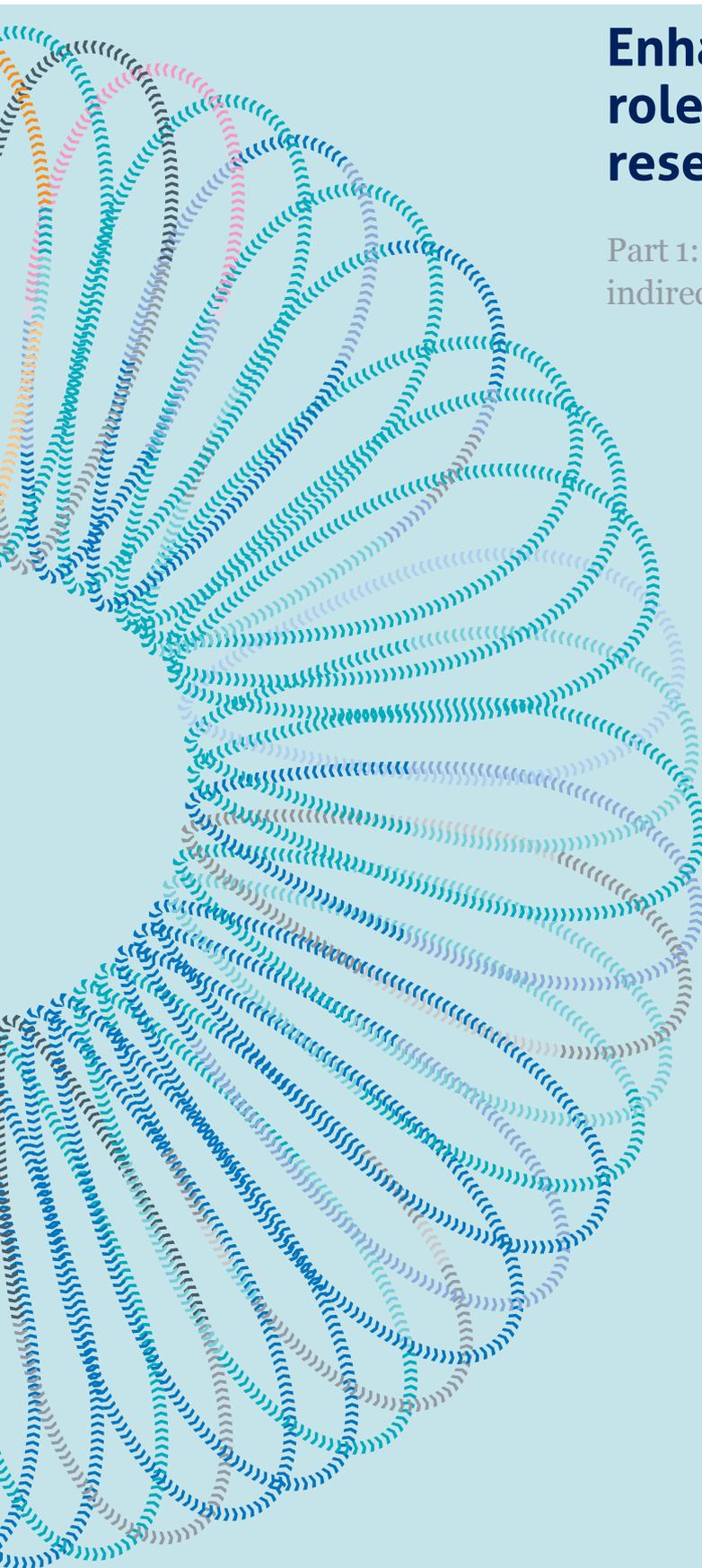


Enhancing and redefining the role of indirect procurement - research findings and results.

Part 1: Current perceptions of the indirect procurement function.



Research conducted in association with



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Overview

The principal goals of the research were to identify:

- Organisations' attitudes, specifically amongst finance and procurement professionals, towards the indirect procurement function
- The current role that indirect procurement plays and the desired future role of the indirect procurement function
- Business perceptions of the value currently being delivered from this aspect of procurement
- The benefits senior stakeholders are seeking from the indirect procurement function
- Insights into the ways in which indirect procurement needs to develop within the organisation
- The current and planned usage of procurement outsourcing

The research was conducted through interviews with 120 Senior Executives in Continental Europe, UK and the US, with half coming from Procurement and the other half from Finance. The sectors in which these executives came from:

- Financial Services
- Retail
- Consumer Products
- Manufacturing

Register for the full 40 minute research findings and presentation webinar, complete with:

- Insights and data from the study
- Key conclusions and take-aways
- Answers from the presenters... plus much more

<http://www.proximagroup.com/Enhancing-indirect-procurement/>

Summary



Guy Strafford
Chief Client Officer – Proxima

Since the economic downturn, procurement's profile has been raised within many global businesses.

Stronger executive support for major initiatives has increased mandates for tackling non-compliance and we are now witnessing business units, such as marketing which, in some instances, have never let procurement cross their door before, proactively seeking procurement support.

However, through a series of interactions with Senior Executives over the last few years, a consistent message has arisen – one of frustration that procurement, and indirect procurement in particular, is underappreciated by the wider organisation. Furthermore, a vast majority of the members of the C-Suite feel that indirect procurement is under-invested across UK, Europe, US and further afield.

Proxima, in conjunction with NelsonHall, therefore ran a research study to investigate the perceptions, attitudes and desired outcomes of Indirect Procurement to catalyse this common sense that procurement could and should play a greater role in most businesses.

Some of the responses in our study do indicate that indirect procurement in some organisations is perceived to have a role that is somewhat tactical and administrative. Some respondents advised that it can create process blocks and can, on occasion, even be antagonistic to specialist suppliers of the business, particularly specialist service providers.

This whitepaper, which is the first in a series of three, explores what procurement can do to redefine how it's seen by the organisation.

I hope you find this whitepaper series as informative and insightful as we have.

Findings

80%

of the organisations involved in the research advised that indirect procurement is generally delivering against expectations.

DATA POINT

46% of CPOs, in another NelsonHall study, expressed very low levels of satisfaction with their own ability to implement major change across their organisation acknowledging a clear lack of talent, skills, visibility, processes, tools. Nearly a third of CPOs in the study expressed very high dissatisfaction levels with their strategic sourcing capabilities of indirect goods and services across the full coverage, and 24% expressed a very high dissatisfaction with their category management capabilities.

Chart 1: Perceived influence of indirect procurement across various business levels.

Current perceptions

Under half (47%) of the senior executives surveyed expressed a high level of satisfaction with indirect procurement in their firms. Looking at it from another perspective, 53% of the senior executives expressed low or moderate satisfaction with indirect procurement.

Both Finance and Procurement executives surveyed advised they believe that business operating units and functional units would rate the effectiveness of the indirect procurement function relatively highly. However, according to NelsonHall [referring to the below chart] Board members and the C-Suite rank indirect procurement uncommonly low (according to NelsonHall scoring methodologies) when looking at a long list of priorities. Clearly, the value of the indirect procurement function is not well-recognised by the Board.

There are many reasons for this lack of perceived value at Board level, with a strong trend towards a distinct lack of visibility of the function. However, this was not a representation of the calibre of personnel within the function. The finance executives involved in the research were, in general terms, complimentary about their indirect procurement colleagues. The primary concern that emerged from a number of responses in the study was around the ability of the function to effectively manage indirect procurement across the organisation.

What is indirect Procurement doing well and what could it do better?

The research identified some high scores around indirect procurement's ability to ensure spend compliance for the spend that is under management – with over 90% of respondents giving high scores.

Similarly, nearly all the organisations involved in the research felt their Indirect Procurement function added value to the sourcing progress when they are involved.

Around 80% of the organisations involved in the research advised that indirect procurement is generally delivering against expectations (NOTE: Direct Procurement gets a score of over 90%).

45% of the organisations involved in the study say that their indirect procurement function is effective in driving business performance. A similar percentage rated highly the ability of their indirect procurement function to act as a business partner to the various business units in their organisation rather than just acting as a pure tactical, reactive function. The study also found that over 70% of respondents say this is a highly important attribute they would like to see.

Out of all respondents, only 38% rated 'highly' the indirect procurement function's ability to improve and influence buying behaviours and to improve internal attitudes towards this function.

Interestingly, CPOs throughout the study were slightly harder on themselves than their CFO colleagues in terms of their ability to act as truly strategic business partner and in terms of driving innovation.

Where the CFOs were more critical was around the frequency with which the indirect procurement function is involved at the start of the process in sourcing projects rather than being brought in at the end. In addition to this, the research found that over a third of CFOs felt that the finance and indirect procurement functions were not truly aligned. Yet, elsewhere in the survey, both CFOs and CPOs advised that this alignment is extremely important.

Stakeholder	Perceived Influence
Business operating units	85%
Functional heads/directors	82%
CFO	57%
Board members	33%

Overall the study found that the current perception of the indirect procurement function is one of a tactical support function rather than a strategic business partner.

What do CFOs think about the process capabilities of the indirect procurement function?

The research found that the core capability areas, Sourcing Strategy and Contract Management, were rated very highly by CFOs, 80% and 76% respectively, and transaction processing also received a decent rating of 73%.

However, per the below chart, business engagement, advice and guidance and tactical buying rank much lower than the traditional, core capabilities. The business engagement capabilities require a completely different set of ‘relationship’ skills in order to effectively work with business units to deliver the business objectives.

The study identified a reasonably strong consensus between CFOs and CPOs around many of the capabilities of their in-house indirect process capabilities; however, there are a number of areas where CFOs express significantly lower levels of satisfaction than their CPO colleagues, such as helpdesk and query management where over a third of the CFOs see room for improvement.

CFOs advised there was no political or personal animosity driving their responses. In fact CFOs advised they like their indirect procurement colleagues, even though they’re critical of their effectiveness.

Over 60% of CFOs express dissatisfaction with the ability of the indirect procurement function to influence attitudes and behaviours of internal stakeholders. As noted earlier in this paper, the study found that CFOs have high satisfaction scores in terms of Procurement’s ability to ensure spend compliance.

In terms of efficiency, only 43% of CFOs expressed high satisfaction with the indirect procurement function in terms of the number of FTEs per spend under management. Clearly CFOs’ desire to increase the level of spend under management is part of a wider corporate drive to contain costs.

Finally, one of the key insights drawn out by the survey was a widely held belief by CFOs that the indirect procurement function needs to increase its coverage of indirect purchasing. The study found that:

- 58% of CFOs expressed low satisfaction ratings with indirect procurement’s capabilities
- 50% of CFOs expressed low satisfaction ratings with their businesses ability to maintain an up-to-date up-to-date supply knowledge in relation to indirect goods and services
- 37% of CFOs expressed low satisfaction ratings with the capabilities around the management of second and third tier suppliers

DATA POINT

Only 42% of CFOs are highly satisfied with the proportion of indirect spend under management overall (a major difference in attitude, with 83% of CPOs expressing high levels of satisfaction).

Chart 2: CFOs level of satisfaction with Indirect Procurement’s process capabilities

Capability	Strong Satisfaction
Sourcing strategy, supplier identification & selection	80%
Supplier contract management	76%
Invoice verification, processing and reconciliation	73%
Business engagement and change management	58%
Advice & guidance prior to sourcing decision being made	54%
Tactical buying & “spot purchases”	42%

CPO respondents felt unappreciated. Some say, for example, a CFO takes no interest in procurement other than to spur on new cost reduction initiatives or to change analysis and reporting methods

Recommendations **What can indirect procurement teams do to reposition and redefine indirect procurement within their organisation?**

The indirect procurement function needs to enhance its overall ability to act as a business partner.

First and foremost, the indirect procurement function needs to enhance its overall ability to act as a business partner. Establishing the perception of a strategic business partner in the eyes of senior executives requires strategic thinking:

- **Understand key stakeholders needs and drivers:** What are they trying to achieve? What are their challenges / pressures? Invest the time and effort to truly listen and deliver what they need.
- **Align goals and objectives:** Ensure both Procurement and the stakeholder teams are aiming for the same target. Establish clear communication to let the stakeholder know Procurement is here to help not hinder. Further to this however, is ensuring the indirect procurement team has the right depth and breadth of skills, knowledge and expertise to effectively manage all category demands and the wide range of stakeholders across the business.
- **Adapt to stakeholder's language:** Stop talking 'procurement' and start talking in the same language as each of the various stakeholders (example, CFOs are interested in hard savings, risk management, spend control and market conditions – not how a SRM program works).
- **Tailor metrics and measurements:** Give stakeholders the key facts and figures they care about and cut out the noise.
- **Understand perceptions of the indirect procurement function:** Take the time to understand stakeholders' perceptions of the people within, and effectiveness of, your indirect procurement function. Is it positive / negative? Do people perceive this function as a truly value-adding operation?

Secondly, the greatest value from any sourcing project is realised when a proper procurement process is applied at the start of a project rather than coming in at the end to rubber-stamp a contract. Only 52% of the research participants said this early involvement is happening really well within their organisation.

Involving procurement earlier on in the project will ensure greater scrutiny over specification, supplier identification, solution architecting, negotiation, selection, contracting, commercials and innovation while reducing the level of risk associated with on-boarding a new supplier or partner and enabling the stakeholder to focus on their core role.

Involving procurement earlier in the project can significantly contribute to the bottom-line. Indirect procurement should be working closely with heads of functions across the business and keeping senior executives informed of successes and wins.

Overall, given that the indirect procurement function is extremely resource constrained, organisations will be challenged to extend their category coverage and expertise, their market knowledge and their business engagement capabilities to deliver business value (as defined by the senior executives) without using external service providers. We will explore the use of external providers more in the third whitepaper in this series – delving into how effective they are in supporting this business challenge.

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About Proxima

Proxima is a dynamic international business, specialising in procurement outsourcing.

At Proxima we approach things differently. Working closely with you, we improve business performance by making procurement deliver more. Our approach goes beyond driving efficiency. It's about enabling change, enhancing management control and delivering results that exceed your expectations.

We see procurement as an under-valued and under-developed business resource. Our aim is to change that. This doesn't mean just making what our clients do now more efficient. It means providing them with a complete end-to-end procurement solution that enables them to change the way they think and operate. It's this change that ultimately delivers long-term business success.

We accomplish this by:

- Offering business solutions for procurement challenges
- Providing market expertise – up-to-date and on-demand
- Winning hearts. Changing behaviour
- Delivering more than you thought possible
- Never being satisfied with the status-quo

Benefits of our model

In addition to significant savings, our approach enables diverse and capable global businesses to realize additional benefits including:

- A tailored solution – built specifically to meet your businesses demands
- Improved business performance – through our unique, and fundamentally different, approach to managing non-core spend
- Improved spend visibility and control – reducing contractual and operational risk
- Increased compliance over third party expenditure
- Best use of technology – from invoice processing automation and Purchase to Pay (P2P) platforms to complete sourcing systems
- Improved capital management – focusing on optimising your working capital, looking at payment terms and processing options
- Mobilised suppliers bringing more innovation
- Access to a pool of flexible, deep and broad category expertise – pulsing up and down with your business demand
- Refined, best-in-class processes and procedures – from across industries

Proxima
107 Cheapside
London, EC2V 6DN
United Kingdom

www.proximagroup.com
info@proximagroup.com
+44 (0) 20 3456 4500

About NelsonHall

Founded in 1998, NelsonHall is an analyst and advisory firm with an evidence-based approach to market and service provider assessments and an unrivalled BPO and outsourcing knowledge covering an extensive range of business processes and industry sectors.

We work closely with our clients to create a value-based relationship using our unrivalled outsourcing knowledge to act as a trusted advisor, providing answers and making business sense of the complexity and challenges faced by both service buyers and service providers within the global outsourcing market.

NelsonHall has discreet research programmes which cover all the horizontal BPO areas such as finance, accounting and procurement, and also major industry-specific BPO activities, for example mortgage processing in our banking programme. The NelsonHall approach uses three key pillars of primary research we use to develop our research and findings from which we aim to provide a realistic view of the current state of the market and also we hope an informed and insightful view of likely development of that market. We always aim to be accessible to our clients and we don't impose any charges for interruptions with analysts.

We are objective. In fact, our commitment to BPO is for successful outsourcing through the delivery of insight and thought leadership. Which means, if we don't think an organisation's best interest would be best served through an outsource, we actually don't recommend it.

NelsonHall
Atrium Court, The Ring
Bracknell, RG12 1BW
United Kingdom

www.nelson-hall.com
john.willmott@nelson-hall.com
+44 (0) 1344 393036

For more information,
contact us at:
T: +44 (0)20 3465 4500
E: info@proximagroup.com
www.proximagroup.com

