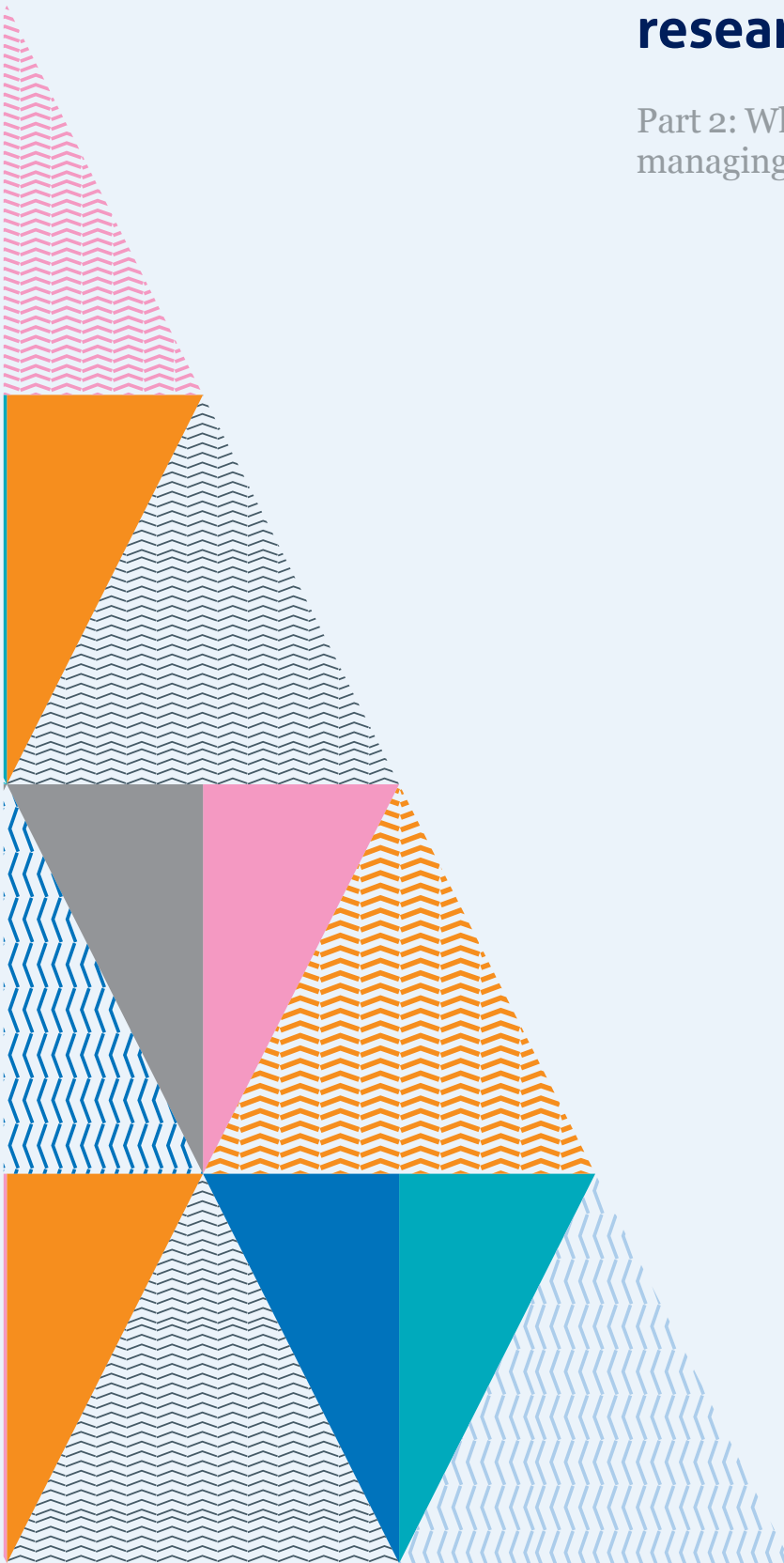


Enhancing and redefining the role of indirect procurement - research findings and results.

Part 2: Why do businesses struggle with effectively managing indirect procurement?



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Overview

The principal goals of the research were to identify:

- Organisations' attitudes, specifically amongst finance and procurement professionals, towards the indirect procurement function
- The current role that indirect procurement plays and the desired future role of the indirect procurement function
- Business perceptions of the value currently being delivered from this aspect of procurement
- The benefits senior stakeholders are seeking from the indirect procurement function
- Insights into the ways in which indirect procurement needs to develop within the organisation
- The current and planned usage of procurement outsourcing

The research was conducted through interviews with 120 Senior Executives in Continental Europe, UK and the US, with half coming from Procurement and the other half from Finance. The sectors in which these executives came from:

- Financial Services
- Retail
- Consumer Products
- Manufacturing

Register for the full 40 minute research findings and presentation webinar, complete with:

- Insights and data from the study
- Key conclusions and take-aways
- Answers from the presenters... plus much more

<http://www.proximagroup.com/Enhancing-indirect-procurement/>

Summary



Guy Strafford
Chief Client Officer – Proxima

Since the economic downturn, procurement's profile has been raised within many global businesses.

Stronger executive support for major initiatives has increased mandates for tackling non-compliance and we are now witnessing business units, such as Marketing which, in some instances, have never let Procurement cross their door before, proactively seeking procurement support.

However, through a series of interactions with senior executives over the last few years, a consistent message has arisen – one of frustration that procurement, and indirect procurement in particular, is underappreciated by the wider organisation. Furthermore, a vast majority of the members of the C-Suite feel that indirect procurement is under-invested across UK, Europe, US and further afield.

Proxima, in conjunction with NelsonHall, therefore ran a research study to investigate the perceptions, attitudes and desired outcomes of indirect procurement to catalyse this common sense that procurement could and should play a greater role in most businesses.

Some of the responses in our study do indicate that indirect procurement in some organisations is perceived to have a role that is somewhat tactical and administrative. Some respondents advised that it can create process blocks and can, on occasion, even be antagonistic to specialist suppliers of the business, particularly specialist service providers.

Our first whitepaper, in this series of three, closely examined the quantitative research data surrounding the current perceptions of the indirect procurement function. This whitepaper examines the qualitative data gathered throughout the research and explores what procurement can do to redefine how it's perceived by the organisation.

I hope you find this whitepaper series as informative and insightful as we have.

Findings

Key challenges for the indirect procurement function

The research found that there are **five overarching, common challenges facing CPOs** and their ability to manage indirect expenditure effectively for their organisation, which are:

With 57% of CFOs expressing low levels of satisfaction with the cost effectiveness of the indirect procurement function, it is evident that the indirect procurement function is not fulfilling its true potential.

1

Lack of capacity

The indirect procurement team has to focus on sourcing commonly purchased and high volume goods and services in addition to transaction processing. Often, procurement does not have the wherewithal to be able to support non-routine and specialist goods and services nor does it have, in most cases, the capacity to cover all categories across the business.

2

Lack of political clout

CPOs involved in the research study tended to be quite self-critical in areas such as their ability to introduce process improvements and increasing the level of spend under contract. The common perception from CPOs is that the procurement function fails to be seen as a value-adding function by senior executives, as it lacks political clout within the organisation. In 46% of the organisations we spoke to, procurement reports to the COO and another 52% either directly to the CFO or actually a level below. Just 3% have a direct report to the CEO. In the majority of cases, indirect and direct procurement are bundled together in management reports. Yet the two are very different and need different agendas. The bundling effect means there is little room for discussion on each and results in direct procurement continuing to overshadow indirect procurement given its significance in driving top line growth.

Procurement needs to challenge the business and act as an agent of change in relation to management capabilities as well as process and technology capabilities, like human capital management.

3

Lack of mandate

The primary responsibility for most indirect procurement categories often lies with the business units and for some categories such as travel, in some firms, it may not even be clear as to who actually owns the policy. Indirect procurement has no mandate over the spend, instead it must act as an influencer – an internal consultancy. This lack of mandate has a direct impact on the level of financial control within the business. This is evident in the research, with CFOs expressing relatively low levels of satisfaction with the level of control of indirect spend. Just 42% of CFOs express high satisfaction with the proportion of indirect spend under management within their organization, compared with 83% of CPOs. Clearly, CFOs' desire to increase the level of spend under management is part of a wider corporate drive to contain costs – yet put simply, it is not happening.

4

Lack of awareness and low visibility of indirect procurement

Indirect procurement is often seen as less important than direct procurement in the eyes of senior executives. It is even less important at the business unit level, with many stakeholders viewing an indirect procurement professional's role as the 'rubber stamper' at the end of the process – to ensure contract compliance and potentially negotiate an extra percentage point off the somewhat complete purchase.

5

Organisations lack the skills required for effective stakeholder management

A common perception held by CPOs and CFOs is that the indirect procurement function has to find ways of working more effectively alongside the various business units and stakeholders within each business unit. However, the study found that there were six challenges which were common across all sectors. The number one challenge being the ability to work alongside the various business units as a strategic partner and not a tactical function.

Equally, the second challenge noted in Fig 1. is maintaining a realistic view of category coverage and expertise across all areas of indirects. There are hundreds of categories, each requiring up-to-date and deep expertise to manage effectively.

These two challenges are intrinsically linked in that extending procurement's coverage of indirects requires two very broad sets of skills. The first set of skills being those related to engaging with the various stakeholders across the business – such as influencing, leading, managing change and communicating so that one can build trust. The second set of skills are the more traditional category expertise and market knowledge skills and the hard-nosed negotiation and buying skills the business has come to know procurement best for.

Fig 1: Challenges across all sectors

Challenge	Financial Services	High Tech	Manufacturing	CPG	Retail
Ability to work with Business Units	•	•	•	•	•
Category management across all areas of indirect spend	•	•	•	•	•
Supplier compliance	•	•	•	•	
P2P process efficiency and cost effectiveness	•	•	•		•
P2P process standardisation		•	•		•
Lack of management information	•		•	•	

Managing indirect costs is different to managing direct costs

Successfully managing indirect spend requires an understanding that the nature of indirect procurement is very different to direct procurement. As such, indirect procurement demands a dramatically different response. Fig 2. demonstrates the point in more detail:

The key in understanding why indirect procurement requires a different response to direct procurement lies in two fundamental points:

1

Indirect procurement is made up of hundreds of areas of spend, each requiring deep expertise to effectively manage the costs. Yet to have this expertise and skill sets in-house would be prohibitively expensive for all but the very largest of businesses. Skill sets such as:

- A very broad range of deep category expertise – which needs to be constantly up to date. This is a real challenge due to the constantly changing nature of best practice in each of the hundreds of categories, the volatile commodities markets, evolving technologies, etc.
- Instinctive commerciality
- An understanding of all areas of the business and the ability to have a business conversation – not just a procurement conversation
- Excellent change management and facilitation capabilities
- Influencing and leadership skills
- Rapport building – and the ability to interact and engage with people across the business at all levels – including members of the C-suite
- Negotiation and supplier management
- Data analysis (turning raw data into business insights and intelligence)
- Technological know-how

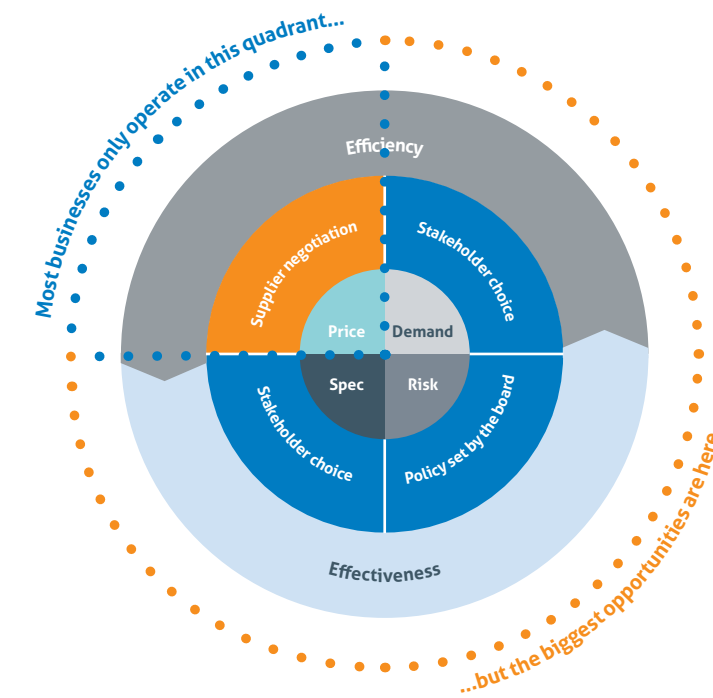
2

A highly effective and successful indirect procurement function not only focuses on achieving a great deal with the supplier base, but also focuses inwardly onto the organisation itself; onto the behaviours of the people within the business; onto the business rules that underpin the activity; onto what is fuelling the demand; onto policies and procedures; and onto the approach to risk. Yet most businesses fail to understand this and take a short term view, targeting the procurement function in the wrong way – focusing them mostly on like-for-like in-year savings.

Taking all of this into account, it becomes apparent that businesses face a seemingly insurmountable challenge with regards to their ability to manage indirect procurement effectively in-house. It explains why many businesses have failed to drive the greatest benefit and ROI from their indirect expenditure to date. As such, over the past decade indirect procurement has failed to rise up the list of business leaders' priorities – and herein lies the opportunity.

Fig 2: The difference between direct and Indirect procurement

	Factor	Goods Not for Resale (GNFR) or Indirects	Goods for Resale (GFR) or Directs
Supply market	# of suppliers used	High	Medium
	# of potential suppliers in the market	High	Low
	# of categories of spend	High	Medium
	# of supply chain integration issues	Low	High
Process	Average transaction £	Low	High
	# of transactions	High	Low
Influences	# of decision makers	High	Low
	Procurement is the decision maker	No	Yes
	# of requisitioners	High	Low
	# of suppliers per Procurement Manager	High	Low
	Maverick spend issues	Yes	No
Business	Business driver	Enabling the business to run	Gross margin
	Procurement's main focus	Internal & supply market	Supply market & consumer
	Source of most value	Changing internal behaviours	Supply market
	Ability to see savings hit the bottom line	Difficult	Easy



More often than not traditional skillsets are driving the direction of many procurement functions, with a key focus on year-on-year savings. Too little focus is on influencing behaviours and achieving alignment between procurement and the business units.

Recommendations **Overcoming mandates and political barriers - becoming a trusted advisor**

Indirect procurement at a strategic level is political not tactical.

The ultimate decision maker for indirect procurement is typically the business unit manager, with procurement acting as a strategic advisor and trusted partner. Procurement has no mandate – and that isn't going to change.

The key for procurement teams in overcoming issues surrounding mandates, and political clout, is to show an intrinsic understanding of the environment in which their business operates plus the challenges the business and its various stakeholders face.

The measures and critical success factors communicated back to the business need to be adapted and tailored for each stakeholder community.

Fig 3 shows the interconnectedness of procurement within an organisation, highlighting internal and external stakeholders. Each of these stakeholders have different definitions of success (which are reported through a variety of benchmarks and dashboards), a different set of operating characteristics (e.g. dynamic and flexible vs process driven) and most importantly different people with different levels of experience, expertise and expectations.

Forging close ties with any department requires procurement to understand these various facets of their internal customers and rather than dictate terms or processes, procurement should instead take on an advisory role within the organisation – sharing knowledge, insight and expertise with the rest of the business to improve performance, processes, operations and therefore how to procure, not just better but smarter.

The first step towards becoming a trusted advisor is speaking the stakeholder's language. This does not imply learning a foreign language in the traditional sense, but rather adapting the words, phrases and terms usually used in the procurement world to those commonly used in your stakeholders world, for example:

- **Chief Financial Officers:** profit and loss, cash flow, control, visibility, business performance, risk
- **Chief Operating Officers:** efficiency, processes, resource allocation, planning
- **Departmental Heads:** specification match, value for money, delivery, effectiveness
- **Front of House / Shop Floor:** delivery times, stock levels, returns, faults
- **Suppliers:** forecasts, new specifications, new projects, innovation

However, maintaining such a high level of internal management can often distract good procurement people away from their time in the supply market.

The second step is to get buy-in from the departmental heads and to turn any sceptics into advocates.

Getting buy-in requires the procurement team to operate alongside a stakeholder and develop processes and tools which enable them to operate to the same (or better) standards, not become a burden:

- **Listen** – it is important to understand, from their perspective, the business challenges they face
- **Develop guidelines** which are easily understood and easily integrated with the stakeholders operations
- **Develop consistent feedback loops** with stakeholders and ensure the procurement operation is being seen as actively working on the relationship. Regular meetings and face-to-face time should all be done with consistency and regularity (ensuring there are no surprises with the messages being presented)
- **Ensure there is visibility** across any activities that may impact a stakeholder
- **Be proactive** and take solutions/ideas to the stakeholder. Aim to foresee issues and develop solutions before they become a problem.

As trust builds, challenge policies and procedures that seem redundant or could be resolved through a more aligned procurement process – this challenge needs to be objective and have the stakeholder's goals at the core.

Finally ensure senior managers understand the value that procurement can bring. This is done by having business conversations and moving away from the tactical (savings) led procurement conversations they have come to expect. Competitive advantage, control, better performance, strategic positioning, ROI is what senior executives are interested in – not procurement terminology.

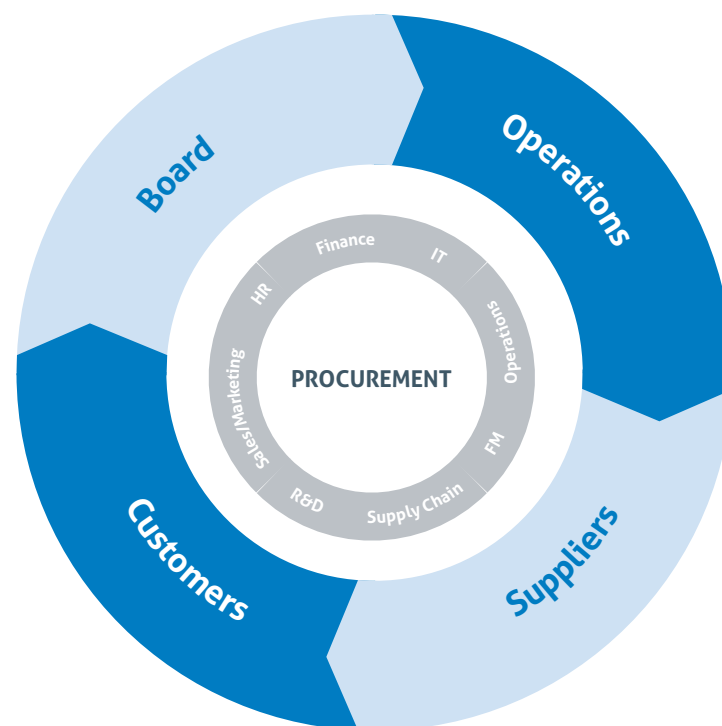
From the CPO's perspective, their team has negotiated deals; it's up to the business to use them. However, there's a changing acceptance that this won't suffice and strategically minded CPOs realise that they need to take responsibility alongside finance and alongside business stakeholders to make sure that the organisation captures the savings and then consciously decides how to deploy them.

Ultimately overcoming this tug-of-war between senior executives and procurement (and the wider business) comes down to processes and systems to ensure responsibility, accountability and that the right people are being made aware of the successes and problems associated with this element of business expenditure. It's about communication.

POOR PRACTICE

Something that came out from the research was, in the hunt to reduce costs, Procurement identifies savings opportunities and then the CFO adjusts departmental budgets accordingly. It's simple, it's straightforward, it's effective. The CFO is happy. But, if those contracts aren't being used, then there's no reduction in the prices of goods and services purchased. It doesn't position the business well for recovery if the business is forced to cut in other areas because those savings never materialise. It's also potentially very damaging and it can actually jeopardise a relationship between finance, procurement and business stakeholders, particularly those business stakeholders who haven't worked with procurement much before. This somewhat draconian form of spend management impedes any future initiatives aiming to optimise effectiveness of the indirect procurement function in the future.

Fig 3: Procurement as a communications hub



The research study found that senior executives want to increase control over non-core expenditure and are looking to procurement to deliver real cost savings. The CPO feels they are making these savings but somehow they are not being recognised. The CPO is often unclear what they've done and what impact has been made.

Being involved can be as much as providing professional advise on how to approach the market or some tips on where to start supplier research.

Improving coverage, control and communication

Many procurement professionals take the view that procurement are the only ones who can deal with suppliers professionally and effectively, returning the best results back to the stakeholder. This is not true. In many cases, a CMO who has worked in the industry for 15 years has just as much or maybe more experience buying Marketing services than any Marketing category manager and most likely has built up a substantial network of contacts and relationships along the way.

Ultimately it comes down to relativity - will procurement add more value to being involved or slow the process down - should procurement instead focus its time elsewhere to drive relatively more value?

Whilst procurement should be involved in the procurement process from the beginning, it is not necessary for procurement to always own the entire process.

Procurement needs to support the business and the various stakeholders. Control and coverage go hand-in-hand with trust and reputation – each feed of the other. Increasingly however, communication is a major determinant of procurement expanding its scope within the business.

The research shows that the ability to communicate with the business about successes, ideas, opportunities and generally converse on a business level rather than a procurement level, more often than not is a vital skill missing from many procurement operations globally. The development of a basic communication plan can help with this, involving the following:

- Understand your key stakeholders needs and drivers
- Understand perceptions of the procurement function
- Align procurement's goals with stakeholders' objectives
- Use terminology that your stakeholders use – rather than procurement terminology
- Tailor metrics and measurements to each stakeholder

Looking externally for support

Despite misunderstandings and negative perceptions, the plain truth is that companies of all sizes can benefit from outsourcing, from one-man bands to major multinationals. Decades of experience across industries, sectors and geographic boundaries have generated a wealth of specialist expertise and made a wide range of services available to those seeking support.

Value can be added to a service by leveraging the expertise and resources of specialist external suppliers.

As with in-house solutions, when weighing up the pros and cons of outsourcing as a business process one must consider how it is approached and managed. This will help determine whether it is a success or failure. When contracting a new supplier, it is almost inevitable that companies will experience teething difficulties, a factor which can be off-putting. However, using specialists that are able to spread costs across a number of clients can open opportunities and deliver benefits to your business that go beyond pure financial gain.

The needs of a business are constantly evolving. To allow for this, outsourcing partnerships must be flexible. Companies that prioritise cost above effectiveness do so at their peril.

Today, firmly entrenched misconceptions that surround this fundamentally important tool are holding many companies back from maximising the potential benefits of outsourcing. To outsource effectively, companies must fully understand the real needs of their business and develop a thorough specification to help them source suppliers that will support their overarching objectives.

About Proxima

Proxima is a dynamic international business, specialising in procurement outsourcing.

At Proxima we approach things differently. Working closely with you, we improve business performance by making procurement deliver more. Our approach goes beyond driving efficiency. It's about enabling change, enhancing management control and delivering results that exceed your expectations.

We see procurement as an under-valued and under-developed business resource. Our aim is to change that. This doesn't mean just making what our clients do now more efficient. It means providing them with a complete end-to-end procurement solution that enables them to change the way they think and operate. It's this change that ultimately delivers long-term business success.

We accomplish this by:

- Offering business solutions for procurement challenges
- Providing market expertise – up-to-date and on-demand
- Winning hearts. Changing behaviour
- Delivering more than you thought possible
- Never being satisfied with the status-quo

Benefits of our model

In addition to significant savings, our approach enables diverse and capable global businesses to realize additional benefits including:

- A tailored solution – built specifically to meet your businesses demands
- Improved business performance – through our unique, and fundamentally different, approach to managing non-core spend
- Improved spend visibility and control – reducing contractual and operational risk
- Increased compliance over third party expenditure
- Best use of technology – from invoice processing automation and Purchase to Pay (P2P) platforms to complete sourcing systems
- Improved capital management – focusing on optimising your working capital, looking at payment terms and processing options
- Mobilised suppliers bringing more innovation
- Access to a pool of flexible, deep and broad category expertise – pulsing up and down with your business demand
- Refined, best-in-class processes and procedures – from across industries

In this challenging economic environment, it's time to cast aside the tired old clichés about outsourcing and seize the real benefits of an increasingly valuable business process.

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