Indirect Procurement – It's Time to Rise and Shine!

supplychaingamechanger@gmail.com April 4, 2020

> *What's the Difference between Procurement and Purchasing? (Infographic)*

Indirect procurement of goods and services can be one of the largest areas of expenditure in any company. And the operational impact that the provision of Indirect goods and services can have on a company can be significant, either positively or negatively.

Yet the lack of attention and focus that Indirect Procurement is often given is inconsistent with the true importance of this area. Indirect Procurement takes a back seat to Direct Procurement unfortunately.

But it is time for Indirect Procurement to stand up and be counted!

The Importance of Indirect Procurement!

Indirect Procurement is referred to by many different names. It might be called Non-Production Procurement or MRO for instance. The very labels applied to these names

(ie. “Indirect” or “Non”-Production) implies some lesser level of importance. But nothing could be further from the truth.

The procurement of Indirect goods and services encompasses virtually every aspect of your company. The scope of Indirect Procurement includes areas such as I/T, Capital expenditures, Freight and Logistics, Facilities, Marketing, Legal and Human Resources, Outsourcing contracts, Marketing, Utilities, Consumables, Temporary Labour, and Travel.

Failure to negotiate good contractual rates and terms and conditions across these areas can have a tremendous and immediate impact on a company’s financial and operating performance. Further failure Indirect goods and services suppliers to deliver on their promise can bring a company to its knees. And failure to put in the necessary controls to manage the entire procurement, governance, and supplier management process can jeopardize a company’s ability to remain viable.

The ability to negotiate great rates and terms can make a significant improvement to a company’s profitability and cash flow. It can provide a source of competitive differentiation. And it can enable improved productivity in both direct and indirect functions.

Indirect Procurement is critically important in any company.

So why is it an area that receives less focus and attention?



Who's Responsible for Indirect Procurement?

One of the prevailing issues with this area is the result of its inherent complexity and massive breadth.

Having expertise in every single one of these areas is almost always unrealistic for an individual or a small team covering all of these areas. The Procurement Professional brings expertise in the processes of supplier sourcing, quotation, negotiation, supplier selection, terms and conditions management, performance management and supplier relationship management. But they can be challenged to be subject matter experts in each of these numerous areas.

Additionally the number of Indirect goods and services suppliers can easily number in the hundreds and thousands. Furthermore they can be spread all over the world, many of

these suppliers being local and indigenous to the country or area that they are serving. Even in large companies it is difficult to have fully global coverage in the Indirect Procurement area.

The dynamic that this situation often creates then is one of contention between the Functional areas and the Procurement team as to who is responsible for managing Indirect goods and services.

The Functional leaders are clearly the Subject Matter Experts. The I/T team clearly understands I/T better than Procurement, or anyone else, ever will. The Logistics team clearly understands Freight and Transportation better than anyone else. And so on and so on for every Indirect goods and services area.

And if you run an organization of geographically dispersed facilities, whether they be Offices, Manufacturing sites, or Distribution Centres, you will know your local market better than anyone else. You understand the culture, the contacts, the language and the local practices and regulations.

But these Functional leaders and Local operators likewise have no experience or expertise in proper Procurement practices, skills, techniques and tools. The Procurement Profession is a calling just like any other. There is a level of skill, expertise and experience involved in Procurement that

is best known by Procurement experts. And Indirect Procurement in and of itself is a very specific area of skill.

There are certainly exceptions to those notes above. There are Functional leaders who have worked in Procurement. And there are Procurement individuals who have worked in the Functional areas. That is a great combination of skills but it is not as common as it should be, or could be.

Another factor for consideration is the size of your company. Large, global companies are more likely able to finance a sizeable Indirect Procurement team with experts in each Functional area, making this team very formidable. However medium to small-sized companies don't often have the ability to hire such an experienced team. Their Indirect Procurement staffing levels are usually outnumbered by the amount of activity that has to be done and as such they often have no choice but to concede control to the Functional areas.

Given the complexity of every company, its organization, its size, its geography, its areas of competency, and its resources there is no single answer as to how to organize an Indirect Procurement capability.

But at some level in your company someone has that responsibility. If it can be managed centrally and globally that is great. If not then some hybrid, matrix-managed

organization structure for Indirect Procurement is better than no structure at all.

Conclusion

No matter what situation your company is in it is critical to treat the procurement of Indirect goods and services strategically and methodically. There must be oversight to ensure that the best possible deployment of resources and processes is in place.

If profit is important to your company then a concerted focus on Indirect Procurement can often deliver low to high single digit percentage cost reductions, if not higher. All of this goes right to your bottom line. And if you are looking for cash flow or productivity improvements look no further than your Indirect Procurement team.

And if keeping the lights on and keeping the computers up and running is important to your company then the importance of Indirect Procurement needs to be recognized.

There is a phenomenal amount of skill and expertise involved in Indirect Procurement.

Let’s give it the respect it deserves!

Copyright © Mortson Enterprises Inc. All

Rights Reserved.

#IndirectProcurement #Procurement #SCM #SupplyChain #Leadership #Business #Finance