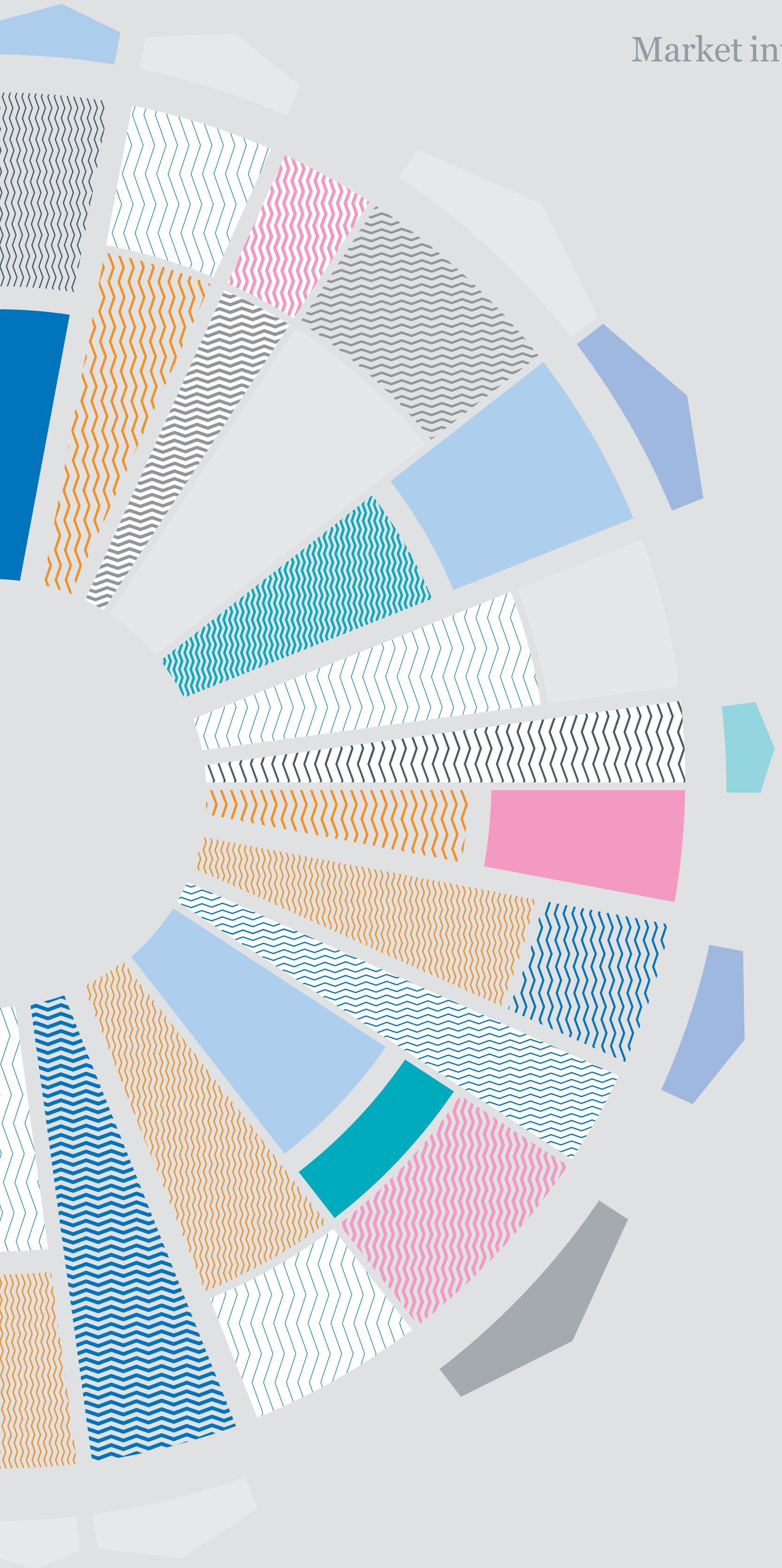
Proxima

Direct v indirect procurement.

Market intelligence survey.



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SUPPLY MANAGEMENT

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Summary

All businesses have indirect procurement. The research shows that it is unambiguously different to direct procurement. Understanding that it has smaller average supplier spends, more suppliers, maverick spend and a more complex stakeholder environment than directs helps all CPOs think about their approach to indirects. The journey to fundamentally improve indirects is a different path to the core procurement of an organisation. It requires a different balance of disciplined processes and technology, engagement with stakeholders and diverse expertise across a range of suppliers. We are very excited about the output of this research. We hope it will make all procurement professionals think about what goes on around them, and realise that we share many challenges.

Proxima is the leading independent European procurement outsourcer. Proxima takes responsibility for some or all indirect purchasing, so its clients can concentrate on their core activities. Clients range from FTSE-100 companies to leading charities and the public sector, including AGCO, British Airways, British Council, Man Group and William Hill. Proxima's work with Universal Music was overall winner of the CIPS Supply Management Awards 2005, and Proxima won the global Outsourcing Excellence Awards for best EU/UK in 2008. Proxima is one of 10 organisations worldwide to have CIPS Gold standard.

Proxima was created on the assumption that handling indirects was different from handling directs. However, this was based on anecdotal and theoretical foundations. We hope this research sheds some light on the real relative positions of indirects and directs and provides you with further insight into how best to approach them.

Overview

The average annual spend among the participating organisations is £940,623,000.

The average annual indirect spend among the organisations is £320,424,000.

Market intelligence survey

Welcome to the findings of the market intelligence survey carried out by Supply Management magazine and Proxima.

The purpose of this research was to ask our readers about the differences they perceive between the procurement of direct and indirect products and services.

It has revealed some fascinating results and some key themes. The 250 or so people who participated in the survey command an annual spend of £187 billion and have a combined indirect spend of £55 billion. The purchase of indirects, despite making up only around 30 per cent of the total, involves a disproportionately large number of suppliers, and many more stakeholders.

Further, the volume of maverick spend in indirect categories is higher than directs. The research does not reveal precisely why each of these is the case. However, the participants were clear about the challenges they face in this area.

As chart 2 shows, these include insufficient priority status in many organisations and insufficient resources (in terms of staff and time) allocated to them.

Steve Bagshaw

Editor, Supply Management

About the participants

Around 250 readers of Supply Management magazine took part in our online survey. They come from a wide range of sectors including some from the public sector. And they are very senior, including dozens of CPOs, procurement directors and heads of purchasing.

Their organisations are large, with annual spend of up to £40 billion. Most of the participants are in the UK. But there is nothing to suppose the issues uncovered in this survey would be any less of a problem elsewhere in the world.

They took part in the survey on the condition of anonymity but we have included some of their quotes to give a idea of the comments offered. Supply Management and Proxima would like to thank them for their participation and the three winners of the vintage champagne will be notified shortly.

Quick survey facts

Around 250 buyers took part from all sectors of the economy

- The average annual spend among the participating organisations is £940,623,000
- The average annual indirect spend among the organisations is £320,424,000
- The survey took place in August 2009
- The profession is gaining ground in non-traditional indirect areas including marketing and professional services
- The findings were consistent across industry sectors

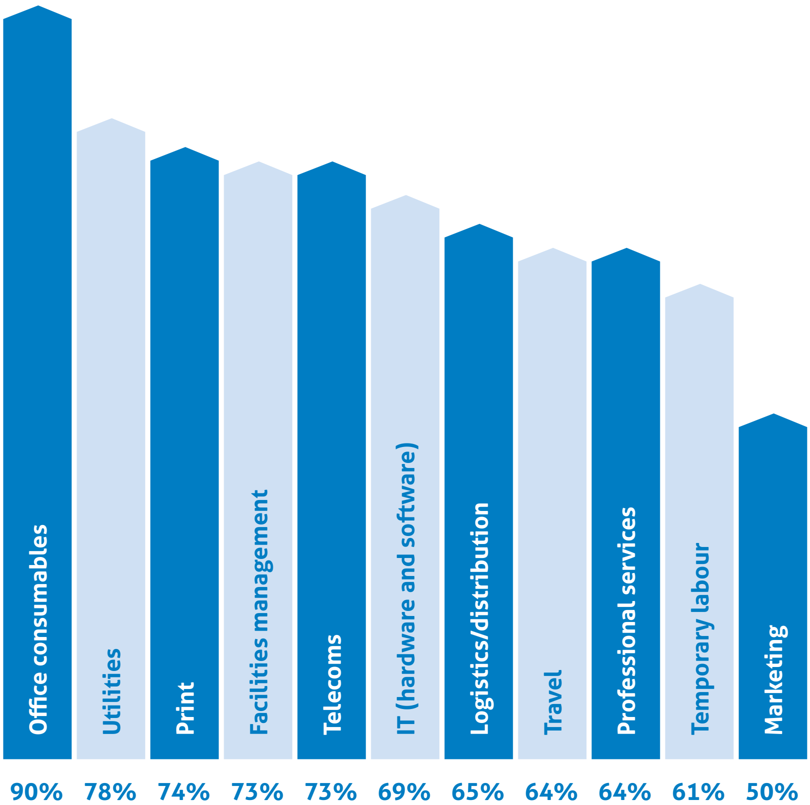
Most of the participants are in the UK. But there is nothing to suppose that the issues uncovered in this survey would be any less of a problem elsewhere in the world.

Which indirect categories does procurement influence?

The remit of procurement is without doubt widening. The growth of buyers' influence in marketing and professional services in the above chart is a relatively new development. As recently as five years ago these areas had much less prominence for buyers. This change, with half of organisations looking after marketing spend and more than two-thirds in charge of professional services, suggests an increase not only in their responsibility, but also in influence at a strategic level. It also suggests a shift towards an increasing responsibility for people-related buying.

Otherwise, the other indirect categories that buyers report as their duties are perhaps more conventional. Office consumables and utilities top the list, and almost three-quarters of buyers said that print, facilities management and telecoms are also their domain. IT, logistics, travel and temporary labour were the remaining indirect categories identified by most buyers as being influenced by procurement. (Chart 1).

Chart 1: Which indirect categories does procurement influence?



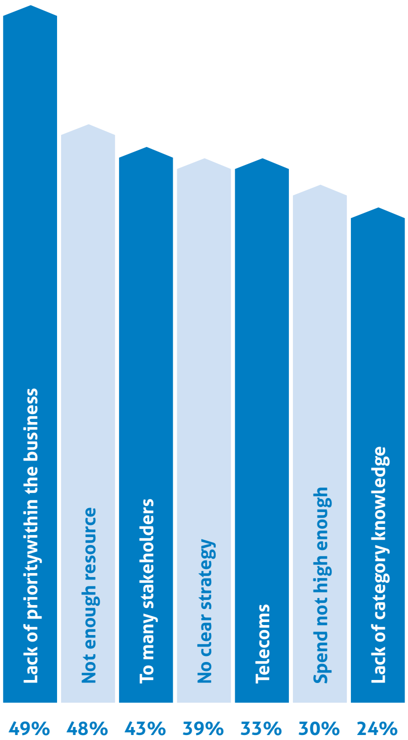
What are the main challenges of sourcing indirects?

Respondents to this question could give more than one reply. Despite indirects accounting for just under one-third of procurement spend, totalling around £55 billion annual spend in the companies surveyed, almost half of buyers said a lack of priority in the business is the main challenge for sourcing indirects, giving rise to the question of whether buyers are successful in getting their message across to boards.

About half also said they lack the resource and more than one-third bemoaned the absence of a clear strategy to source them effectively. One-third were concerned about not having enough time or money to spend on indirects.

Worryingly, one-quarter said a lack of category knowledge was hampering their indirect sourcing, suggesting purchasers are buying products they don't know much about.

Chart 2: What are the main challenges of sourcing indirects?



Other challenges reported by the 250 respondents

The market

"Fragmented spends in different geographic locations. We want global, standard solutions, but need local delivery"

"Supply market is a lot wider therefore more time spent in gaining knowledge"

"Maturity of supply market is less than for directs and stakeholders find it difficult to objectively quantify performance. Some services are very difficult to gauge demand and spend"

Engagement difficulties

"Procurement of indirect categories is usually more emotive and requires pro-active end-user engagement to ensure that they buy into the process"

"Different methods of engagement across the various business units, policy and procedures"

Procurement's role

"Seen as a support function, rather than a high value/profile requirement"

"This is linked to how well established, developed and regarded procurement is across the organisation. The biggest challenge to be faced will be to enable the organisation to invest in procurement appropriately and commit resource unconditionally"

"Direct is owned by procurement. Indirect is not"

"Employees committing business without discussing with procurement"

Stakeholder issues

"Stakeholder-supplier relationships can undermine procurement"

"Not enough input from stakeholders"

"Maintaining stakeholder engagement"

"Stakeholder jealousy"

"Stakeholders do not associate cost with profit"

Indirect spend as a proportion of total procurement spend

Chart 3 shows the volume of indirect suppliers compared to overall vendor numbers. It reveals that indirect vendors represent between 0 and 25 per cent of the total supply base for 37 per cent of organisations. And that for 24 per cent of organisations, indirect suppliers constitute between 76 and 100 per cent of the total.

But chart 4 reveals that the value of indirect spend as a percentage of total spend is generally lower than the volume of vendors involved. For example, indirect spend is between 0 and 25 per cent for over half (53 per cent) of organisations. It constitutes between 76 and 100 per cent of the total spend for only 9 per cent of those surveyed.

This shows that for many companies the volume of indirect suppliers is much higher than the rate of spend allocated to them. Indirects on average cover about a half or more of an organisation's total supply base indirect spend accounted for more than half the total for only 17 per cent of organisations.

Chart 3:

Proportion of indirect suppliers
(compared with overall vendor numbers)

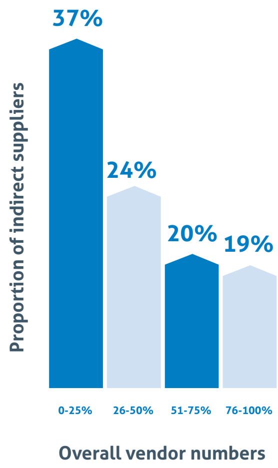
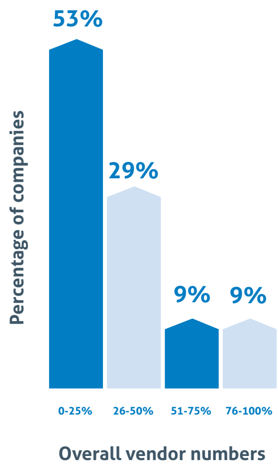


Chart 4:

Annual indirect procurement spend as a proportion of total procurement spend
(percentage of companies)



Stakeholders for indirects compared with directs

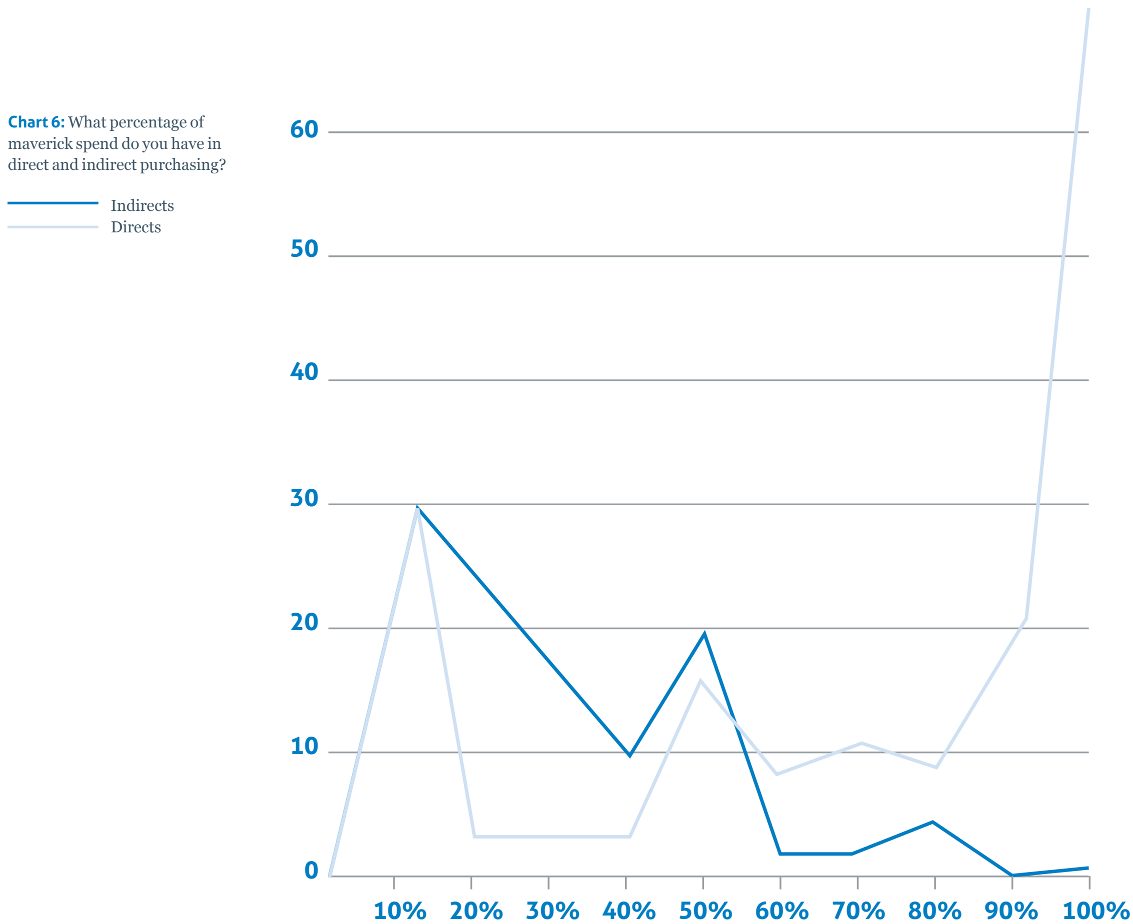
Chart 5 reveals the high number of stakeholders buyers need to deal with when procuring indirects. For close to half (44 per cent) of organisations buyers are dealing with more indirect stakeholders than they are with directs. And for a further 19 per cent of bodies there is parity. Only 37 per cent have fewer stakeholders for indirects. This suggests that for most companies surveyed, indirect spend worked out at less than half of total procurement spend, averaging at about one-third.

Chart 5: Stakeholders for indirects compared with directs

What percentage of maverick spend do you have in direct and indirect purchasing?

There is more maverick spend in indirects. The amount of non-procurement spend is much higher than for direct purchases and in many cases organisations have little centralised control over these areas. About 30 companies reported having maverick spend of 10 per cent in both indirects and directs, but the two figures diverge dramatically at the other end of the graph: some 67 companies reported 100 per cent maverick spend on indirects, whereas only two reported such a high level on directs.

Chart 6: What percentage of maverick spend do you have in direct and indirect purchasing?



Conclusion

This has been a very interesting project, one that highlights a big difference between the way procurement professionals tackle their indirect and direct goods and services. I imagine that, for some, the findings of this report will come as something of a shock, if not because of the fact of the conclusions but the extent of the differences: the size of the discrepancy between the resources required for indirects and the spend allotted to them.

For others it may confirm what they have suspected was the case at their own organisation: that these spend areas need more resource than they get and in many cases there is no clear strategy to deal with these issues. And there will no doubt be exceptions – companies for whom few of these conclusions are the case. This research cannot take into account every individual set of circumstances. No research on this scale can. But the trends it identifies in the profession are clear.

Either way, the information is here in black and white from a representative sample of Supply Management readers. The question now is how buyers, CPOs and finance directors will respond.

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

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