

PLANERGY™

Indirect Spend Guide

Unlocking Savings and Value Creation

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Forward

The idea that massive savings might be trapped in indirect spend wasn't obvious when we started Planergy 13 years ago. We expected the value of our spend management software to be in its ability to streamline purchasing and reduce waste.

What we learned is that beyond the benefits of automation there are huge opportunities to unlock hidden profits specifically in your indirect spend.

The guide will give you actionable steps to start saving today. Planergy makes this process much easier so you can release the hidden profits in your business.

- ◆ **1200+ companies trust Planergy to control their spend**
- ◆ **G2 recognizes our software as a top solution for mid-market companies, and we have a 4.8 Capterra-star rating**
- ◆ **Customers save an average of 10% on their indirect spend when they choose Planergy to power their buying processes**

If you want to uncover savings and are struggling with spreadsheets and manual processes, [speak with us](#). We'll show you a painless transition to automation that will pay for itself in just a few months.

Thank you,
The Planergy Team

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Overview

Unlike direct spend, which has long been the target of optimization efforts to reduce costs and build value, indirect spend remains a resource with tantalizing but untapped potential value and cost savings. Many organizations develop strong, mutually beneficial relationships with key suppliers in order to create value and capture savings through economies of scale and negotiating the best possible terms and conditions.

Yet their indirect spend, spread across locations, departments, business units, and categories, remains unoptimized—and may not be tracked effectively or at all. In fact, many organizations don't have systems dedicated to tracking or recording spend performance in indirect categories.

Goods and services in this category are obtained from a broad range of suppliers, and the process of managing indirect spend is often further complicated by high purchase frequency and relatively small pertransaction spend. As a result, a company's indirect spend is largely tail spend—invisible transactions that can't be factored into a company's financial reporting and planning.

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This lack of transparency can be disastrous, given that indirect costs can account for between 20% and 40% of an organization's spend—and have been growing by an estimated 7% globally¹ since 2011. Without effective indirect spend management strategies, it can be difficult to spot and take advantage of opportunities to streamline workflows, improve efficiency and ROI, and build long-term value for an organization.

(1) <https://www.mckinsey.com/capabilities/operations/our-insights/revolutionizing-indirect-procurement-for-the-2020s>

Indirect costs
20% - 40%
of total spend



Overview

The global impact of the COVID-19 pandemic has underscored the need for a closer assessment of where companies can identify and pursue opportunity to leverage savings and value. Indirect corporate spend is the area with the greatest opportunity to capture untapped value and realize savings by increasing the amount of spend under management—minimizing tail spend is possible for organizations who invest in effective category management and pursue consistent sourcing through approved suppliers as dictated by internal controls.

Services contributed
80% of the total value
added to the US
economy

Indirect Spend VS. Direct Spend

A changing paradigm for value and savings

A company's indirect spend is traditionally classified as any item that has not been directly involved in the creation of the goods or services sold by the company. This includes all the goods and services with a supporting role in a company's operations and typically include items such as:

- ◆ Office supplies.
- ◆ Utility fees and related costs.
- ◆ Technology expenses.
- ◆ Facilities (e.g., office space, warehousing and production centers, etc.).
- ◆ Human Resources.
- ◆ Marketing.
- ◆ Professional services (e.g., security, accounting, social media management, I.T., etc.).
- ◆ Maintenance, Repair, and Operations (MRO).

indirect costs occupy a much more significant role in a company's overall budget, both for new businesses and traditional businesses searching for new value streams and cost recovery processes in the evolving digital economy. This paradigm shift has a powerful economic impact. A 2018 study conducted by The World Bank² found services contributed upwards of 60% of the total value added to the global economy.

The World Bank found services contributed upwards of 60% of the total value added to the global economy

(2) <https://www2.deloitte.com/us/en/insights/multimedia/infographics/trade-in-services-economy-growth-infographic.html>

Indirect Spend VS. Direct Spend

A changing paradigm for value and savings

That number was an incredible 80% for the United States, where service jobs made up 86% of all employment. The United Kingdom is undergoing a similar transformation; services accounted for 78.6% of total economic value in the UK as of 2017, and included a staggering 95.7% of employment.

Indirect spend is also growing more important to the bottom line as digital transformation becomes a primary goal for procurement organizations at all levels. A data-driven economy creates products that are either intangible digital creations or services rendered as often as-or even more frequently than-they are physical goods. Companies without a traditional dependence on raw materials may have "direct expenses" that more established organizations would consider indirect spend. The Hackett Group's 2020 Procurement Key Issues Study³ found improving procurement's cost efficiency to be the number one priority for business leaders, with reducing total purchasing costs close behind.

(3) <https://lin1ks.imagerelay.com/cdn/2925/ql/bb5d3f884b754cf2a2c2eea9df2d154e/Hackett-2020-Key-Issues-Procurement-1912.pdf>

The substantial size of a typical organization's indirect spend makes it a prime target for achieving these goals through process optimization and improved cost management.

Indirect spend represents a substantial opportunity for savings and value to organizations who dedicate the necessary time, talent, and resources.

Yet despite this opportunity, many traditional organizations continue to treat indirect procurement as part of their tail spend.

Indirect spend represents a substantial opportunity for savings and value to organizations

The Challenge of Managing Indirect Spend

Despite the opportunity and increasing importance of managing indirect spend many companies have not focused on achieving better value from this spend. Why? The reasons vary from one organization to the next, but the most common factors include:

Complexity

Traditional direct spend management may include only a few categories and benefits from a focus on cost reduction and leveraging relationships with key suppliers. A company's indirect spend may include hundreds of spend categories, covering hundreds of diverse and distinct goods and services. Many may have uses limited to specific departments, projects, or business units.

That said, post-industrial businesses are often service-based, sell products that don't require physical components, or both. They don't need manufacturing equipment or production lines in the traditional sense, but they do often treat traditional indirect costs the same way industrial-era businesses did direct ones. For example, a company that produces a software

package and sells it to clients using a software-as-a-service (SaaS) model would likely regard IT support, Web hosting, and development software as direct costs since they are essential to producing their own product. These companies will also have their own additional indirect costs, of course, and so the importance of a more comprehensive approach to spend management, rather than one focused primarily on either direct or indirect costs alone, quickly becomes apparent. This new operating model makes improving the transparency and efficacy of indirect spend management more important than ever, since so much of indirect spend is often tail spend. Managing tail spend effectively has historically been regarded as a low-ROI activity, particularly in organizations that regard tail spend itself as inevitable. However, emerging technologies and improved business process management are quickly dispelling such notions by improving transparency and accessibility of spend data.

To achieve optimal results, indirect procurement teams have historically focused on opportunities to rationalize suppliers across departments for better leverage.

The Challenge of Managing Indirect Spend

They also prioritize maximum cost savings through strategic supply chain refinement rather than relationship building-missing out on opportunities for soft value that comes from long-term supplier relationships. Modifying their sourcing strategies to incorporate improved category management as well as supplier relationship development/management is key to escaping these limitations.

Lack of visibility

Companies still relying on last-gen tech and processes to tackle spend management (both direct and indirect) may find the complexity of their indirect procurement supply chain is exacerbated by common issues such as a lack of centralized data management, poor spend transparency, and insufficient category management. Indirect spend management may be minimal or even absent.

These companies may also have corporate cultures resistant to the technological and methodological upgrades they need to see a maximum return on their indirect spend optimization efforts.

Unrealized Savings

While indirect procurement savings are often secured at the negotiation stage, realizing those savings is another matter. Some of the most common culprits include a lack of centralized spend management, poor or absent internal controls that fail to curtail rogue spend (resulting in invisible transactions conducted at sub-optimal pricing and terms), and non-collaborative working relationships between budget holders and the procurement staff tasked with managing indirect spend categories.

While indirect procurement savings are often secured at the negotiation stage, realizing those savings is another matter

The Challenge of Managing Indirect Spend

Addressing these issues to optimize indirect spend for value as well as savings requires:

- ◆ Transparency into your indirect spend activity and mastery of your indirect spend categories.
- ◆ Tools and processes that support effective category management, data analysis, reporting, and process optimization (including automation).
- ◆ A collaborative and communication-focused approach to change management and securing buyin from stakeholders at all levels (including the Csuite). This is particularly important if substantial corporate cultural changes are necessary in order for the organization to begin prioritizing and streamlining indirect spend management.
- ◆ A willingness to leverage cost avoidance strategies as well as cost management strategies, along with prioritizing total cost of ownership (TCO) and strategic sourcing.

✓ Transparency

✓ Tools and processes

✓ Collaborative Approach

✓ Cost avoiding strategies

The Challenge of Managing Indirect Spend

Indirect costs have not traditionally been managed with the same attention to detail as their direct counterparts. However, as the line between direct and indirect costs continues to blur, companies of all types can apply the same optimization methods to their indirect spend as they do their direct spend and finally secure the savings they've been missing

Indirect Costs have no direct association to finished goods or a specific project. They're shared across the entire organization (e.g., office supplies, Internet access, etc.). Indirect costs can be allocated individually or averaged and assigned to a single line item in the budget under "indirect expenses" by using an indirect cost rate.

Administrative Costs are often conflated with indirect costs but are actually a mix of both direct and indirect costs. Administrative costs are assigned to direct or indirect expenses based on their demonstrable connection to production, a specific program or project, or general support.

For example, travel expenses related to the building of a production facility might be allocated as direct expenses, whereas general travel expenses for sales staff would be allocated as indirect expenses.

Overhead Costs are often called "the cost of doing business." These indirect expenses include taxes, depreciation, rental fees, utilities, insurance, salaries and wages, etc. and support, rather than contribute directly to, production.

Indirect savings opportunities abound in many areas. With spend analysis, you can review common indirect spend categories to uncover these opportunities and secure savings through strategic optimization, process improvement, and stronger procurement controls.

Allocating your Company's Indirect Expenses

CATEGORY	OPPORTUNITIES	STRATEGIES	POTENTIAL SAVINGS
<p>IT SERVICES Support, software management, Software as a Service (SaaS), hardware, hosting, etc.</p>	<ul style="list-style-type: none"> Outdated software. Inconsistent licensing, poor version control. High-cost on-premises support and service. Lack of hardware and software standardization. Poor asset management, high redundancy. 	<ul style="list-style-type: none"> Implement centralized, cloudbased software solutions. Renegotiate current contracts. Outsource support and hosting. Prioritize cost avoidance. Consolidate spend where possible. 	 <p>5% - 20%</p>
<p>FACILITY SERVICES Security, IT, Janitorial, Catering, etc.</p>	<ul style="list-style-type: none"> Lack of formal service agreements for janitorial, catering, security, etc. No controls in place for monitoring service quality and consistency. Random spend with non-approved vendors. Unmanaged supply base. 	<ul style="list-style-type: none"> Leverage service level agreements (SLAs) when negotiating and renegotiating contracts. Use key performance indicators (KPIs) to monitor performance and compliance. Streamline supply base. Consolidate spend where possible. 	 <p>5% - 10%</p>

Allocating your Company's Indirect Expenses

CATEGORY	OPPORTUNITIES	STRATEGIES	POTENTIAL SAVINGS
<p>PROFESSIONAL SERVICES Consulting, HR, training, etc.</p>	<ul style="list-style-type: none"> ◆ Poor supply base optimization, high maverick spend for "on demand" training, consulting, etc. ◆ No controls in place for monitoring contract compliance or service quality and consistency. ◆ Unleveraged opportunities to outsource services such as HR and training. 	<ul style="list-style-type: none"> ◆ Optimize supply base. ◆ Enforce contract compliance and performance using KPIs. ◆ Outsource HR, training, consulting with approved vendors via negotiated contracts/SLAs. ◆ Consolidate spend where possible 	 <p>5% - 15%</p>
<p>MARKETING Promotion, brand awareness, social media, etc.</p>	<ul style="list-style-type: none"> ◆ High maverick spend, fragmented supply base. ◆ Poor or absent internal controls for approvals and connecting purchases to specific budgets. ◆ Poor communication and collaboration between departmental/project stakeholders and procurement/finance. 	<ul style="list-style-type: none"> ◆ Implement centralized, cloudbased software solutions. ◆ Renegotiate current contracts. ◆ Outsource support and hosting. ◆ Prioritize cost avoidance. ◆ Consolidate spend where possible. 	 <p>10% - 15%</p>

Allocating your Company's Indirect Expenses

CATEGORY	OPPORTUNITIES	STRATEGIES	POTENTIAL SAVINGS
<p>UTILITIES Power, water, gas, rent, etc.</p>	<ul style="list-style-type: none"> High energy costs due to operational inefficiencies, lack of controls, or outdated equipment. Lack of formal agreements for essential non-utility services (e.g., landscaping). Seasonal variations in demand make it difficult to budget effectively. 	<ul style="list-style-type: none"> Implement and enforce energy saving and ecologically responsible practices. Invest in alternative energy options where available (solar, wind, geothermal, etc.). Negotiate long-term savings via level billing. Prioritize cost avoidance. Consolidate spend where possible. 	 <p>10% - 15%</p>
<p>OTHER Office supplies, travel expenses, etc.</p>	<ul style="list-style-type: none"> Fragmented supply base with few or no buying controls in place. Lack of internal controls for submitting, approving, and managing expense reports. Lack of effective SLAs and contract negotiation to secure greater savings through economies of scale. 	<ul style="list-style-type: none"> Streamline supply base. Standardize commonly used supplies and services; assign preferred vendors. Develop and implement guided buying policies. Implement KPIs to monitor contract compliance and vendor performance. Integrate travel and other expense tracking workflows within spend management solution. Prioritize cost avoidance. 	 <p>10% - 15%</p>

Allocating your Company's Indirect Expenses

Understanding, managing, and allocating costs accurately improves spend transparency. It allows for more accurate financial reporting, forecasting, and budgeting, and improves working capital management while reducing costs and eliminating inefficiencies.

Understanding,
managing, and
allocating costs
accurately improves
spend transparency

Calculating Indirect Cost

Identifying indirect costs is an important first step in optimizing them, but when it comes time to actually run the numbers, it can be challenging to allocate them correctly. Some costs—insurance and wages, for example—can't be neatly divvied up by percentages and connected to a specific project.

That's where the indirect cost rate proves invaluable for accounting and procurement teams. By combining indirect costs into a single shared expense and dividing it across the entire organization, it's possible to divide them fairly and accurately.

A few of the most common indirect cost calculation methods include:

Fixed Cost Classification

This approach is the simplest and best suited for fixed expenses, including depreciation, fixed indirect labor costs, rent, etc. These fixed costs are allocated to specific equipment, projects, departments, business units, etc.

For example, the wages paid to the marketing team will be charged to the marketing manager's budget, while office supplies are generally allocated to either a specific department or a business unit sharing those supplies across multiple departments. Similarly, depreciation on a shared company copier or laser printer is allocated to the device itself.

Proportionate Allocation

Calculated for a fixed period (either monthly or, more commonly, once per fiscal year), proportionate allocations divide indirect costs across projects, departments, etc. based on the type of cost and how the goods or services obtained will be used within the organization.

For example, a department's square footage might determine its share of the cleaning services bill, while Internet service is divided evenly among all departmental budgets.

Calculating Indirect Cost

Activity-Based Cost Allocation

This method is the most labor intensive, but also yields the most accurate results.

To begin, department managers monitor and record departmental business activities for a given accounting period. Next, they categorize those activities as either direct or indirect expenses. Finally, at the end of the accounting period, they calculate the indirect cost rate and use it to allocate expenses accordingly.

Using Cost Rate

Calculators Calculating indirect cost rates requires a cost pool, i.e. the value representing total costs to be allocated based on calculated percentages. Allocation is usually done by dividing the value of the cost pool by a cost object or cost objective, i.e. a variable such as usage, department, business unit, project category, generated revenue, physical dimensions, etc.

For example, using the proportionate allocation method, dividing your total overhead costs by the indirect costs incurred by each specific department yields what is known as an overhead rate. Projecting

Allocation is done by dividing the value of a cost pool by a cost object or cost objective

Projecting Indirect Cost Savings

For long-term success, all businesses need an indirect spend management strategy, as well as digital tools to help them execute it and a set of best practices they can follow to ensure everyone in their organization (and their suppliers) is on board.

It's worth the time and trouble. In a 2017 study conducted by research firm McKinsey & Company⁴ found best-in-class indirect procurement teams:

- ◆ Captured an average 2% - 3% more in annual cost savings than their peers.
- ◆ Reduced the costs associated with each full time employee (FTE) in procurement by \$1.3 - \$1.5 million.
- ◆ Produced a return on investment of between 12:1 and 15:1 on every indirect procurement dollar spent.

By taking a strategic and proactive approach, companies of all sizes and budgets can begin to extract the hidden value and savings concealed within their indirect spend.

Even if you're not currently optimizing your indirect spend, you can expect to achieve between 10% and 20% savings through basic optimization efforts. For example, replacing travel costs for face-to-face meetings with clients and suppliers with video conferencing can quickly reduce your expense budget—even if you focus exclusively on low-priority check-ins/meet-and-greets. If your sales team replaces \$10,000 worth of air travel expenses with \$2,500 worth of HD video conferencing hardware and software and \$6,500 in flights, you've cut indirect spend in that specific category by 20%.

(4) <https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/Turning%20indirect%20sourcing%20into%20a%20multimillion%20dollar%20profit%20center/Turning-indirect-sourcing-into-a-multimillion-dollar-profit-center.pdf>

You can expect to achieve between 10% and 20% savings through basic optimization efforts

Projecting Indirect Cost Savings

To give another example, if you review your company's current software licensing agreement and find you're paying for old software, more user licenses than you need, or additional upgrade costs because you're still using local media rather than SaaS, renegotiating your agreements and switching to a SaaS model can help you cut the fat and make sure you're only paying for what you actually use. And you'll save even more by switching to a SaaS model, since you won't have to maintain local resources and IT staff.

—
And you'll save even more by switching to a SaaS model, since you won't have to maintain local resources and IT staff

The Trident

Crafting an effective indirect spend management strategy

Knowing where to start with optimizing indirect spend isn't always easy. You can't guarantee you'll see all the bumps and pitfalls in the road ahead. However, charting your course before you set off is still more likely to guide you to your destination than blind stumbling into the unknown.

A simple three-point strategy will establish the framework for taking control of your indirect spend.

- ◆ Modern software tools empower your procurement and accounts payable teams with artificial intelligence, automation, advanced analytics, and centralized data management.
- ◆ Following best-in-class practices for purchasing, category management, supplier relationship management, supply chain management and overall business process management using digital tools ensures clean, complete, and useful data. In turn, that data produces accurate reports for more strategic decision-making.

- ◆ Combining change management with a digital transformation strategy helps secure buy-in, improve compliance, and reduce risk.

This "trident" is effectively a key that unlocks new capabilities for your organization, including but certainly not limited to visibility into and control over your indirect spend. Properly developed and deployed, this integrated approach will foster much stronger supplier relationships, a more resilient and agile supply chain, and help you align procurement with organizational goals.

This "trident" is effectively a key that unlocks new capabilities for your organization

The Trident

Crafting an effective indirect spend management strategy

Digital Tools

Paper and pencils and manual workflows no longer cut the mustard for monitoring spend and calculating costs. Modern procurement software makes it possible to capture and store all of your spend data in one readily accessible place. Artificial intelligence and machine learning help you analyze that data for actionable insights. Tracking internal workflows and supplier performance using key performance indicators (KPIs) and other metrics makes it much easier to integrate continuous improvement as part of all your business processes.

Implementing a purpose-built, modular, and comprehensive Procure-to-Pay (P2P) software solution:

- ◆ Integrates with your existing software environment to provide standardization, eliminate redundant systems, and support for future integrations.
- ◆ Centralizes data management and access.
- ◆ Provides templates and automatic data population to reduce the need for data entry and human
- ◆ Enhances category management, spend management, supply chain management, and supplier relationship management with automation and analysis tools.
- ◆ Provides actionable insights teams can use to secure better pricing and terms, form strategic partnerships with preferred suppliers, and prioritize supply chain resilience.
- ◆ Add automation, analysis, and artificial intelligence to workflows as part of a larger digital transformation strategy.
- ◆ Connects with other digital tools, such as Internet of Things (IoT) hardware, digital twins, etc. to further enhance data quality and availability.
- ◆ Simplifies supplier integrations for more effective vendor management.

The Trident

Crafting an effective indirect spend management strategy

Best Practices

In order to be effective, tools need to be used properly by hands that understand their capabilities. Creating and implementing new workflows, adding internal controls and educating stakeholders on not just the changes to internal processes but how those changes support the company's needs and goals is essential.

Optimize Category Management

Indirect procurement is characterized in large part by its multitude of categories. Following best practices for category management is foundational to effectively taming indirect spend. With the right tools and workflows, category managers can track what's being spent where, identify opportunities for process improvement, and refine their category's vendor list to minimize redundancies while still insulating the organization against disruptions and needless risk.

Aggregate Demand

Calculating indirect spend accurately is even easier when it's aggregated from the start. Aggregating things

like office supplies, IT services, etc.-any recurring purchase used across your business, really-not only simplifies spend planning, but also makes it easier for your procurement team to secure huge discounts from suppliers using economies of scale.

Aggregation goes hand-in-glove with proactive category management and strategic sourcing, and all three are much simpler to accomplish with the help of digital software tools.

In order to be effective, tools need to be used properly by hands that understand their capabilities

The Trident

Crafting an effective indirect spend management strategy

Consider Automatic B2B Replenishment

Modern B2B e-superstores like Amazon Business, Alibaba, and ThomasNet offer buyers a robust catalog of carefully vetted vendors, along with support for next-gen technologies such as automatic replenishment using Internet of Things-powered sensors and devices. And thanks to system integration, you can still collect and analyze your spend data to harvest insights and make strategic planning and sourcing decisions.

Partnering with these eCommerce giants gives you a broad pool of potential suppliers while still serving up savings of 6 to 15 percent. And because the vendors are managed by the B2B provider, your own vendor management costs are reduced as well.

Practice Zero-Based Budgeting (ZBB)

When every dollar spent must be justified, spend management improves exponentially. Supported by a comprehensive P2P software solution and a cost management mindset, ZBB allows teams to create

better budgets and forecasts while still leaving flexibility to accommodate the unexpected. Properly managed, zero-based budgeting can reduce selling, general, and administrative (SG&A) expenses by 10 to 25% in as little as six months.

It also encourages collaboration between budget owners and category experts, who can share their respective expertise in working with suppliers to negotiate better pricing and terms.

Reduce SG&A
expenses by 10%-25%
in six months

The Trident

Crafting an effective indirect spend management strategy

Automate and Optimize Your Procure-to-Pay (P2P) Process

As with ZBB, a best-in-class procurement solution makes it possible to reap the full benefit of process automation and optimization across your P2P workflows.

- ◆ Automating tedious, high-volume tasks improves speed and accuracy. It also eliminates human error and frees your team to focus on supplier relationship management and other more strategically valuable tasks. Research from Accenture⁵ indicates robotic process automation can:
 - ◆ Increase productivity by up to 60%.
 - ◆ Increase staff satisfaction by up to 43%
 - ◆ Reduce operating costs 45%-65%.
 - ◆ Reduce human error by up to 700%.
- ◆ Guided buying and advanced category management can effectively eliminate maverick spend and invoice fraud, reducing risk exposure and building value through greater efficiency and reduced waste.
- ◆ Automatic three-way matching improves cash flow management and speeds processing times.
- ◆ Machine learning and robotic process automation improves savings and value capture with every iteration.
- ◆ Spend data, combined with other data collected from diverse sources, can be used to monitor spend at highly granular levels to improve internal processes and efficiency. On the vendor side, KPIs can be used to track contract compliance and vendor performance, negotiate better pricing and terms, and identify opportunities for strategic partnerships, innovation, and more.
- ◆ Integrating procurement with AP and other data sources allows for richer analyses and more valuable insights that support supply chain optimization as well as strategic spending and sourcing initiatives for the organization as a whole.

(5) https://www.accenture.com/_acnmedia/PDF-71/Accenture-Procurements-Next-Frontier-PDF.pdf

The Trident

Crafting an effective indirect spend management strategy

- ◆ Integration also improves auditing. All spend data is automatically captured, with role-appropriate access for team members, and all transactions are automatically cross-checked.
- ◆ Integration and automation improve cross-functional collaboration. Subject matter experts can collaborate with category managers to identify new opportunities for product development, work with suppliers to try new materials and components, or provide their own insights to improve budgeting and spend strategies.
- ◆ Dashboards connect senior management to data they can use to evaluate cost savings and track value created through process improvement.

Prioritize Agility

An agile mindset and approach are especially important to managing a complex task like indirect spend management. Agile procurement is data-driven and focused on flexibility, resilience, and outside-the-box thinking.

It also effectively leverages and benefits from automation, AI, and analytics. In addition, it stresses collaboration and communication, making it much easier to build valuable supplier relationships, spark innovation in cross-functional teams, and refine workflows over time for greater savings, efficiency, and accuracy.

An agile mindset and approach are especially important to managing a complex task like indirect spend management

The Trident

Crafting an effective indirect spend management strategy

Consolidate Your Supply Base

Given their complexity and a management paradigm that has until recently prioritized quick savings over strategic value, indirect spend supply chains are more susceptible to "supplier bloat" than their direct counterparts. As with demand, consolidating your supply base can provide significant and immediate savings—provided you retain sufficient flexibility and resilience to protect business continuity in the face of major disruptors like COVID-19. Research from the Rand Corporation⁶ found major corporations in industries across the globe have saved millions of dollars simply by consolidating their indirect suppliers.

Consider these examples:

- ◆ Harley-Davidson slashed \$1.5 million in transportation costs by streamlining their less-than-truckload (LTL) carrier base from 68 to seven.

(6) https://www.rand.org/content/dam/rand/pubs/documented_briefings/2005/DB334.pdf

(7) <https://www.supplychainquarterly.com/articles/438-from-bean-to-cup-how-starbucks-transformed-its-supply-chain>

They further reduced their total spend by 6% (to the tune of \$34 million) and met their five-year goal for cost improvements by reducing their MRO supplier list from 3,500 to 4 via a strategic indirect materials alliance with three other firms.

- ◆ American Standard cut its office supply costs by 28% by reducing their vendor list from 81 suppliers to just one.
- ◆ Streamlining its supply chain saved coffee giant Starbucks an estimated \$500 million in only two years⁷.

As with demand,
consolidating your
supply base can
provide significant and
immediate savings...

The Trident

Crafting an effective indirect spend management strategy

Practice Proactive Change Management

Businesses opening their virtual doors today may not need selling on the virtues of indirect spend management, digital transformation, or process optimization. However, some organizations have a substantial legacy (and perhaps a bit of cultural jet-lag) that can prove difficult to overcome for procurement teams who want to modernize and optimize. In order to obtain the tools you need to execute your indirect spend management strategy and secure buy-in at all levels of your company, a proactive approach to change management is essential. Make sure your indirect spend management strategy contains:

- ◆ A plan for demonstrating the value of digital transformation to the C-Suite. Top-down support is essential to gaining company-wide compliance, and certain executive staff (such as the CFO and CIO) will be valuable sponsors in implementing new controls, obtaining software, and providing leadership during the research, training, implementation, and review processes.
- ◆ A clear vision of how implementing improved indirect spend management will integrate with your larger goals of digital transformation and business process management in the near and long-term.
- ◆ A comprehensive training plan. It should include not only training on new software and systems, but also educational materials about the benefits of new systems, how those benefits support organizational goals and improved profitability, value, cost savings, etc.

The Trident

Crafting an effective indirect spend management strategy

- ◆ A plan to identify and train cheerleaders and champions for the new system. These team members can provide encouragement, information, and guidance to the rest of your team as needed before, during, and after implementation.
- ◆ A software supplier who understands the need for, and importance of, change management. The ideal provider will offer training before, during, and after the implementation and ensure everyone in your organization clearly understands:
 - ◆ Their roles and responsibilities within the new system.
 - ◆ Which tools they'll need and how to use them correctly.
 - ◆ Standards for compliance and accountability.
 - ◆ The ways in which better indirect spend management supports organizational goals and improves business-critical processes. Unlock

the research, training, implementation, and review processes.

- ◆ A plan for demonstrating the value of digital transformation to the C-Suite. Top-down support is essential to gaining company-wide compliance, and certain executive staff (such as the CFO and CIO) will be valuable sponsors in implementing new controls, obtaining software, and providing leadership during the research, training, implementation, and review processes.

Make sure your indirect spend management strategy includes a software supplier who understands the need for, and importance of, change management

Unlock the Potential Hidden in Your Indirect Spend

- ◆ A clear vision of how implementing improved indirect spend management will integrate with your larger goals of digital transformation and business process management in the near and long-term.
- ◆ A comprehensive training plan. It should include not only training on new software and systems, but also educational materials about the benefits of new systems, how those benefits support organizational goals and improved profitability, value, cost savings, etc.

As procurement evolves, moving away from mere cost savings and becoming a source of strategic value and insight, taking control of indirect spend may be the best first step you can take to ensure your organization is along for the ride.

Create and implement an indirect spend management strategy supported by digital tools and best practices, and capture more value and savings while helping your organization pursue its goals for growth, profitability, and competitive performance.

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