

Bill of materials

WHAT THE SOURCING DECISION SEES

WHAT THE P&L ABSORBS

Engineering changes

Premium freight

Excess and scrap

Returns and warranty

EPISODE BRIEF · OCTOBER 2026

The Hidden Spend in Automotive Procurement

Control beyond the bill of materials

Where the real cost of a part originates, why it stays out of view, and which controls bring it back into the procurement decision.

HOST

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EPISODE SUMMARY

Spend beyond the BOM is real spend. It simply lands somewhere else.

In automotive procurement, the bill of materials describes what a product is made of. It does not describe what the product costs. Engineering changes, premium freight, excess stock, scrap, returns, and warranty claims accumulate between the first RFQ and the last warranty claim, and most of them never reach the sourcing decision that created them.

In Episode 10 of Behind Procurement, Natalie Eksi spoke with Ignacio Garcia, former Senior Vice President for Latin America at Cummins, who now advises manufacturers on investment, manufacturing, and supply chain across the U.S. and Mexico, and Emeka Njoku, an operations, engineering, and supply chain executive and Lean Six Sigma Black Belt with two decades in Fortune 500 manufacturing and logistics. The discussion moved from an audience poll through McKinsey research on procurement value leakage, Ignacio's article on hidden spend in automotive procurement, and an APSentra client case.

The speakers arrived at the same conclusion from different directions: **hidden spend is not a pricing problem. It is the cost of decisions that procurement, engineering, operations, and finance make without a shared view.**

Six takeaways

01

Fragmented data hides cost

Data split across systems led the audience poll as the reason spend beyond the BOM stays hidden.

02

Cost sits in other budgets

Plants and cost centers manage their own numbers, so a sourcing decision surfaces in someone else's P&L.

03

Piece-price KPIs mislead

Buyers measured on annual price reduction can deliver savings on paper and higher cost in practice.

04

Contracts are operational

Negotiated terms reach the bottom line only when operations enforce them.

05

Launch cost is set at sourcing

A part changes hands six times from RFQ to warranty, and each hand-off can add cost.

06

Ownership closes the loop

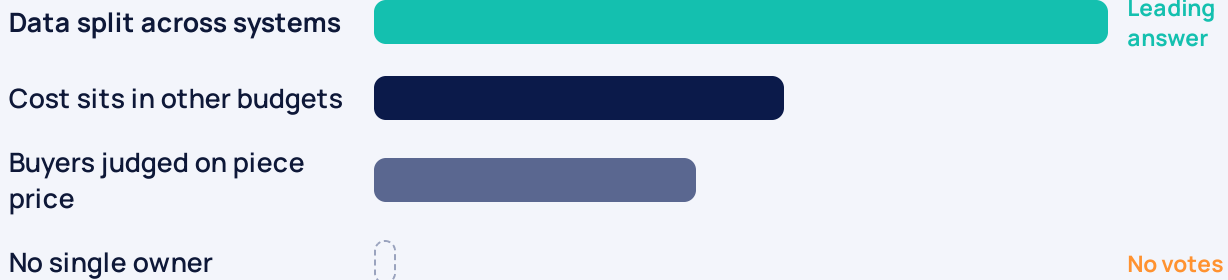
Savings become real when one owner sees the total impact across a standardized process.

SECTION 1

Why spend beyond the BOM stays hidden

Before the episode, Behind Procurement asked its LinkedIn audience one question: why does spend beyond the bill of materials stay hidden? Respondents chose among four explanations, each pointing to a different failure in how cost travels through an organization.

AUDIENCE POLL · WHY DOES SPEND BEYOND THE BOM STAY HIDDEN?



Bars show relative share of responses. Behind Procurement LinkedIn poll, October 2026.

Emeka's own pick was the second answer. When procurement measures the cost of a single part, the consequences that appear later in the process do not disappear; they move into separate budgets. He also endorsed the leading answer, arguing that clean, connected data is the precondition for any procurement system, AI included, to produce useful decisions.

“When there are impacts or hidden things that happen throughout the process, the cost ends up sitting in separate budgets.”

EMEKA NJOKU

Ignacio read the top three answers as one reinforcing pattern in large corporations. Groups built through acquisitions inherit systems that do not talk to each other. Plants and cost centers are managed on their own cost reduction rather than on the total cost to the company. And sourcing managers have traditionally been measured on cost reduction over the previous twelve months, which rewards savings on paper while actual cost moves elsewhere.

! **What the empty answer signals.** No respondent chose “no single owner.” Emeka called this the most surprising result, because ownership is precisely what connects a sourcing decision to its total impact. The audience framed hidden spend as a data and structure problem; the speakers kept returning to accountability.

SECTION 2

Firefighting, contracts, and disconnected decisions

The conversation drew on McKinsey's April 2025 article *Mitigating procurement value leakage with generative AI*, which tracks a rising share of CPOs who recognize they need more digital, data-driven practices to meet both immediate pressures and longer-term goals.

Ignacio agreed that procurement leaders know they need data in their hands. In his consulting work, however, the same obstacle recurs: CPOs spend much of their time fighting fires, from late parts to supplier quality problems, which crowds out the work of building data foundations and digital tools that would improve decisions.

Contract enforcement as an operating discipline

McKinsey identifies contracts as a major source of leakage: a large share of enterprise spend runs under contracts, yet negotiated savings and terms often fail to reach the bottom line because organizations do not enforce them. Natalie framed this as an operations problem rather than a legal one, since lawyers will draft whatever structure the business specifies.

Ignacio observed that companies increasingly segment their approach: formal contracts with strategic suppliers, competitive frameworks across two or three qualified suppliers, and no contract at all for items bought every day. Whatever the model, he argued, both supplier and customer need a clear statement of deliverables and clear rules for how to operate.

“Hidden spend is the cost of disconnected decisions.”

EMEKA NJOKU

For Emeka, the disconnect is structural. When what operations actually does differs from what procurement captures and what KPIs measure, the process is broken by design. He expects digital adoption among CPOs to keep rising, driven by AI and by the need to evaluate total cost of ownership rather than a single cost-per-piece line that ignores scrap. Geopolitical disruption is raising transportation costs, which makes every form of waste in the process more expensive. Natalie added the finance view: the price in a contract is not the total cost when nobody can predict what logistics will cost next quarter.

“You can’t control what you can’t see. Digitalization enables you to see it end to end.”

EMEKA NJOKU

SECTION 3

Where hidden spend originates

A bill of materials is a list of parts: assemble them, run them down the line, and the product comes out the other end. As Ignacio put it, that view is accurate and incomplete, because much of the cost accumulates in the background of the process.

SOURCE	WHAT HAPPENS	WHERE IT LANDS
Engineering changes	Changes arrive continuously. Wrong revisions or parts that no longer match the print consume time, material, and rework.	Engineering, plant operations
Premium freight	Global sourcing assumed the best quality at the lowest cost from anywhere. Politics, trade shifts, and regional employment pressure made expedited freight explode and stopped plants.	Logistics budgets, plant downtime
Excess and scrap	Parts arrive that the plant no longer needs, become excess, and eventually become scrap.	Inventory, plant P&L
Returns and warranty	Unstable quality drives returns to suppliers and problems that reach the customer.	Quality, customer relationship, warranty reserves

“It is not about a list of parts. It is everything that causes waste in the system.”

IGNACIO GARCIA

A lower price can create a higher total cost

Emeka connected each source to the KPIs that executives actually review. When the dashboard shows only one section of the process, a piece price that falls year over year looks like success, while the impact on IT, engineering, quality, and customer satisfaction stays off the page. Clear KPIs that make these issues visible are what prompt people to act.

From a Lean Six Sigma standpoint, he described a two-step sequence: first go and see the process end to end, then execute against what the data reveals. As Natalie noted, controlling spend is as much a source of earnings as growing revenue.

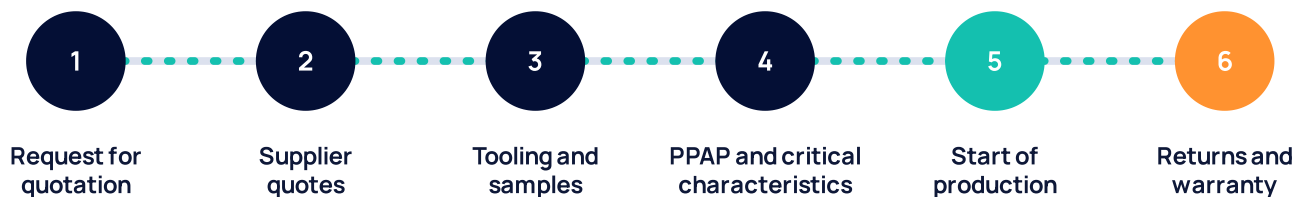
“AI reveals the leakage that you have in that process, and then execution helps recover the value.”

EMEKA NJOKU

SECTION 4

One part, six stages: from RFQ to warranty claim

Ignacio's article follows a single component from the first request for quotation to the last warranty claim. Along the way the part changes hands repeatedly, and each hand-off is an opportunity for cost to enter the process without returning to the sourcing decision.



BEFORE STAGE 1 Engineering design

Most of a part's cost is determined by its design. The RFQ needs the right drawing and cost basis, or every later stage inherits the error.

Ignacio emphasized the work that happens before stage one. Engineering defines the part and its technology long before purchasing issues an RFQ, and a bad design locks in cost that no negotiation can remove. The quote then travels through multiple suppliers, tooling and samples, PPAP approval, and the definition of the critical characteristics the plant will measure in production.

He singled out the start of production as the stage that most often goes wrong: the supplier has to be prepared to bring full volume online, and gaps in that preparation surface later as premium freight, scrap, and returns.

i **Launch cost is set at sourcing, then managed one gate at a time.** Gate-by-gate control is necessary, but Ignacio warned against losing the complete picture of what is happening to every part across the full development process.

SECTION 5

Four controls that bring hidden spend into view

The practical close of Ignacio's article sets out the controls he applies with clients. Each one moves a cost that currently sits outside procurement's line of sight back into the decision.

CONTROL	WHAT IT CHANGES	WHY IT MATTERS
Track total landed cost, not piece price	Evaluates suppliers on the delivered cost of a part rather than its purchase price.	Piece price is popular because finance leaders find it easy to read. Cost is something different.
Align forecasts across customer, production, and suppliers	Closes the gap between short customer forecasts and long supplier lead times.	Misaligned forecasts force buffer stock and make just-in-time operation impossible.
Control every movement of parts	Makes defective stock and unremoved scrap visible rather than scattered across the plant.	Parts sitting in separate buckets are cost that nobody is managing.
Define who owns the cost	Assigns accountability, including to suppliers whose performance creates cost for the buyer.	Most supply bases are not yet held accountable for total cost as they should be.

“When I do consulting, I probably spend sixty percent of my time just trying to align those forecasts, to make sure inventory and purchases are under control.”

IGNACIO GARCIA

The forecast point deserves particular attention from finance. When the customer forecast is short and the supplier forecast is long, the mismatch converts directly into inventory: the organization orders more than it needs to protect production, and the excess becomes the scrap described in Section 3.

The ownership control links back to the poll. If no single owner holds the total cost of a part, a supplier that causes downstream cost faces no consequence, and the buyer absorbs it across several budgets that never get reconciled.

One tendering logic across a diversified industrial group

To ground the discussion, Natalie presented UMGI, a long-standing APSentra client and a major industrial group with businesses spanning manufacturing, construction and engineering, logistics, mining, and machinery. Despite its scale, each unit had developed its own approach to tenders, requests, and supplier communication.

CHALLENGE

Divergent tendering: no unified process or evaluation criteria across units.

Fragmented workflows: separate paths slowed alignment and decisions.

Incomplete visibility: leadership lacked a full view of procurement activity.

RESULTS

Unified function: procurement works as one coordinated function, connected to the existing ERP.

Standardized tendering and transparent supplier selection across the group.

Comprehensive reporting, with 60 key employees working in the system daily.

Natalie put one question to both guests: why do large industrial players, with all their resources, still face these problems?

Emeka, an industrial engineer by training, answered with standardization. Whether a process runs on paper, in spreadsheets, or on a platform, a standard way of working is what makes a broken step identifiable and fixable. Standardization creates visibility, and visibility makes accountability possible. That brought him back to the empty poll answer: accountability means a single owner who sees the total impact of a change.

“Savings are real when they actually hit the bottom line.”

EMEKA NJOKU

Three reasons large enterprises stay fragmented

01 · STRUCTURE

Organizations divide by business unit or geography, and each leader wants to control their own costs.

02 · CENTRALIZATION

Few groups have built a central purchasing organization that buys better and works in one system.

03 · SYSTEMS

Platforms have been costly and slow, with implementations of two to three years that drain daily resources.

Three factors as outlined by Ignacio García. Full case: apsentra.com/case-studies/umgi

CLOSING PERSPECTIVE

What this means for procurement and finance leaders

The episode reached one conclusion from three directions: **hidden spend in automotive procurement is a coordination problem before it is a pricing problem.** Fragmented systems, budgets held in separate cost centers, and piece-price KPIs each break the link between a sourcing decision and its total cost.

Restoring that link requires one process across every entity, total landed cost in supplier evaluation, forecasts and part movements that procurement can see, and a named owner for each cost. The historical barrier, as Ignacio noted, has been systems that took years to implement. The question for 2026 is whether organizations can establish that structure in weeks.



Natalie Eksi

CEO, APSENTRA · HOST, BEHIND PROCUREMENT

APSentra connects requests, tenders, supplier evaluation, and budgets in one procurement workflow across every entity, so the cost of a sourcing decision stays visible long after the purchase order.

[Book a 30-minute call at apsentra.com](https://apsentra.com)

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Full episode recording	youtube.com/@APSentra
Hidden Spend in Automotive Procurement (article)	apsentra.com/automotive-procurement-hidden-costs
UMGI client case	apsentra.com/case-studies/umgi
McKinsey, April 2025	<i>Mitigating procurement value leakage with generative AI</i>