Indirect Procurement Management Tips



As it plays a crucial role in production and the ongoing growth of your company, direct spend on items such as raw materials usually receives most of the attention and optimization in the procurement function. But indirect expenditures—office supplies, janitorial, IT, and professional services, food and uniform supplies, etc.—provides the support structure for "the business of doing business," and as such needs equal attention.

Achieving visibility and control over your indirect spend is critical to effectively creating value and cost savings for your company. Indirect procurement management doesn't have to be difficult or onerous, however—combining the right software with internal controls can help your procurement team gain control of your indirect spend for maximum value and a stronger bottom line.

Why Indirect Procurement Management Matters

Accurate and complete data is the foundation of productive and strategic spend analysis and financial planning. You can't manage what you can't see, and what you can't see will likely cost you if you fail to factor it into your calculations. It can

also leave you in a bind with regard to cash flow, since invisible spend can make it seem like you have more working capital than you actually do until it's too late.

A company's indirect spend can account for 25-40% (or more!) of its entire procurement. It's critically important for procurement professionals to find ways to account for every dollar while minimizing risk and lost value due to fraud, human error, maverick spend, and inefficient supply chain management.

Value is maximized from direct spend through maximizing the quality and strategic sourcing of direct materials. In contrast, traditional models of indirect spend management have focused largely on cost reductions through obtaining the lowest possible price, rather than leveraging data analysis, supplier relationship management, and supply chain optimization to identify, and pursue, value-focused opportunities.

In today's extremely competitive marketplace, however, adjusting your indirect procurement strategy to include strategic sourcing and continuous improvement can provide a stronger bottom line and improved competitive advantage via both cost savings *and* added value through lower total cost of ownership (TCO) and improved flexibility in managing cash flow.

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Best Practices for Indirect Procurement Management

Depending on a company's embrace of technology and toolsets, pulling indirect procurement out of the shadows and into the light for analysis and improvement may be more difficult for some than others. But regardless of industry, you can achieve stronger indirect spend management by incorporating a few strategic changes to your procurement process.

1. Educate and Engage with Change Management

The first step in taming the tiger of indirect procurement lies in gaining the informed assistance of your entire organization. Informational seminars and

refreshers on internal procurement controls, best practices, and the nature of indirect spend itself can help bring everyone onto the same page. In addition, you can use key performance indicators (KPIs) like contract compliance, budget variances, and MRO-related metrics like downtime to provide useful yardsticks for identifying areas where indirect procurement might need some refinement.

Measuring performance goes hand-in-glove with continuous improvement. Incentivizing staff and management to be aware of, and actively pursue, continuous improvement within processes can help cement the need for vigilance against waste and promote innovation as well as savings. In addition, collaboration with internal stakeholders can provide procurement teams with fresh perspectives that can improve compliance, increase efficiency, and expand visibility into areas that may not have been on procurement's radar.

Finally, if you plan to make a change to a modern digital procurement solution, be sure to invest in education and training for at least six months prior to the upgrade in order to allow for cultural adjustments and provide adequate time for everyone to familiarize themselves with new procurement processes and their roles within them. Continue to provide support and training once the system goes live, too. This will ensure everyone can make the change in comfort instead of searching for ways to circumvent it due to frustration.

2. Collaborate with Suppliers

Vendors can be a resource for process improvement as well as goods and services. Effective supplier relationship management, leveraging constant communication and a collaborative approach, creates a perfect opportunity to partner with your best suppliers in search of cost reductions and mutually beneficial initiatives. These partnerships can ensure your requirements for compliance, efficiency, and spend management are met on both ends of every transaction. They can also make it easier to achieve effective category management (simplifying your supply chain while still allowing for strategic flexibility) and contract management (by improving discounts, terms, etc.).

3. Make the Digital Leap

For companies still relying on manual procurement or outdated software solutions to manage their procurement function, it can be difficult if not impossible to gain

true visibility and control over indirect spend. Without centralized data management and spend analysis and real-time monitoring of workflows, it's all too easy for fraud, maverick spend, and human errors to create waste and lost value in the course of day-to-day business.

Choosing and implementing a comprehensive procurement solution greatly improves the efficacy and efficiency of procurement activities—and all of the business units they support.

With digital procurement, your procurement team can:

- **Streamline workflows.** Automation and artificial intelligence (AI) make it easy to create hands-free workflows of greater speed and simplicity. These workflows can be monitored and further improved through iterative machine learning, adding even more value as more data is collected and continuous improvements are implemented. Mobile access, process contingencies, and automated reminders ensure approval workflows are free from bottlenecks, saving time and money.
- **Improve category management.** Connecting suppliers with internal stakeholders is more effective and strategic when spend categories are managed in concert with supplier relationship management. Examples include:
    - Locking down preferred vendors for each category and item, reducing supply chain bloat while preserving flexibility
    - Automatically creating and implementing contingency-based workflows for each category and item
    - Limiting users to custom catalogs to ensure every transaction is recorded by the system and rogue spending is eliminated
- **Gain organization-wide, real-time visibility on all procurement activities.** Using cloud computing, modern procurement solutions can record, analyze, and store all the information related to both transactions and your supply chain as a whole. Managing maintenance, repairs, and operations (MRO) expenses improves with visibility, generating a cascading wave of cost reductions as waste is trimmed and downtime is minimized. Connecting procurement software with enterprise resource planning (ERP), accounting, and other departments improves collaboration and simplifies data analysis. Complete and accurate spend data provides peace of mind for precise forecasting, financial reporting,

and auditing. Spend shifts from reactive and reduction-focused to proactive and opportunity-driven.

4. Train and Deploy a Team of Experts

Unlike direct procurement, an unoptimized supply chain for indirect procurement can have hundreds or even thousands of different suppliers, each with relatively high turnover and varying degrees of compliance and cost savings. Consider expanding the skill sets of your procurement teams and investing in subject matter experts for indirect goods and services. Partnering with content-specific experts for training and collaboration can help you identify hitherto-unknown opportunities to reduce waste, improve process efficiency, and extract greater value from everything from office supplies to industrial machinery.

Say Goodbye to Inaccurate Spend and Lost Value

Managing indirect procurement can be a complex and challenging endeavor. But the rewards it offers—including cost savings, process improvements, and the truly empowering shift away from reactive spending to proactive innovation—can transform your procurement department into a source of real value. Don't settle for incomplete information, needless waste, and unacceptable risk. Take control of your indirect procurement, and improve your company's productivity, processes, and profitability.

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