

5 Steps To Improve Indirect Spend Management



Procurement teams of all sizes know that managing both direct and indirect spend are important parts of keeping costs low, generating value, and supporting the profitability and competitive strength of their organizations. In generations past, spend management has focused largely on optimizing direct spend management, as it is tied directly to raw materials, components, finished goods, and services necessary for production. Yet managing indirect spend—tied to the costs of “the business of doing business”—presents rich opportunities of its own, provided your procurement organization has the tools, talent, and techniques required.

Modern procurement processes harness the power of digital technologies to overcome the hurdles traditionally associated with indirect spend management, including lack of transparency, inconsistent compliance with internal controls,

and poor data management. By familiarizing yourself with these technologies and developing a formal strategy for indirect procurement and spend management, you'll be able to take advantage of new opportunities for greater profits, performance, and savings—not just in procurement, but across business units and your organization as a whole.

Common Challenges in Indirect Spend Management

While it's easy enough to draw a connecting line between a company's spend on direct materials and its overall productivity and profitability, indirect procurement requires a more nuanced and strategic approach to be properly appreciated (and managed!). Indirect spend includes everything that supports everyday business operations outside of production of the goods your company offers its customers, and may account for between 25% and 40% of your company's total spend.

Depending on the nature and size of your business, indirect expenditures can include:

- Office Supplies
- Facilities
- Utilities and Related Expenses (including maintenance)
- Technological Infrastructure (software and computer hardware, telephony, etc.)
- Marketing
- Human Resources
- Travel, Conference, and Remote Team Member Expenses
- Outsourced Services (security, Information Technology (IT) services, external accounting firms, etc.)

The average company often finds itself with a convoluted set of indirect spend categories, a needlessly complex supply chain, and a lack of full transparency into their indirect spend. Given the rather sizable dollar value attached to indirect spend, this can have far-reaching consequences throughout the procurement function and the parent organization.

Often, procurement teams operate at substandard efficiency, and struggle to realize both value and savings opportunities due to:

- Lack of spend visibility.
- Lack of employee education about why indirect spend must be managed.
- Lack of buy-in to, and compliance with, internal controls and metrics for tracking and optimizing indirect spend.
- Rogue spend (also called *maverick spend* or *tail spend*) taking place through unauthorized or suboptimal vendors, increasing the risk of invoice fraud and reducing the accuracy of planning and reporting data, as well as the company's ability to manage cash flow effectively.
- Insufficient or unorganized category management, making it harder for internal stakeholders to connect with key suppliers and develop the strong and collaborative relationships required to secure the best possible terms and pricing, take advantage of opportunities for innovation, etc.

"Off-the-shelf may be fine for jeans or frozen pizza. But when it comes to procurement, a system built from the ground up to meet your company's current and future needs for spend management and strategic sourcing is essential to managing indirect spend in the age of digital transformation."

Greater Success Through Indirect Spend

Management: Three Examples

By developing clear and consistent indirect spend management processes and leveraging both technology and data analysis, procurement professionals at many large global corporations have found ways to tame the indirect spend tiger.

Let's take a closer look at three of the most successful:

1. Amazon Business

It would be difficult, if not impossible, to discuss the optimization of indirect spending without mentioning Jeff Bezos' multi-trillion-dollar eCommerce and cloud computing behemoth. Spanning the globe with millions of products, and a supply chain to match, Amazon Business manages indirect spend through bleeding-edge process optimization and automation that reduces both maverick spend and invoice fraud.

One of the most effective tools Amazon uses is the direct integration of its software and systems with those of its vendors and resellers. The company's business-to-consumer (B2C) platform serves as a direct conduit between suppliers, resellers, and end users; as a result, Amazon can set and enforce rules that provide maximum transparency, savings, and value through optimal terms, strict supplier performance and compliance metrics (i.e., key performance indicators (KPIs)).

In addition, Amazon also uses strategic, resilient, and flexible supply chain management supported by data analysis, automation, and collaborative, contextual supplier relationship management.

This model has provided tactical and strategic procurement insights the company uses for more strategic sourcing and decision making. Using supplier and customer data, it can identify products and services it can produce itself more

cheaply and profitably than those offered by third parties, and shift their offerings accordingly.

From mega retailers like FitBit and Roku to logistics and cloud computing services, Amazon has made itself indispensable to the success of others, and in doing so has gained extensive control over the most common indirect spend management issues.

2. Starbucks

Along with billions of cups of hot coffee sold to the public each year, cafe giant Starbucks produces savings and value for its investors through innovative and proactive indirect spend management. Since 2008, the company has pursued more effective spend management by streamlining workflows through process optimization and automation and bringing its globe-spanning and diverse supply chain under a single logistics system for supplier management.

It's also developed, refined, and tracked myriad KPIs for suppliers, service, safety, and savings to ensure it's getting the biggest bang for its buck in value, cost reductions, and profits. The result? More than half a billion dollars in savings thanks to a unified, resilient, and agile supply chain prioritizing effective indirect spend management.

3. Hewlett-Packard

When it comes to securing maximum value with minimal hassle from indirect procurement, you might say Hewlett Packard wrote the book—or at least, a set of standardized rules designed to help companies gain insight into and control over their indirect procurement.

Drawing on the expertise earned through managing its own diverse and complex global supply chain and serving both corporate and consumer markets, the

company created the COPC standard in partnership with Stryker, Magna, Cisco, ADP, and Harley Davidson, as well as Western Michigan University.

Hewlett-Packard invests heavily in procurement optimization in general and in indirect spend management in particular, using advanced data management and analysis tools to pursue innovative savings and value opportunities such as its Buy/Sell program and an advanced bill of materials analysis program that lets the company take advantage of savings opportunities in real time.

Better Indirect Spend Management in Five Simple Steps

You can emulate the indirect spend management success of global corporations by following a few basic best practices and implementing the right technological solution.

1. **Perform a detailed spend analysis.** Knowing what you're spending and with whom is the first step to identifying key suppliers, targeting savings opportunities, and reducing risk and expense that come with non-compliant or underperforming vendors.
2. **Streamline indirect spend categories.** A tidy supply chain isn't just easier to manage; consolidating indirect spend categories helps you secure cost savings and strengthen supplier relationships. Leveraging economies of scale, securing better contract terms and pricing, and developing mutually beneficial partnerships is much simpler when your team is focusing their efforts on managing a streamlined set of categories.
3. **Invest in education and training.** It can be tough to overcome traditional attitudes toward indirect spend—and even tougher to secure

total buy-in for internal controls like guided buying, absolute contract compliance, and the need to actively combat maverick spend and invoice fraud. Investing in dedicated training for your team (from the C-Suite down), will help ensure everyone's on the same page and supports your procurement team's efforts to achieve savings and value through improved spend management.

4. **Develop and implement a spend management plan supported by key performance indicators.** In addition to education, make sure your team creates formal standards and processes for controlling and optimizing direct *and* indirect spend, along with the KPIs necessary to evaluate their effectiveness. Continuous improvement can only happen when you have a clear idea of how your practices and policies are affecting costs, profits, and risk management over time.
5. **Invest in a purpose-built eProcurement solution.** Off-the-shelf may be fine for jeans or frozen pizza. But when it comes to procurement, a system built from the ground up to meet your company's current and future needs for spend management and strategic sourcing is essential to managing indirect spend in the age of digital transformation.

Working with an eProcurement provider like Planergy, you can build a software solution that provides immediate cost savings and demonstrable value through process automation. You can kickstart your entire digital transformation strategy, or take a modular approach. You might, for example, tackle indirect spend challenges with procure-to-pay (P2P) automation and optimization tools, including:

- Cloud-based and comprehensive data collection, management, and analysis—including full visibility into all spend data.
- Guided buying environments.
- Optimized spend categories.

- Collaborative and communicative supplier relationship management.
- Supply chain optimization tools (including advanced contract management).
- KPIs for monitoring and improving both internal controls and practices as well as vendor contract compliance and overall performance.
- Real-time, role-appropriate access to all spend data for internal stakeholders.
- Improved collaboration and communication between team members, management, and your vendors, minimizing risk of damaged relationships and lost savings.

Choosing a purpose-built solution will also give you the opportunity to collaborate with your provider to educate and train your staff to embrace your new workflows and procurement processes, and encourage the necessary corporate culture shift to secure compliance from the top down.

Manage Indirect Spend for a Direct Impact on Your Company's Health

Indirect spend has moved from the shadows of procurement and into the limelight of value creation. By investing in the right eProcurement software solution and making essential best practices for managing indirect spend part of your overall procurement strategy, you can eliminate the waste and inefficiencies that have plagued indirect spend for too long, and make your procurement function a source of larger cost savings, greater competitive strength, and a healthier bottom line.

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