

# What Is Indirect Procurement?



Historically, procurement teams working in the industrial economy have directed the bulk of their time, talent, and energy toward optimizing direct procurement.

In the past, this made good business sense, as direct materials had the largest impact on key business processes (in particular, supply chain management) and the bottom line.

Today, however, a large number of procurement professionals are re-evaluating their procurement strategies to better mesh with the modern economy.

In a world transformed by digital disruption and an ever-expanding variety of products delivered not as goods but services, the procurement function has an opportunity to devise new, more profitable and productive answers to the question, “What is indirect procurement?”

## A New Way to View Indirect Procurement

Also called *indirect spend*, indirect procurement covers the goods and services that provide a supporting role in how a company does business.

Optimizing indirect procurement processes has grown more important as costs traditionally considered to be “indirect costs” have begun to occupy more and

more of the total budget for companies offering virtual goods or professional services instead of manufactured goods.

Indirect goods and services typically include:

- Maintenance, Repair and Operations (MRO)
- Utilities and related expenses
- Facilities (e.g., distribution hubs, office space, etc.)
- Technology expenses
- Office supplies
- Human Resources
- Marketing
- Outsourced professional services (e.g. I.T., security, accounting, etc.)

Effectively managing indirect procurement can be a complex task, mostly due to category management and (under traditional paradigms) a strong emphasis on cost reduction rather than value building through strong, strategic supplier relationship management.

Indirect category management may require mastery of dozens or hundreds of distinct categories, and the indirect category manager may find themselves devoting more time to streamlining spend categories and going for a “maximum cost savings” approach that can create a supply chain that’s more of a revolving door than an enduring pipeline of strategic sourcing.

By comparison, direct procurement (also called *direct purchasing* or *direct spend*) has traditionally been defined by spend dedicated to raw materials that contribute directly to finished goods produced by the company.

It has few categories, and procurement teams spend much more time (as compared to indirect procurement teams) on building strategic and lasting relationships with the vendors filling these needs to maximize savings and profit margins.

For a company that sells baked goods, for example, direct spend might include sugar, salt, flour, and spices, while an auto manufacturer might source raw steel, rubber, and plastics.

Yet, as the economy evolves and businesses begin to shift into a post-industrial,

service-based model, the hard black-and-white distinction between indirect procurement and direct procurement is losing its relevance and utility.

For service-based businesses without the need for manufacturing, production facilities, and other hallmarks of direct purchasing, goods and services that once fell under indirect spend are instead analogous to direct materials.

For example, companies providing office productivity software using a software-as-a-service model might source coding, IT support, hosting, and software products in order to provide their final product to their customers, making these “indirect costs” into very direct contributors to the company’s bottom line.

Consequently, comparing direct and indirect procurement remains useful to those companies still following the industrial manufacturing paradigm, but requires some additional fine-tuning to reflect the needs and goals of the service economy.

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## **Optimizing Indirect Procurement**

To move beyond the direct spend vs. indirect spend model while still meeting company goals and the expectations of internal stakeholders, it becomes strategically important for procurement teams to embrace a mindset devoted to optimizing *all* procurement.

A synergistic/holistic approach is essential to driving value instead of mere savings, and will provide a veritable cornucopia of additional benefits that will boost productivity, savings, and efficiency across all of the organization’s business units.

How, you ask? By redefining the procurement function’s approach to supply chain management, and embracing digital transformation as a corporate virtue.

With just a few positive changes, you can set your company on the road to well-optimized procurement that incorporates both direct and indirect procurement processes.

# Build a Strategic Sourcing Plan

Before you can transform your indirect procurement (or any part of your procurement process, for that matter), it's important to review and evaluate what you have.

Take a look at key areas in your supply chain that present savings opportunities, potential vendor relationship improvements, or processes ripe for optimization.

To be truly effective, your plan should address:

- Your company's specific and detailed needs and expectations with regard to vendors and your supply chain, including concrete goals for building value, supporting overall business process management, and contributing to organizational goals.
- Detailed marketing research to identify potential changes you can make to your supply chain and materials.
- Formalized procure-to-pay (P2P) procedures, including contract management, purchase order and invoice processing, and vendor onboarding/evaluation.
- A detailed supplier relationship management strategy, focused on communication and collaboration.

The goal here is to bring all your procurement under the same strategic umbrella, and recognize the potential value and savings that can be realized by optimizing all of your processes and improving efficiency, communication, and accuracy in your workflows.

## Invest in the Right Software Tools

All of the tasks you need to accomplish in optimizing your direct and indirect procurement will be made faster, more accurate, and much more efficient with support from a modern, cloud-based procurement solution.

Automation and artificial intelligence (AI), coupled with centralized data management, mobile-friendly leveled access for all stakeholders (including not just the procurement team, but all your business units as well as vendor access through the use of vendor portals), give you the tools you need to execute your new procurement strategy effectively.

Consider these benefits:

- Total spend transparency, eliminating maverick spend, invoice fraud, and compliance headaches.
- Elimination of human error and inefficiency in key processes, as well as minimal time and expense devoted to low-value chores such as data entry, approval routing, etc.
- Improved category management, connected to contract and vendor management databases, ensuring buyers are automatically directed to the best vendor, with the best possible pricing and terms, for every purchase.
- Real-time data analytics improve supplier performance and compliance management. They also provide deeper, more immediate, actionable insights into marketing and industry trends.
- Strategic supplier management that transforms your best vendors into trusted partners and helps you streamline your supply chain for minimal bloat and maximum efficiency, compliance, and contingency coverage.

## **The Future of (In)Direct Procurement**

Whether you're part of the procurement team at a growing service-based company or a procurement professional looking to create additional value at an old-school manufacturer, it pays to find a way to streamline *all* your procurement.

By investing in the right tech tools and developing realistic and useful processes for category management, supply chain management, and overall procurement strategy, you can take advantage of savings opportunities and direct your team's time, skills, and effort into truly effective and strategic sourcing.

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