

Cavanha Café

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Buy

- Buying equipment makes sense as long as the drawbacks as well as the advantages are clearly understood.
- This option should be considered If, and only if:
 - The capital is available.
 - The equipment is critical to the core business and is used extensively.
 - Low-interest rates allow purchase with a cheap loan.

→ Pros

- Availability and full control over the equipment.
- Depreciation, insurance, repairs, taxes, and interest are liabilities.
- Paying cash allows to avoid finance charges.
- Ownership builds equity in the company.

→ Cons

- Responsibility for the whole life cycle of the asset.
- Buying can put pressure on the company's finance.
- Liquid assets turned into fixed assets.
- Heavy usage decreases trade-in value.
- Risk of obsolescence during ownership.
- Stuck with the equipment even in case of downturn.

Rent

- Renting equipment has a lot going for it without much downside. It depends on the type of projects involved.
- Rent is the option to consider when:
 - The economy is uncertain or there is a peak of activity.
 - In case of limited financial options.
 - The backlog of work is decreasing, indicating a downturn ahead.

→ Pros

- Pay per use
- Flexibility, no long term commitment and no penalties for early return.
- Testing of a specific piece of equipment.
- Access to best and newest equipment.
- Maintenance and 24/7/365 assistance.
- Reduced paperwork and admin.
- Simpler budgeting, rental is OPEX.

→ Cons

- Long term rentals can be more expensive than buying or leasing.
- The equipment may not be available on short notice.

Lease

- Leasing can be a good alternative to buying. It's like a loan but at the end of the lease, the asset is returned and changed for a newer model. The lessor owns the equipment and keeps some of the headaches.
- Lease is to be considered in the following cases:
 - Cheaper to lease equipment used for a single project.
 - Need to keep capital for company growth or short-term commitments.

→ Pros

- No down payment, no cash up front.
- No worry about routine maintenance.
- Possibility of a flexible lease payment for slow times.
- Lower payments than for a loan or rental.
- Borrowing power or credit line not affected.
- Lower risk of obsolescence.

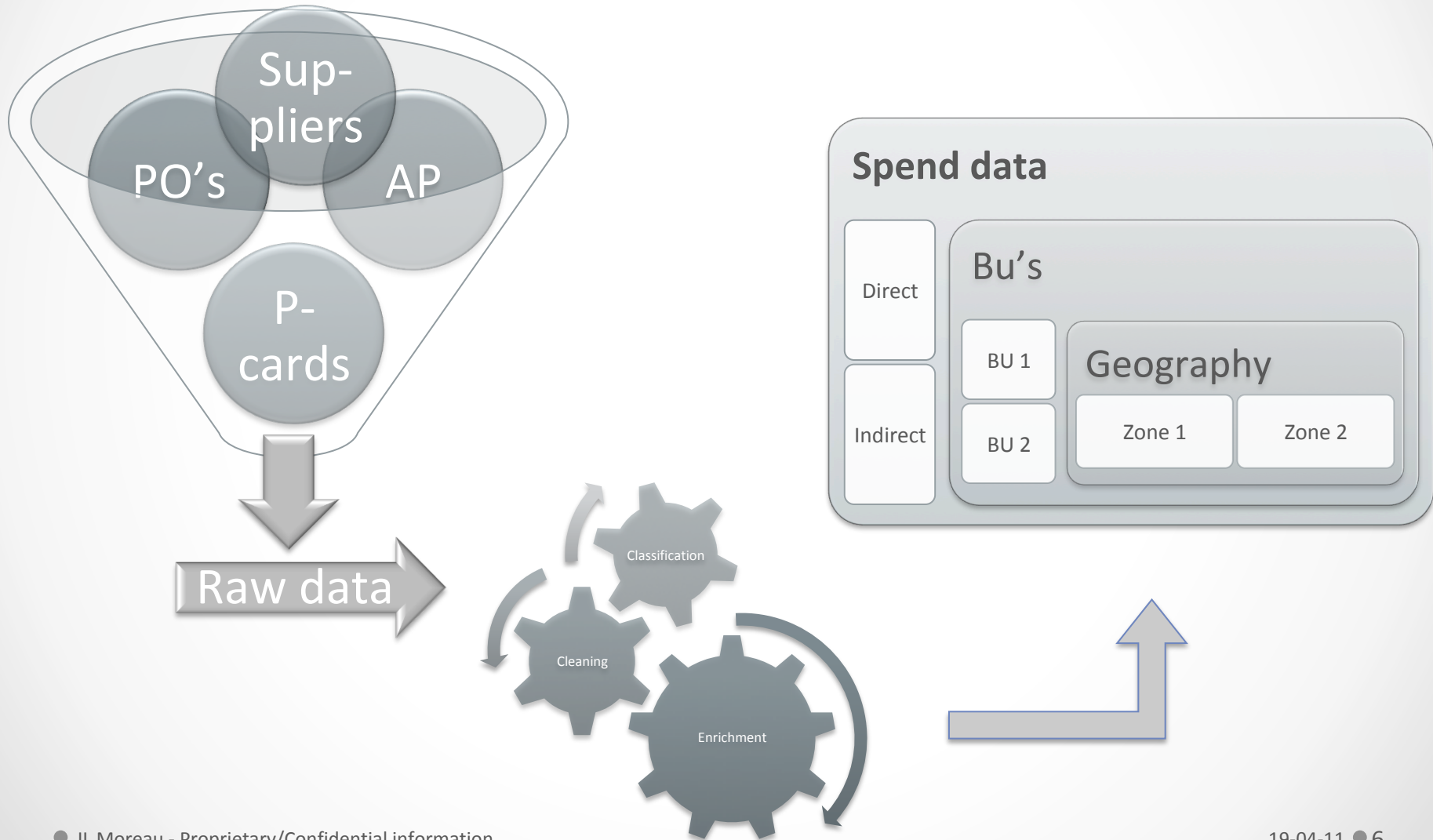
→ Cons

- Costs can add up over time and become higher than buying in the first place.
- Equipment may not be available when needed.
- Expensive to break with penalties for early returns.
- Still responsible for insurance, property tax, and/or damage fees.
- Possibly higher interest than with a loan.

Buy - Rent - Lease

- Best option will probably be a mix of buying, leasing, and renting depending on activity.
- With the right mix, meeting obligations and elaborating a budget are easier.

Spend analysis

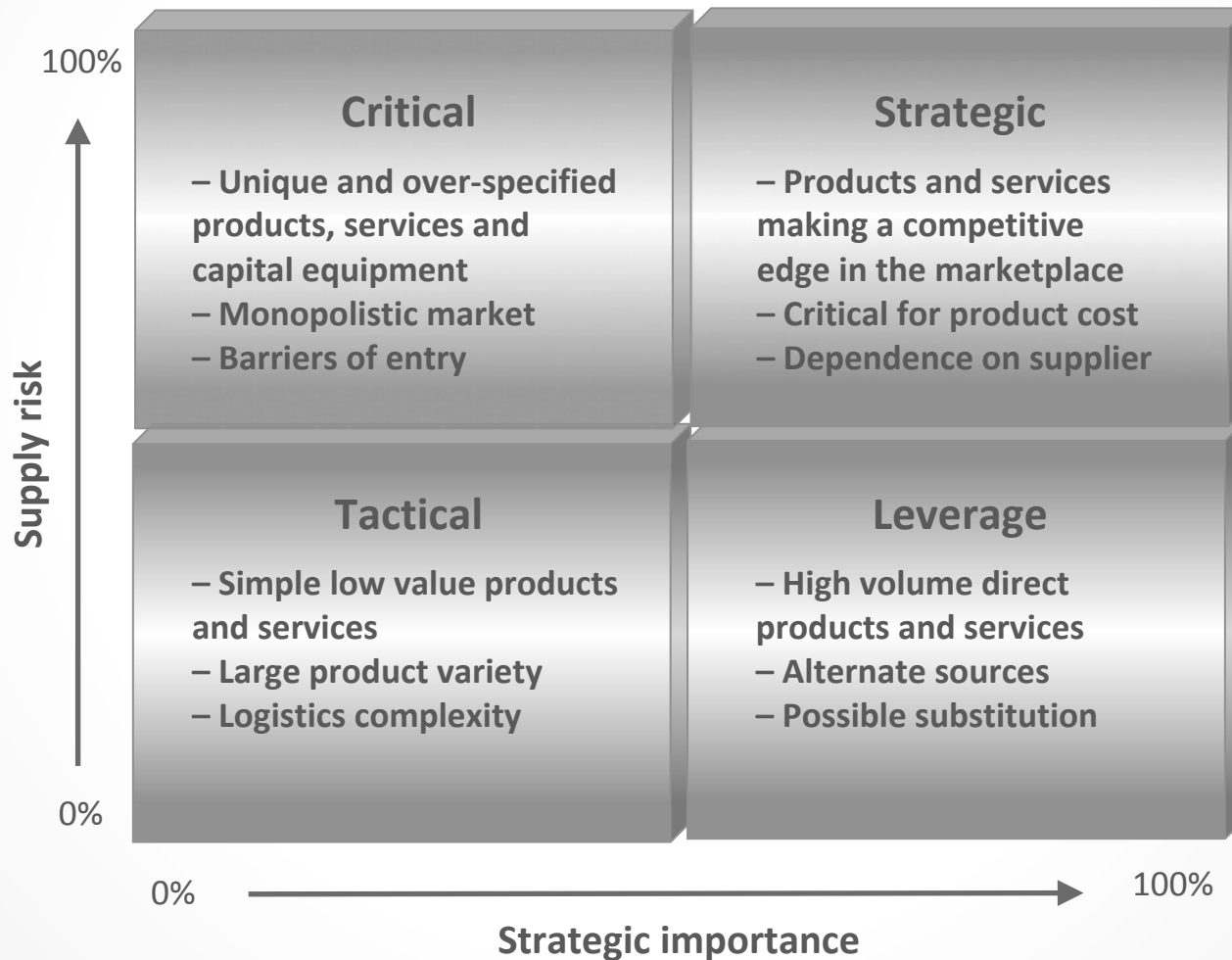


Portfolio Analysis of spend data

Different methods to analyze spend data

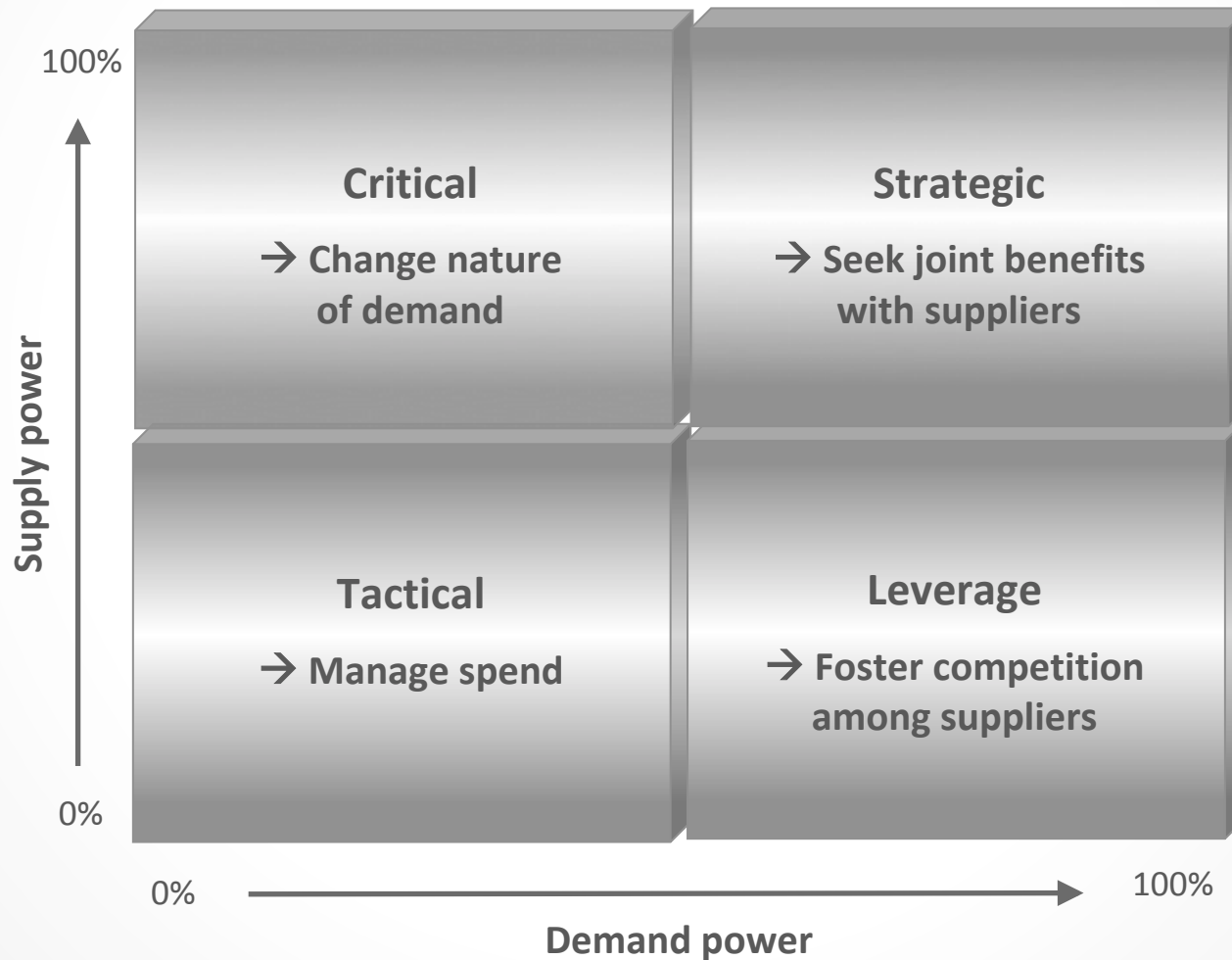
- Several methods are available for a strategic segmentation of sourced products/services and associated suppliers.
- Risk – reward (Kraljic)
- Supply – Demand (AT Kearney)
- Constraint analysis Internal – External
- Those three methods are complementary.

Products/Services segmentation



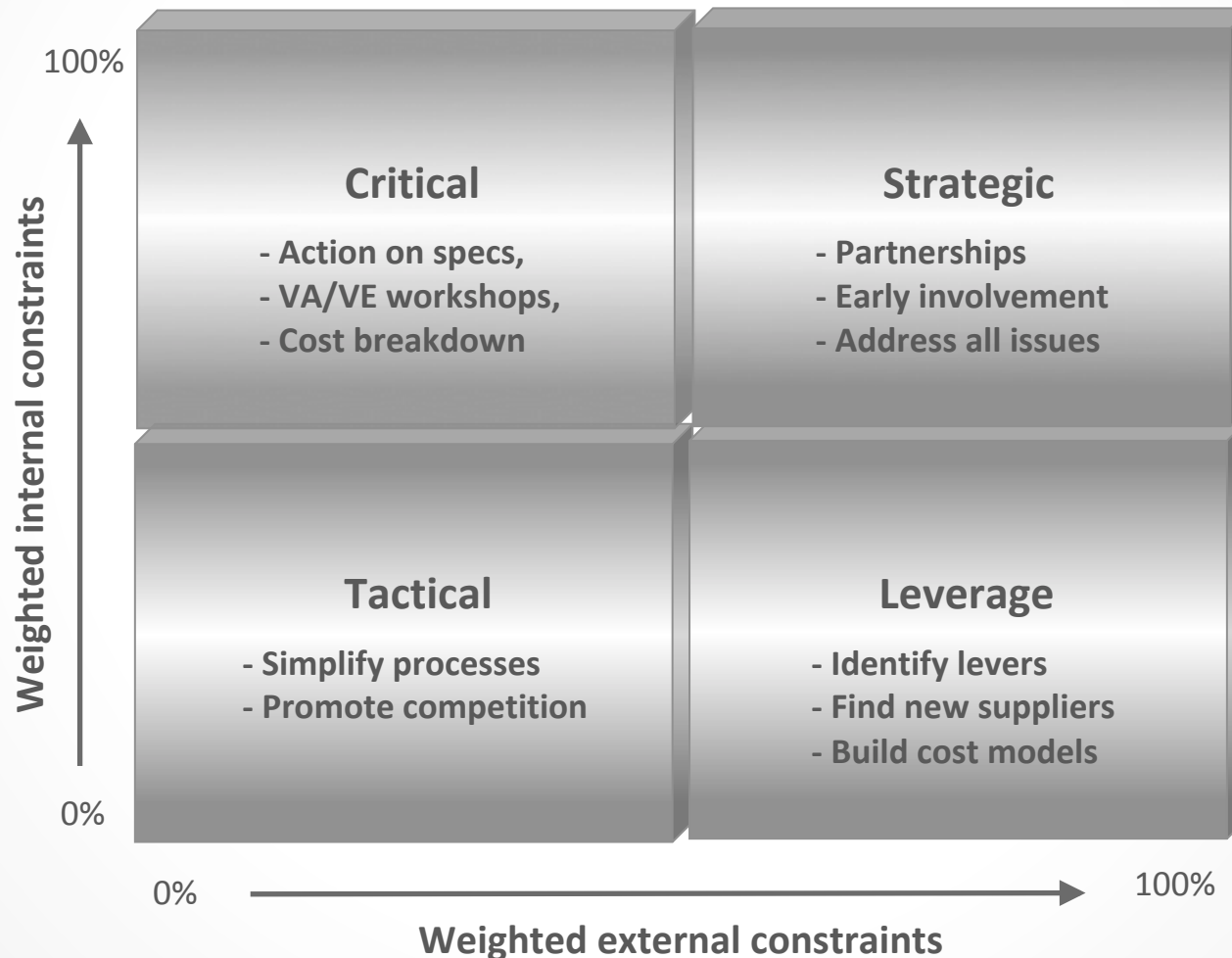
Procurement Segmentation

Supply/Demand Power

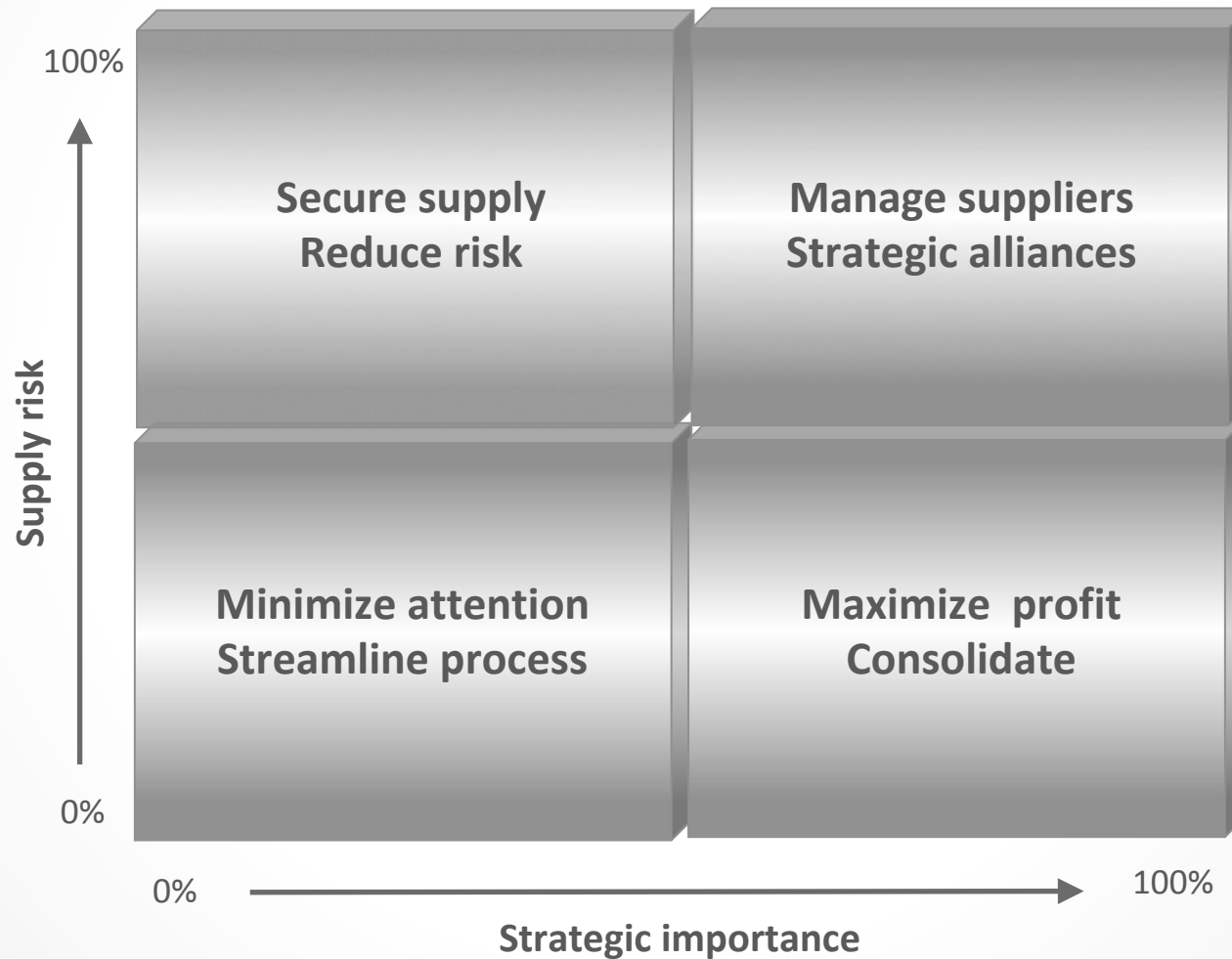


Procurement Segmentation

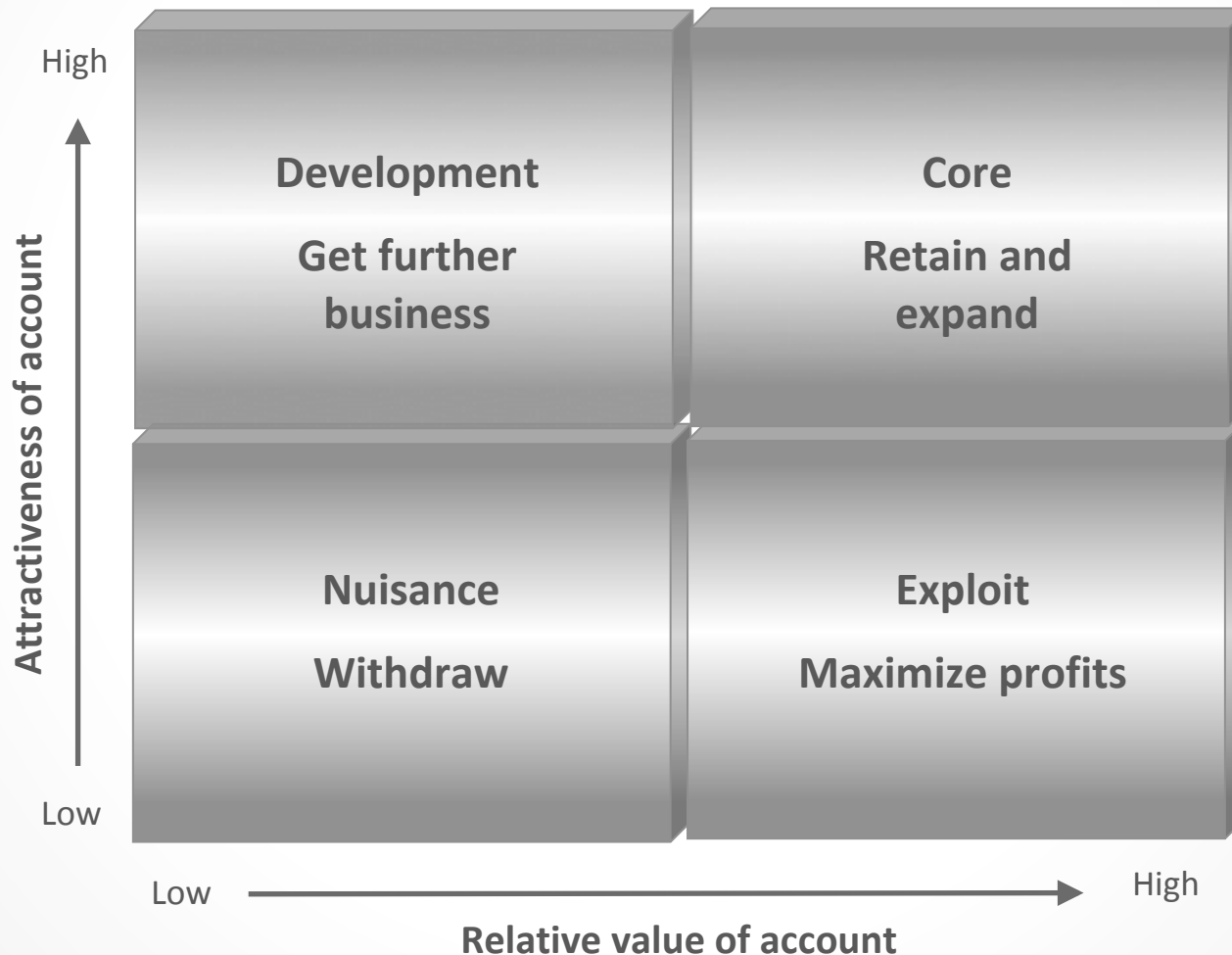
Constraints Analysis



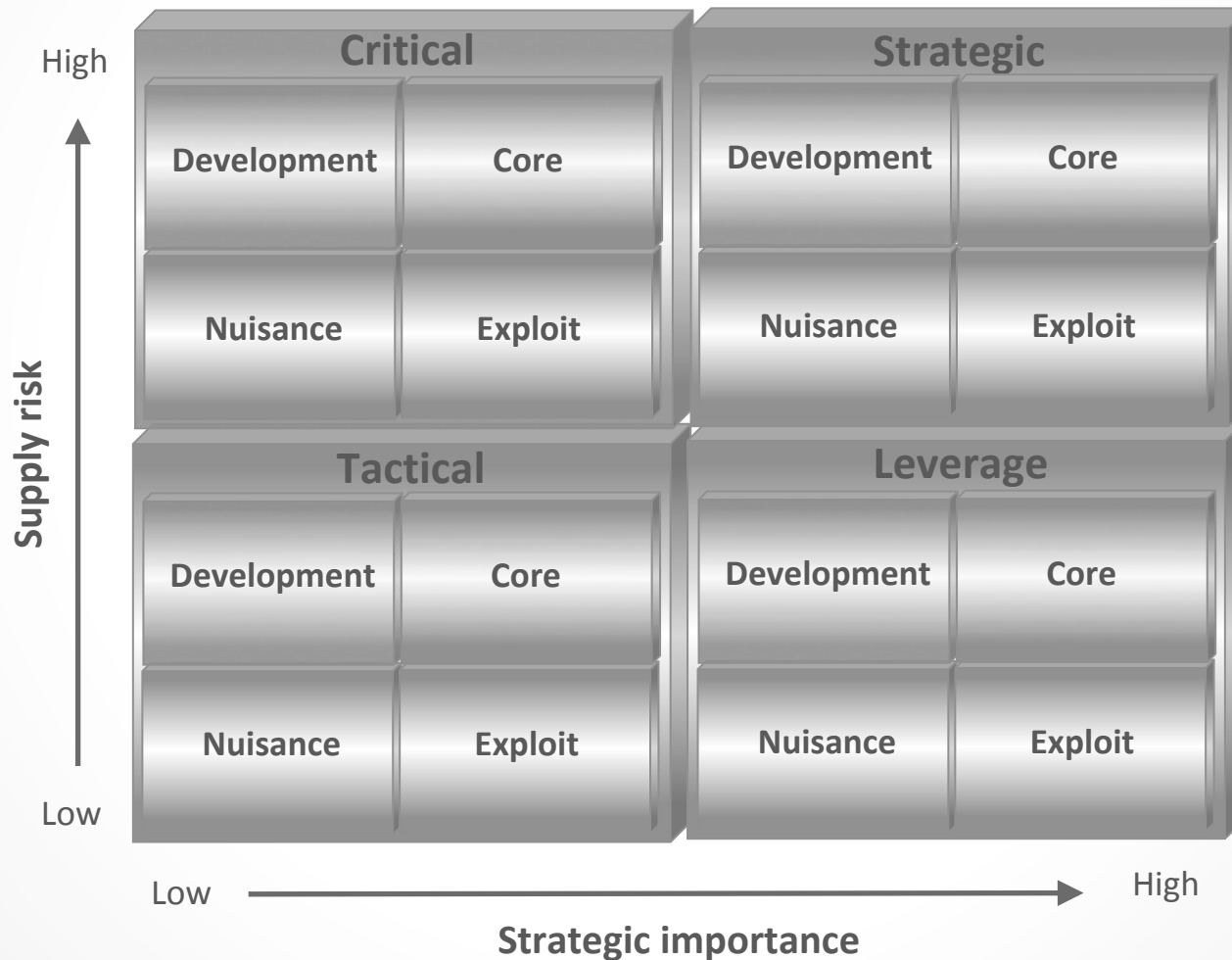
Procurement strategy



Customer profiling → Supplier view of Buyer account



Segmentation + Profiling → Supplier Relationship Mapping



Supplier Development

- Treat Supplier Development initiatives as investments rather than expenses and calculate their financial return.
- Manage SD opportunities as projects.
- Develop a standard approach for SD projects.
- Establish a central system for controlling and monitoring development efforts. Start with only a few pilot projects.
- Establish the baseline and track the impact of change.
- Systematically identify development opportunities.
- Identify core and as-needed SD support personnel.
- Allocate budget to support SD projects.
- Share savings from development activities with suppliers.
- Conduct lessons learned sessions at the end of each project.

Quality – Cost – Service – Cash – Innovation – Growth

“Demand” levers → Buy Less

- Eliminate demand
- Review volume requirements
- Reduce waste
- Simplify/
Redesign/
Standardize specifications
→ VA/VE
- Facilitate pay-per-use
- Reduce portfolio range and complexity
- Consider alternatives to fulfilling needs
- Encourage reuse

“Fulfillment” levers → Buy Better

- Improve R2P process
- Reduce fulfillment costs
- Plan for exceptions
- Reduce supply base
- Foster supplier collaboration and innovation
- Monitor compliance
- Manage risks
- Facilitate data access and analysis
- Support growth

“Sourcing” levers → Buy Cheaper

- Bundle - unbundle
- Stimulate competition among suppliers
- Offer volume or time commitment
- Reduce TLC and no compromise on quality
- Insert Continuous Improvement in contracts
- Include incentives and penalties
- Share risks with suppliers
- Reduce working capital

Thank you

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Questions?

Next steps

<https://www.jlmconsultant.com>