointly worked with the client-side

category managers to conduct market research. The team successfully negotiated with a third-party supplier at discounted rates and subsequently customized POs as per the client purchasing policies. The new spot-buying strategy and process was also implemented for unique scenarios such as:

1. when the item was unavailable with the regular suppliers
2. when the existing supplier suggested having a longer lead time
3. when the item was marked as 'end of life' for both contracted and non-contracted suppliers
4. when engineers gave approval for procuring refurbished materials at a lower price without compromising on quality.

## Going the extra mile

As these efforts on spot buy continued, the client's category sourcing experts (CSEs) focused on extending the ambit of these purchases to lock in the negotiated savings for longer term, which led to decreased spot buy opportunities. With this opportunity already being exercised fully, Infosys BPM also explored other opportunities and implemented other savings and spend optimization methodologies such as:

### Price variance analysis and recovery

Price analysis helped the team identify supplier having non-compliances with contracted pricing and obtained credit memos for any overcharges. This process

began with analyzing network spend and shortlisting the top spend suppliers. Next, the team performed price variance analysis on all spend part numbers for a supplier against contracted clauses during PO creation to identify and validate any price discrepancies. These were then reported to the sourcing category managers and approvals obtained to reach out to the supplier for credit.

### Contract compliance

Additionally, the team also conducted contract compliance activities to identify variances with the discount clauses in the agreement, and get the benefits.

### Payment terms optimization

Payment terms optimization helped the team to lengthen payment terms and thereby increase the client's cash flow. During this process, the team also identified opportunities where payment terms could be revised based on supplier locations other than the predefined one and obtained consent from end users to place orders with such locations. Lastly, payment term discrepancies with respect to the contract were analyzed and corrected during the PO creation process, to maintain compliance in the procurement and AP systems.

## Connecting the dots

Infosys BPM's application of in-depth procurement and supply market knowledge helped the client realize savings of \$4 Mn with an 8% success

rate through the spot buying channel alone. Apart from greatly exceeding the client's annual spot buying savings target, going the extra mile also helped deliver

several other quantitative and qualitative outcomes.



First, the team's efforts on price variance analysis and contract compliance activities not only resulted in avoidance of revenue leakage and improved supplier performance but also delivered savings of \$206k. Additionally, payment terms

optimization helped to gather savings of \$2.6 Mn while category-based negotiations recorded savings of \$300k. Last but not the least, Infosys BPM was able to generate an overall ROI of 1.80 on the various new initiatives and thus able to operate them

on a self-funding model.

All said, the team's efforts have created a whole new paradigm in the client organization towards the benefits realizable through an effective spot buying strategy.

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