



Are You Optimizing Your INDIRECT SPEND?

Despite its importance to the bottom line, many companies fail to manage indirect spend properly. Utilizing a team of dedicated experts helps organizations to benefit from optimized indirect expenditures.

As a procurement professional you realize the importance of indirect spend. Stiff competition, globalization and reduced margins mean that organizations can no longer ignore the 20 percent of spend that's not directly linked to production and their core products and services.

You're not alone. Too often, indirect expenditure is one of the last areas that companies look at when improving how they manage spend. Given how varied and complex spend categories are, it can be tough to optimize them without deep expertise in each subject area.

Indirect spend can affect a multitude of categories touching on the daily operations and profit margins of areas including: telecommunications

- fleet management • insurance • waste
- courier, logistics & freight services • security
- marketing, print & packaging • property & rent
- energy • facility management.

While challenging, optimizing that spend means some real benefits to the bottom line. In fact, each dollar that procurement saves represents hard savings that can require the addition of another \$6 or \$7 in sales.

So why do companies so often turn to indirect spend last when looking to cut costs?

- Services, technologies and prices change constantly and keeping up is tough without dedicated resources and expertise.
- Analysing non-core services can tax a team, while understanding each spend category is difficult and time consuming.
- It's difficult to compare services and providers objectively, as providers frequently reinvent their

services and change terminology.

- Paying for services tailored to actual requirements is tricky when those services aren't mapped out.
- A lack of visibility into data makes it tough to analyze usage.
- Companies usually interact much less frequently with indirect suppliers than they do with strategic vendors.

Staffing constraints can also present challenges. Direct procurement plays a pivotal strategic function in production and companies most often assign it to a procurement professional. This leaves limited time and resources for indirect expenditures. The answer to this problem lies in dedicating experts to optimizing indirect spend, for example by hiring a consulting agency, says Glenn Kerrick, President, Ayming North America.

"When dedicating experts to focus on indirect procurement, savings of up to 40 per cent can be achieved using industry knowledge and benchmarks to effectively map usage patterns and streamline costs," says Kerrick. "Even companies that are convinced their indirect costs are optimized have still realized additional savings of 15-to-20 per cent when entrusting a dedicated resource to analyze their expenditures."

Focusing on indirect costs while reducing waste and inefficiencies can impact the bottom line significantly. Doing so means that you can redirect the cash saved on indirect expenditures into more strategic pursuits. This will directly boost profit margins, increasing profitability without affecting your company's core products or services. These and other tangible, long-term benefits are available to companies when they take the time to optimize their indirect spend.

Today's hyper-competitive and globalized environment means that getting a handle on indirect expenditures is more important than ever, says Glenn Kerrick, President, Ayming North America:



Companies can no longer afford to ignore this key area of procurement. Through a review of indirect spend categories, organizations can identify which of those categories have the most potential for significant savings.



Ayming is an international business performance consulting group backed by 30 years of proven results. The company has realized \$291 million per year in purchasing savings.