



Bottom-line Impact by Addressing the Cost of Goods Sold



Pressure. REAL Pressure.

Pressure. We all deal with it. In business, it seems like the pressures are increasing at an exponential rate. In particular, bottom-line pressures. Revenues aren't growing like they once did, costs continue to rise, expenses increase year over year. There are many factors pressuring the bottom-line and most business leaders believe (and behave as if) lowering below-the-line expenses is THE ONLY way to bolster a sagging bottom line. Sure, there are efficiencies to be gained and productivity improvements to be made, but most senior executive focus is on the expense line of the P&L. That focus is good and can have some positive impact on bottom-line profitability. As business leaders, we continue to largely ignore "the elephant on the table": Cost of Goods and Services.

For most companies, the cost of goods and services – also known as "COGS", is the single-largest outbound item on a P&L. Take the Retail industry for example. The COGS across all segments is between 55% and 81% of all expense on a P&L. Retail Supermarkets average 72.3% COGS. Clothing stores average 56.5%. Electronics & Appliance stores average 71% COGS. Convenience Stores are 81%! Overall, the Retail Food Industry averaged a Net Income of 1.46%. That is the first time in years it has gone "well over" 1%. Talk about pressure!

So how do companies improve bottom-line results? Several have been mentioned, and those will help – to a degree. The single-largest opportunity to improve net

income is by addressing "the elephant" – the cost of goods and services. And here's the good part: the dollars secured in reducing COGS falls directly to the bottom line. Yes, purists will argue that there are switching and other costs incurred in order to get to the reduction, but the overwhelming majority ends up as pure profit.

The Impact

What is the potential impact of this reduction? In a published survey, one industry analyst touted that a 5% reduction in COGS had the equivalent impact as a 30% increase in top-line revenue. Let's do the math: a \$1B retail supermarket chain has COGS of roughly \$723M (72.3%). After operating expenses, they achieve a net income of roughly \$14.6M (or 1.46%). If executives focused on only 10% of their COGS spend (\$72.3M), and could lower those costs by only 10%, or \$7.23M, that would equate to a net income improvement of nearly 50%! Yes, it's simple math, but the concept is valid and the numbers are able to be captured and realized with the right focus, direction, and leverage. How real are these savings? One retail executive exclaimed "we have achieved a 29%+ reduction in the COGS we have focused on." Another company claimed a 519 basis point improvement in their 10k report directly attributing their work to reducing COGS as the vehicle to achieve that. So where should you start?

In the beginning . . .

One of the largest stumbling blocks is getting going. This

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can be a daunting task – several divisions, hundreds of departments and categories, tens of thousands of items, approved and purchased by hundreds of individuals. Now to the big task at hand. Most would agree that implementing an e-sourcing or e-procurement tool across the enterprise is a good start. It is. There are 30+ companies that supply these products and services. One industry analyst claims that you can achieve 5-10% reduction in COGS by simply using an e-sourcing platform – or online auction tool. This can get you started fairly quickly and, with online hosted tools offered in the form of software-as-a-service, or SaaS. These tools can be utilized without involving your already over-taxed IT department. If a 5-10% reduction is all you wish to achieve, you can do that. However, MUCH MORE is achievable. Is it possible to achieve 15%? 20%? 25%? 30%? The answer: ABSOLUTELY! How can a company achieve five times or greater the “normal” industry savings averages? It may sound simple or even contrite, but the key is experience, expertise, industry-leading consulting, and best practices methodologies to “surround” the tool. So who do you turn to?

THE BEST in the industry

One company achieving exceptional results is Phoenix-based Intesource. Intesource has been helping companies lower COGS expenses and services. In fact just about anything you source Jason Busch, the world’s leading authority on spend management and contributor to industry blog Spend Matters, said **“For those who don’t know Intesource,**

they fall into one of the best-kept vertical secrets category in the Spend Management world.”

Intesource brings years of experience, expertise, and offers information, services, and tools that assist companies in getting the most from the end to end procurement process including e-Sourcing and Procurement, contract management, and spend management. Additionally and where needed, integration with legacy ERP and Supply Chain systems. On average, Intesource has achieved savings of over 18% on over 540 categories including GMS, Clothing, Supplies, Equipment, HR, Contracted Services, Construction, Energy, Raw Materials, Technology, Fuel, and hundreds of other products & services. Additionally, Intesource offers the industry’s only complete CIA program for retailers that want to collaborate and aggregate their volumes where you are in control of the program.

“Intesource partnered with us to provide true domain expertise, complementing our process – not completely changing it, and gave much needed time back to our people. They are THE BEST in the industry.” stated the head of procurement at a large retail organization.

Make the impact today

There is an unprecedented opportunity for business leaders. Significant results can be achieved in very short timeframes. There are several ways to get started:

1. Intesource offers a Discovery Service where you can work with experts on

analyzing potential areas of impact. There is some time investment required, but no up-front costs.

2. Every October, Intesource sponsors one of the industry’s leading events: the “Innovation” Best Practices Conference (this year’s conference is dubbed “Innovation ‘07”). The annual conference is held in Phoenix and features industry luminaries, senior executives, sourcing professionals, suppliers, and partners coming together in an open information exchange focused on e-sourcing and the end to end procurement process, including spend management, contract management, and other related issues. For additional event information, call 1-800-476-0409.

Start NOW. It’s YOUR money.

About Intesource

Intesource, Inc. is a global provider of spend management solutions including intelligent sourcing and collaboration, contract management, information, and services. Serving many industries, we deliver superior technology backed by industry-leading best practice methodologies. Our on-demand and enterprise solutions lead to high impact results including enhanced productivity, cost reduction, and bottom-line profitability. For additional information, please visit www.intesource.com/sdce or call 1-800-475-2149.