

Indirect Spend Management is a Critical Imperative for Any Organization

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It is a tough time to be a mid-market, profit or non-profit organization. Rising material costs, increased global competition, and continued customer price pressure is making spend management a priority for all types of organizations. Lacking the buying clout and resources of some of their larger brethren, mid-market organizations are beginning to recognize spend management as a necessity for survival.

Cost Containment Specialists has been working with mid-market organizations since 1998 and know their most important and difficult cost reduction and containment challenges in the indirect spend categories.

Mid-market organizations employ a variety of approaches to manage the acquisition of indirect goods and services. Unfortunately, many fall short in savings performance. Complacency with current approaches should no longer be tolerated by management looking for savings to defend or grow their organization's market position. Mid-market organizations cannot afford to operate in functional silos and should embrace indirect spend management strategies based on a holistic view of indirect spend procurement.

It's time to address operational effectiveness and develop an indirect spend management strategy that will connect cost reduction and containment of indirect spend categories with validated bottom-line results. Indirect spend management and expertise, based upon proven results, are now available to meet the needs and budgets of all mid-market organizations.

1) Assess the effectiveness of current approaches to managing indirect spend

Despite best efforts, the effectiveness of most approaches suffer due to lack of resources, poor internal coordination, low purchasing volumes, too cozy relationships with suppliers and the inability to enforce consistent processes and procedures to reduce and contain costs.

2) Make indirect spend management a priority

Procurement challenges within the indirect spend area must be addressed collectively and systematically to stop the savings leakage from inefficiencies, ineffectiveness, and complacency. It's time to view indirect spend management as a priority as important as direct spend categories.

3) Demonstrate that indirect spend management initiatives drive bottom-line results

Indirect spend management initiatives must demonstrate ongoing value beyond improving incremental and temporary results; therefore, results should be validated and reported monthly.

Successful cost savings without adding resources

While organizations of all sizes are feeling resource-constrained, a lack of headcount, expertise, time or budget hits mid-market organizations particularly hard.

A growing number of mid-market organizations are turning to third-party resources such as the hiring of outside category experts or consultants as an increasingly popular antidote to this skills dilemma. The reason... Mid-market organizations need cost savings and containment now. They often can't wait to hire, train, or develop the skills in-house. While tapping outside expertise is by no means a long-term solution to a skills gap, a growing number of managers are using this strategy to achieve near-term goals quickly. The knowledge transfer and best-practice processes introduced by outside experts are then used to build internal competencies and self-sufficiency.

Supporting multiple business units or geographies

Acquisitions, legacy spend-owner fiefdoms, and disparate system choices are common causes of uncoordinated indirect spending. It's far too common to find the same item bought from multiple suppliers or a single supplier quoting multiple prices and terms for the same item. Mid-market organizations that consolidate and align their indirect spend procurement approaches quickly gain savings leverage, visibility into spending data and operations, and improved staff productivity.

Ensure compliance with established processes

Mid-market organizations are challenged with defining their processes and ensuring procedures are followed. In the absence of compliance monitoring, inconsistent staff purchasing behavior leads to rampant maverick spending and savings leakage.

Indirect spend management initiatives must demonstrate value beyond improving incremental project or departmental savings to become part of an organization's standard operating procedure and broader culture.

Indirect spends procurement relationship to the bottom line is easily quantified: a one percent decrease in operating costs results in a 20 percent increase in earnings per share (EPS). Operating cost reduction can come from reduced purchase price, lower requisition or invoicing costs, increased price and term compliance, or reduction in maverick spending. Achieving the same 20 percent increase EPS would require a 10 percent increase in revenue growth. With economic pressures hampering growth opportunities, the relationship between cost savings and containment the bottom line merits serious attention.

Conclusion

Many mid-market organizations are starting to see that their current indirect spend procurement and spend management approaches are falling short, due in part to lack of buying clout and naïve perceptions they are doing a good job.

Mid-market organizations should put more emphasis on bottom-line results, and believe indirect procurement is a source of valuable information to help save money and manage risk.

As indirect spend management becomes viewed as a true priority in mid-market organizations, its focus by management and its role in influencing organizations success can be assured.

About Cost Containment Specialists

Cost Containment Specialists is a national expense reduction firm that provides advisory services to organizations to assist them in reducing their indirect operating expenses. We engage Subject Matter Experts (SME) that have specific expense expertise in over 20 spend categories to analyze and negotiate our clients current and alternative vendors to realize savings greater than can be done internally. Since 1998, CCS has helped over 1,500 businesses and organizations find undiscovered cost savings. Our fees are success-based, so you do not pay us until we produce savings.

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