

# BUMP UP THE BOTTOM-LINE

with indirect procurement optimisation

A WNS South Africa PERSPECTIVE



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A STRATEGIC SOURCING APPROACH TO INDIRECT SPEND CAN UNLOCK **SIGNIFICANT VALUE**

The procurement department is considered by some to only be concerned with sourcing and spending, but it also has a much more strategic role to play. Aside from the day-to-day transactional tasks, many companies neglect to see the tremendous value the procurement function provides from a strategic perspective. The procurement department within most organisations has the ability to conduct category planning and forecasts 3 years into the future, identify innovation partnerships and engineer value for the business.

While most of these activities don't seem to offer hard savings immediately, it has the potential to impact the bottom line through the value it is able to create. Over time, this sustainable value far outweighs

any immediate savings impact. The more strategic a procurement function can become, the greater the value that can be added to the business.

With a strategic sourcing approach, organisations can focus on their demand management, which ultimately has an impact on the extent of supply required. Effective supply management and planning, together with an objective to improve the percentage of spend under management, is the key to realising savings and value within a procurement function.

## A tale of two spend streams

Any organisation typically has two procurement streams; direct and indirect.

Direct procurement deals with spend that goes directly into a company's finished product or service. Indirect procurement, on the other hand, deals with materials and services that do not go into a product or service, and would typically be purchased for consumption by internal stakeholders, not the external customer.

In the past, the physical product or service received most of the attention from the procurement department. They would focus mostly on direct spend, and leave the indirect spend to be managed by internal stakeholders. With the need for indirect spend growing, and the limited span of control that organisations have on it, an opportunity for significant savings and value has emerged within indirect procurement.

## Typical Indirect Procurement Spend Areas



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## Embracing indirect procurement, eventually

Challenging market conditions, aggravated by the emergence of the disruption economy, has placed companies under immense pressure to look at ways in which to reduce costs and uplift bottom-line profits. One area in the organisation where plenty cost reduction opportunities exist is within indirect procurement.

For a long time, indirect procurement spend has been considered inflexible, specialised and complicated, not to mention insignificant. Hence, many

companies opted to ignore indirect procurement costs and as a result underestimated the impact it can have on the bottom-line performance. Thankfully, organisations are beginning to wake up to the savings opportunity with more companies focusing on indirect procurement than they did 3 years ago.

In fact, indirect spend is increasing significantly, due to wider adoption of procurement outsourcing and the use of contract resources. A study conducted

by Denali Group, now known as WNS Procurement Services, reported that companies saved on average 9% of indirect spend annually. The good news doesn't end there, these companies return 12.3 times the cost of investment in indirect procurement in savings every year. There is definite value to be generated by investing in indirect procurement, but realising these benefits requires a willingness to embrace technology and welcome change within the procurement organisation.



## Barriers to realising savings from indirect spend

For a long time, indirect spend was considered to be an insignificant area of business, with dedicated teams something incredibly rare. In the absence of a dedicated team to focus on indirect procurement, sporadic buying patterns emerge, there's a lack of preferred suppliers, and meaningful spend data. More often than not, when indirect spend is left to

internal stakeholders to manage, they in turn develop siloed personal relationships with suppliers. It is little wonder that many indirect procurement spend categories remain heavily guarded by its respective internal owners. Thankfully, more and more organisations are establishing dedicated indirect spend teams to turn a previously marginalised function into a value-creating

profit puncher. Procurement outsourcing has the ability to unlock the same value, and frees up resources to compound the impact through focusing on other strategic sourcing activities.

Organisations need to be able to break down the following barriers to generate value from indirect procurement spend:

### ❌ Lack of spend visibility:

By increasing the percentage of spend under management, organisations can increase their return on the cost of procurement. This automatically improves the adherence to contracts.

### ❌ Misunderstanding demand management:

Many organisations grapple with successfully managing demand. There is often a mismatch between the organisation's needs and the wants. Having a clear idea of the needs versus wants, demand forecasts can be improved and the amount of unplanned work is reduced. At the same time, these forecasts provide adequate notice to the requirements of upcoming projects.

### ❌ Poor category management:

Proper category management can enhance the level of indirect procurement maturity. Typical activities undertaken to achieve this include, benchmarking exercises, reporting and performance management, contract and supplier management.

### ❌ Scattered supplier base:

Volume-buying and associated discounts rarely applies to indirect spend as it does with direct procurement. This is due to the number of different individuals handling indirect spend for their specific objectives, and often they unknowingly deal with the same vendors. Streamlining suppliers and pooling volumes can unlock a number of savings opportunities.

### ❌ Closed, cross-functional communication:

It is common for business units within the same organisation to not share information with one another. This, within a procurement context, can negatively impact the ability to realise savings. Improved cross-functional communication fosters better collaboration and joint sourcing efforts.

### ❌ Aversion to technology:

One of the key success factors to any organisation today is its willingness to adopt and invest in technology. This is no different within the procurement function. A number of technologies and tools are available to improve the department as a whole; these include, vendor management platforms, process automation (eSourcing, eInvoice, & payments), spend analytics, supplier relationship management and contract management - among others.



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“Establishing dedicated indirect spend teams can turn a previously marginalised function into a profit puncher.”

## Developing a workable roll-out plan

In order to realise the benefits of optimising indirect procurement, a structured and pragmatic approach to implementation is needed. This plan should include pre-

agreed objectives with clearly defined roles and responsibilities effective across the organisation.

The steps outlined below detail a basic approach that can be taken to realise cost savings through indirect procurement:

### 1 Analyse spend data

By leveraging spend analytics, companies can identify the amount, category and suppliers for indirect spend. Knowing this information upfront can help to get the buy-in of internal stakeholders later on.

### 2 Define indirect procurement objectives

Management has to redefine the mission of indirect sourcing. It should include not only cost reduction, but also value creation by bringing new technologies into the company. Involvement of top management is crucial in such decision making.

### 3 Prioritise spend areas and identify savings opportunities

With the indirect spend data on hand, prioritising spend areas according to its size allows the opportunity to develop expertise across the important areas. Instituting a competitive bidding process and identifying preferred suppliers is another effective lever to realise value.

### 4 Create an action plan

After reviewing the data and identifying savings opportunities, align all budget owners across the organisation with the goals and their responsibilities towards the indirect procurement cost saving initiative. To help ensure consistent adherence, invoking penalties for unauthorised spending might be necessary.

### 5 Measure, track and report back

Evaluate the success of the initiatives undertaken and identify where the areas for improvement are. Critical to the continuous success of indirect sourcing savings is to have open discussions with all business units within the organisation, relaying feedback and promoting the benefits of cross-functional collaboration.





## Conclusion

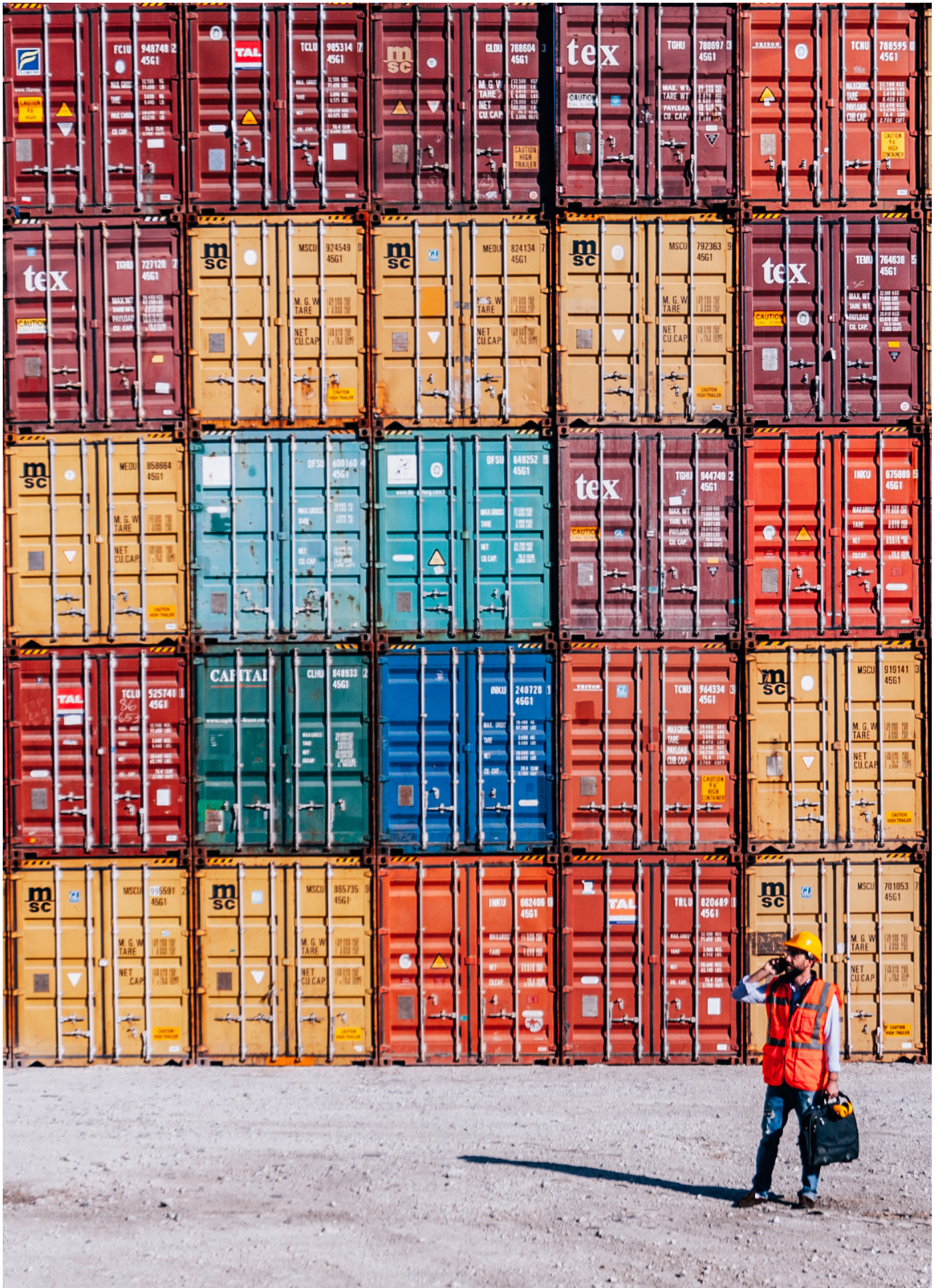
The bottom line is this; effectively managing indirect spend adds up, and can be a source of tremendous value for organisations of all sizes. It happens to have a positive impact on a company's bottom line too. It is no wonder that Fortune1000 companies are placing increased importance on growing indirect spend base, using more effective tools, and fostering increased stakeholder participation. Shifting the internal stakeholder mindset from being sacred about their indirect spend, to that of cross-functional collaboration, is how greater savings can be unlocked and value created. One of the key barriers to value generation is a scattered supplier base

and a variety of areas in which spend occurs. By identifying the category, spend and improving supplier relationship management, organisations can highlight opportunities for sourcing savings.

However, it is important for organisations to realise that the procurement function is more of a strategic value lever, and not just a department with cost reduction powers. This critical element is evident in the ability of procurement teams to capture new trends, new technologies and innovations to help management make an informed decision on the future of the organisation. ▲









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