Transforming Indirect Procurement into Profits

Indirect expenses have a direct impact on the bottom line yet are often overlooked by companies focused on more strategic expenditures. When looking to reduce costs, areas such as inventory and head count seem like the best place to start, since indirect expenditures can mistakenly be viewed more as fixed costs, presenting less flexibility in terms of offerings and rates.

While direct procurement plays a strategic function in production and is most likely assigned to a procurement professional, this often results in limited time and resources remaining for indirect expenditures. However, indirect procurement needs to start being seen the same way administrative staff is, as having a key support function that directly impacts the overall success of a company's daily operations.

Without properly managed indirect products and services, these are just some of the spend categories where a company's daily operations and profit margins can be affected:

- Telecom
- Car fleet
- Insurance
- Waste
- Courier, logistics & freight
- Security
- Marketing, print & packaging
- Property & rent
- Energy
- Facility management

It is estimated that indirect expenditures represent up to 20% of a company’s total spend, presenting an opportunity for significant savings if managed by a dedicated resource. Despite this, many companies simply aren’t directing their attention to this area of procurement. Why is that?

Why Don’t Companies Focus on Indirect Costs?

It has been common practice for organizations to focus on 80% of their spend, which is mostly centered around strategic sourcing that is directly linked to production. However, with today’s competitive landscape, globalization and reduced margins, companies can no longer ignore the remaining 20%. While most companies are aware that they are not managing indirect expenditures to their fullest potential, spend categories are so varied and complex that it can be difficult to optimize them without deep expertise in each category. **For the following reasons, indirect expenditures are often the last area companies turn to when looking to cut costs:**

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- **Services, technologies and prices are constantly changing;** it is very difficult to keep up with changes without dedicated resources and expertise
- **Analyzing services that are not part of a company’s core competency is taxing on its team;** understanding each spend category is difficult and time consuming. Indirect costs may therefore be overlooked while focusing on a company’s main business
- **Comparing providers and services objectively isn’t easy;** providers are frequently reinventing their services and changing terminology, making comparisons difficult

- **Paying for services that are tailored to actual requirements is difficult** when services are not all mapped out
- **There is a lack of visibility** to data, making it difficult to analyze usage
- **Interactions with indirect suppliers can be much less frequent** than with strategic ones

Cutting Costs, Not Quality

While optimizing indirect expenditures can be very challenging without proper expertise, focusing on indirect costs and reducing waste and inefficiencies can have a significant impact on the bottom line. Companies can redirect funds saved on indirect expenditures into more strategic initiatives, directly impacting profit margins.

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

When a manufacturer of materials for the construction industry engaged industry experts to perform an analysis of its general ledger and optimize its indirect costs, the results spoke for themselves. Using detailed mapping, benchmarking and negotiating strategies, the company realized 47% savings on its cellular costs, 12% on its wireline, 12% on its waste management, and 5% on its car fleet, with provisions put in place to support the company's growth. All of this was achieved with minimal impact on the company's operations, and zero effect on production quality. This is only one example of the rapid and strong impact shifting some of a company's focus to indirect costs can have on profitability.

With increased competition and globalization directly affecting profit margins in most industries, indirect cost reduction is the key to increasing profitability without affecting the quality of a company's core products and services. Companies can no longer afford to ignore this key area of procurement, and a thorough analysis of their general ledger, services and business requirements should be performed to identify which indirect spend categories have the most potential for significant savings. Their overall profitability could depend on it.

About Ayming

Ayming is a leading international business performance consulting group backed by 30 years of proven results. Capital Magazine recently named Ayming the #1 cost optimization consulting firm that clients are most likely to recommend. At Ayming, we believe any funds gained on overhead are funds that can be reinvested into more strategic initiatives. Thus, allowing Ayming to review your entire general ledger and optimize indirect purchases becomes a real lever of profitability for your organization, all with no upfront cost and no risk.

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