Direct Vs Indirect Sourcing



Businesses use both direct and indirect procurement to run smoothly. Direct procurement ensures organizations get the raw materials they need and build strong supplier relationships. Indirect procurement, on the other hand, addresses things like travel, rent, utilities, and office supplies. Both are an important part of the procurement strategy.

When it comes to meeting business needs, in most cases, there are plenty of options to choose from.

Using a third-party to help you narrow down the pool or make the choice for you, known as indirect sourcing, has long been the primary way of recruiting talent and hiring employees.

Direct sourcing is exactly what it sounds like – going directly to the source to purchase goods or services needed for the course of business.

Instead of using a third-party platform to connect you with freelancers to handle your web development and digital marketing needs, you can use LinkedIn to find the independent contractors or agencies you think could work well in the position.

Invite them to apply, conduct interviews, and hire them directly. Or instead of

going to a wholesaler, find a source of direct materials so you have more control over your supply chain and supplier management.

The way a business sources the goods, services, and talent they need to operate can have a significant impact on revenue, cost, production, employee turnover, and more.

Though on the surface the act of sourcing and buying goods, materials, and services seems fairly simple, without it, a business isn't a business.

What Direct Sourcing Looks Like

Many companies are turning to direct sourcing to better their compliance with independent talent acquisition, management, and engagement.

Finding potential candidates on their own rather than relying on another party to do it for them comes with a number of benefits.

When it comes to direct sourcing solutions, what works for one company may not work for another.

Variables such as talent needs, company size, and available budget influence the approach an organization uses. Direct sourcing may look like:

- A program for the entire company to use that's been created by procurement or human resources (HR)
- HR and managers relying on their own networks to identify talent.
- Working with business partners to find existing vendors for a specific service.
- Using internal recruitment resources to find talent.

What Indirect Sourcing Looks Like

Indirect sourcing talent involves working with recruitment agencies.

This means hiring someone to look for the ideal candidate for you, and then paying them a fee when you hire the right candidate. Sometimes, the hires aren't employees of your company, but instead the recruiting agency.

While this may help in terms of keeping your payroll small, it ultimately costs time and money that'd you'd spend even if you were handling hiring directly.

> *Both direct and indirect sourcing is part of business functionality, but direct sourcing is thought to provide a competitive advantage and improving profit margins.*

Why Your Company Should Use Direct Sourcing

Directly sourcing your talent, whether you hire them as employees or work with them as independent contractors, provides your organization with numerous benefits.

Cost Savings

If you're in an industry where your employment needs vary with the seasons, you may need to increase your staff around the holidays, or during the summer.

Working with temporary employment agencies and other recruiters costs money because you must pay the agency for their service, so they can pay their workers.

Finding the potential hires yourself is now easier than ever before courtesy of the variety of websites where employers can list job opportunities and job seekers can find them.

When you consider this along with social media platforms making it easier for job seekers to connect with the companies they are most interested in, it's often possible to find the right candidates without hiring a head hunter to find them for you.

Even if you're hiring freelancers or other independent contractors, platforms are available to help you connect with them, without requiring a middleman.

There are also savings opportunities associated with external employees because hiring managers often hire their friends or other qualified people they know, regardless of what their rate is.

When a company lacks established processes, procurement makes a significant investment in hires but doesn't have control of or visibility into how the money is spent.

Using a centralized direct sourcing policy allows management to stop rouge spending and improve candidate quality consistency.

Faster Hiring Cycles

Working with independent contractors allows you to build a talent pool of pre-vetted people to work with when you need them.

By getting these people interested in working with you, you can make the hiring process go faster, and give yourself a competitive advantage.

If you're fighting to hire the same people, filling positions faster is crucial to ensuring you've got the top talent available on the market.

Direct sourcing eliminates the recruiter step, saving time and ultimately, shortening the hiring cycle.

The faster hiring cycle also means mangers don't spend as much time reviewing candidates, empowering them to take care of other crucial tasks such as spend analysis.

Improved Efficiency

Hiring and engaging with talent as needed allows companies to increase their output.

Because the staff doesn't have to work as hard to reach that increased output as they would without the talent boost, they are ultimately more productive and satisfied with their work.

Higher Re-Engagement

Talent you've worked with before can be quickly and easily engaged again whenever you need them.

When it comes to attracting and retaining permanent employees, many large

companies get the job done but struggle with independent talent.

Direct sourcing allows you to eliminate many uncertainties associated with re-engaging top talent. If you source them through an agency, you legally may not be able to reach out to them without once again contacting the agency.

It may seem like using indirect procurement or sourcing isn't a good idea, since it doesn't have an immediate on profit and revenue.

The reality is that indirect sourcing is responsible for the day-to-day function of a company, despite the fact that there is no connection between it and consumer-driven profit.

Because of this, successful organizations seek not to use one or the other, but to create a balance between how they use them. The difference between direct and indirect spend doesn't matter as much as how a company is spending money to make money.

Procurement professionals and procurement teams that have solid business processes in place, including the use of e-procurement, can spend more time crafting deals with vendors that will improve supplier relationship management.

Staff can spend less time dealing with purchase orders, invoice matching, and time-consuming tasks, to free up time for value-added procurement activities to keep internal stakeholders happy.

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