

Procurement sizing opportunity

Aviation hospitality provider

Identified and sized the opportunity to save on procurement by evaluating the payment terms, vendor concentration, and optimizing the terms across location

Aviation hospitality provider needs procurement sizing opportunity

Picture this...

You're looking to identify the possible opportunities to centralize purchase operations and size the potential annualized savings. Also, evaluated the opportunity to improve inventory management (fuel) and enhance the working capital based on payment rationalization. Having multiple FBO locations across the U.S. and lacking in a centralized sourcing and procurement system resulted in unharmonized and decentralized purchases that impacted the margins as they scaled up significantly across the U.S.

You turn to Accordion.

We partner with your team for identifying and sizing the opportunity to save on procurement by evaluating the payment terms, vendor concentration, and optimizing the terms across location, including:

- 1) Assessing the current sourcing and procurement system to identify potential opportunities and streamlining the overall procurement process through a centralized process of procurement for the organization
- 2) Quantifying the potential savings from rationalizing the payment terms and streamlining the payment cycle across vendors
- 3) Evaluating vendor synergy across geographical clusters to size the potential savings for direct spend and benchmarked indirect spend across GPO rates for better vendor pricing

Your value is enhanced.

- Based on the assessment, estimated a potential annualized savings of ~\$15M (~2%) by streamlining the overall procurement process through a centralized process of procurement for the organization
- The proposed fuel purchasing & inventory plan could potentially result in an annualized saving of ~\$1M (~1%)

PROCUREMENT SIZING OPPORTUNITY

KEY RESULT

- Estimated a potential annualized savings of ~\$15M (~2%)
- Fuel purchasing and inventory plan could save ~\$1M (~1%) annually

VALUE LEVERS PULLED

- Rationalization and streamlining of the payment terms
- Vendor synergizing and GPO benchmarking
- Evaluated the opportunity to synergize terms and prices across locations
- Optimized fuel spend based on best fuel purchasing and inventory patterns

Sourcing and procurement analytics for aviation hospitality provider

Situation

- Client had multiple FBO locations across the U.S. and lacked a centralized sourcing and procurement system. This resulted in unharmonized and decentralized purchases that impacted the margins as they scaled up significantly across the U.S.
- Partnered with the client to identify the possible opportunities to centralize purchase operations and size the potential annualized savings. Also, evaluated the opportunity to improve inventory management (fuel) and enhance the working capital based on payment rationalization.

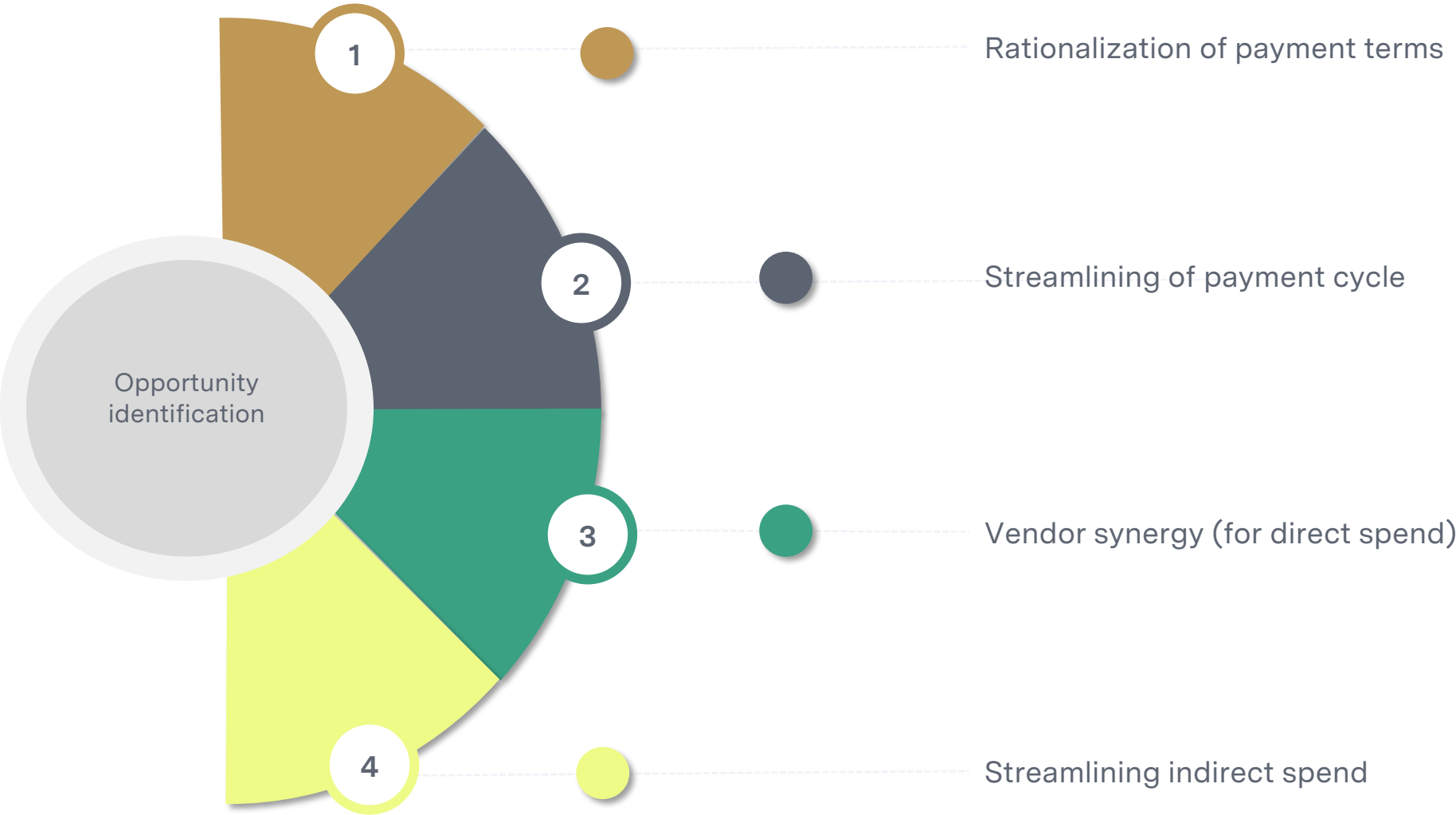
Accordion Value Add

- Assessed the current sourcing and procurement system to identify potential opportunities and streamlined the overall procurement process through a centralized process of procurement for the organization
- Quantified the potential savings from rationalizing the payment terms and streamlining the payment cycle across vendors
- Evaluated vendor synergy across geographical clusters to size the potential savings for direct spend and benchmarked indirect spend across GPO rates for better vendor pricing

Impact

- Based on the assessment, estimated a potential annualized savings of ~\$15M (~2%) by streamlining the overall procurement process through a centralized process of procurement for the organization
- The proposed fuel purchasing & inventory plan could potentially result in an annualized saving of ~\$1M (~1%)

Potential procurement savings opportunities identified



Parameterized model to consider business inputs

Inputs

Cost of Capital (%)	11%
---------------------	-----

Cost of capital input to evaluate the savings from freeing up cash flow

Opportunities	Input category	Input
1. Rationalization of Payment Terms	Min. % share of amount for a payment terms at vendor - category level to be considered as best payment term	10%
2. Streamlining Payment Cycle	Buffer days - represent the # of days before due date which will be treated as 'On-Time' payment	2

Conservative and aggressive scenarios to quantify lower and upper limit on potential savings

Opportunities	Input category	Conservative	Aggressive
3. Vendor synergy (for direct spend)	Min. # vendors required per cluster per payment type for potential saving	30	15
	Potential % savings at cluster with vendor concentration	2.0%	5.0%
4. Streamlining indirect spend	Click here to update % saving across different indirect payment categories		

Rationalization of payment terms

Potential savings (Annualized)

Estimated savings across different sizing opportunities						
Sizing Opportunity	Sizing Category	Current payment, \$ (Annualized)	Potential savings (\$) Annualized		Potential savings (%)	
			Conservative	Aggressive	Conservative	Aggressive
1. Sizing of Payment Terms	a. Rationalization of Payment Terms*	\$1,000 M	\$1.47 M	\$5.27 M	0.1%	0.5%
	b. Streamlining Payment Cycle	\$1,000 M	\$1.45 M	\$1.45 M	0.1%	0.1%
2. Sizing of Vendor Concentration	a. Vendor Synergy (Direct payment)	\$900 M	\$1.30 M	\$4.15 M	0.1%	0.5%
	b. Streamlining Indirect spend	\$100 M	\$6.11 M	\$8.43 M	6.1%	8.4%
Total potential savings (\$)		\$1,000 M	\$10.33 M	\$20.04 M	1.0%	2.0%

* 'Conservative savings' is based on Vendor-Category combination while, 'Aggressive savings' is based on category level only

Potential annualized savings based on conservative and aggressive scenarios

Rationalization of payment terms

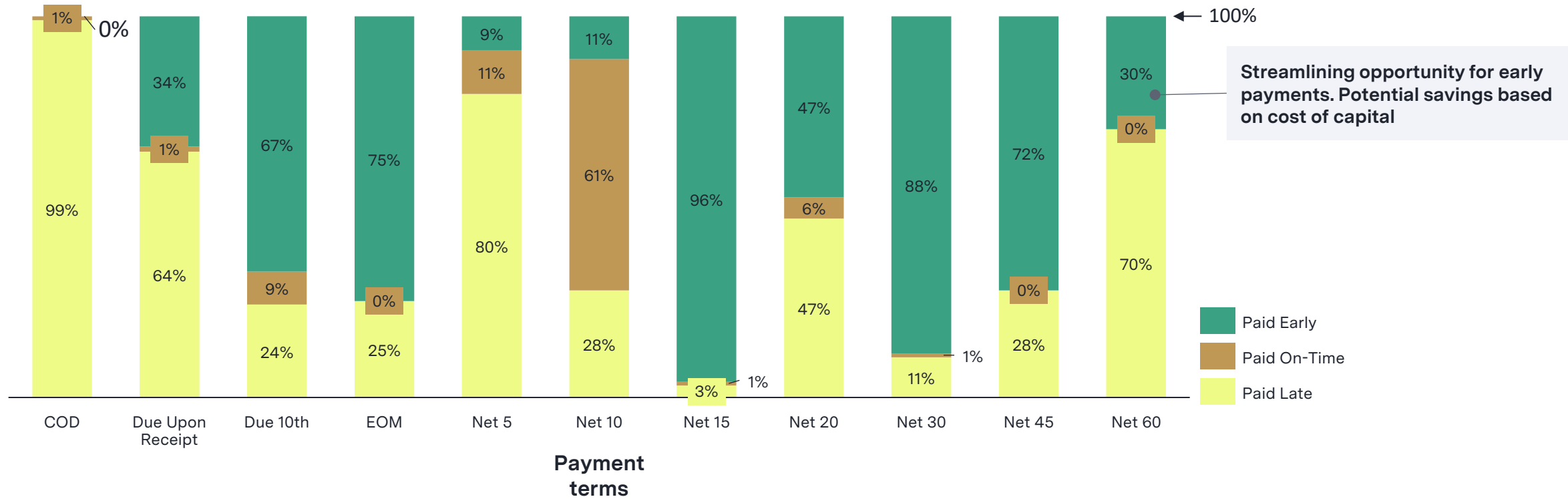
Rationalization of payment terms - Potential savings					Conservative		Aggressive	
Payment category	Current payment, \$	Current Avg. payment term days	Best payment term	Best payment term days	Potential savings, \$	Potential savings, %	Potential savings, \$	Potential savings, %
Fuel Expenses	\$823,892,374	15.0	Net 30	30.0	\$1,291,651	0.2%	\$4,520,780	0.5%
Prepaid Expenses	\$26,336,942	10.2	Net 30	30.0	\$62,200	0.2%	\$267,461	0.6%
Utilities	\$15,413,024	3.9	Net 30	30.0	\$36,116	0.2%	\$144,465	0.8%
Professional Services	\$14,201,595	9.1	Net 30	30.0	\$26,646	0.2%	\$106,586	0.6%
Repairs and Maintenance	\$23,185,781	23.4	Net 30	30.0	\$13,720	0.1%	\$54,881	0.2%
Miscellaneous Expenses	\$6,694,853	9.5	Net 30	30.0	\$12,307	0.2%	\$49,227	0.6%
Employee Expenses	\$7,944,026	12.7	Net 30	30.0	\$12,296	0.2%	\$49,185	0.5%
IT Expenses	\$2,718,726	12.6	Net 30	30.0	\$4,238	0.2%	\$16,953	0.5%
Travel and Entertainment	\$3,000,246	16.2	Net 30	30.0	\$3,707	0.1%	\$14,827	0.4%
Inventory	\$2,873,063	17.4	Net 30	30.0	\$3,240	0.1%	\$12,962	0.4%
Catering	\$1,942,194	14.6	Net 30	30.0	\$2,680	0.1%	\$10,720	0.5%
Dues and Subscriptions	\$1,450,682	17.5	Net 30	30.0	\$1,625	0.1%	\$6,500	0.4%
Customer Expenses	\$750,297	9.8	Net 30	30.0	\$1,357	0.2%	\$5,429	0.6%
Insurance Expenses	\$430,575	9.8	Net 30	30.0	\$782	0.2%	\$3,128	0.6%
Advertising Expenses	\$603,109	15.9	Net 30	30.0	\$765	0.1%	\$3,059	0.4%
Supplies	\$3,915,310	27.7	Net 30	30.0	\$813	0.0%	\$3,250	0.1%
Rent Expenses	\$65,050,412	3.0	Due Upon Receipt	-	-	-	-	-
Fees	\$556,920	15.0	Net 15	15.0	-	-	-	-

Potential savings for each payment category based on conservative and aggressive scenarios

Methodology/Approach

Streamlining payment cycle - Potential savings							Conservative		Aggressive	
Payment term	Current Payment, \$	% share of payment	Avg. days b/w payment date and due date	% share of amount paid early	Avg. # days amount is paid early	Amount paid early (\$)	Potential Savings, \$	Potential Savings, %	Potential Savings, \$	Potential Savings, %
Overall	\$1,001 M	100.0%	(2.2)	43.9%	(11.0)	\$522 M	\$1,450,665	0.1%	\$1,450,665	0.1%

Share of amount paid early across payment terms



Streamlining indirect spend – GPO benchmark

Potential savings by category due to GPO		GPO Savings (%)		Potential Savings (\$)	
Indirect payment type	Current payment (\$)	Conservative	Aggressive	Conservative	Aggressive
Professional Services	\$14,003,677	11.0%	13.0%	\$1,540,404	\$1,820,478
Utilities	\$15,229,536	10.0%	12.0%	\$1,522,954	\$1,827,544
Repairs and Maintenance	\$22,909,759	6.0%	8.0%	\$1,374,586	\$1,832,781
Prepaid Expenses	\$26,023,407	2.0%	5.0%	\$520,468	\$1,301,170
IT Expenses	\$2,686,360	13.0%	15.0%	\$349,227	\$402,954
Employee Expenses	\$1,257,045	16.0%	18.0%	\$201,127	\$226,268
Travel and Entertainment	\$2,845,952	6.0%	8.0%	\$170,757	\$227,676
Supplies	\$3,868,699	4.0%	6.0%	\$154,748	\$232,122
Miscellaneous Expenses	\$3,359,728	2.0%	5.0%	\$67,195	\$167,986
Advertising Expenses	\$595,929	11.0%	5.0%	\$65,552	\$29,796
Inventory	\$2,838,860	2.0%	5.0%	\$56,777	\$141,943
Catering	\$1,919,072	2.0%	5.0%	\$38,381	\$95,954
Dues and Subscriptions	\$1,433,412	2.0%	5.0%	\$28,668	\$71,671
Insurance Expenses	\$425,450	5.0%	7.0%	\$21,272	\$29,781
Fees	\$550,290	2.0%	5.0%	\$11,006	\$27,515
Covid-19 Expenses	\$416,746	2.0%	5.0%	\$8,335	\$20,837

Potential savings for indirect payment categories based on conservative and aggressive scenarios