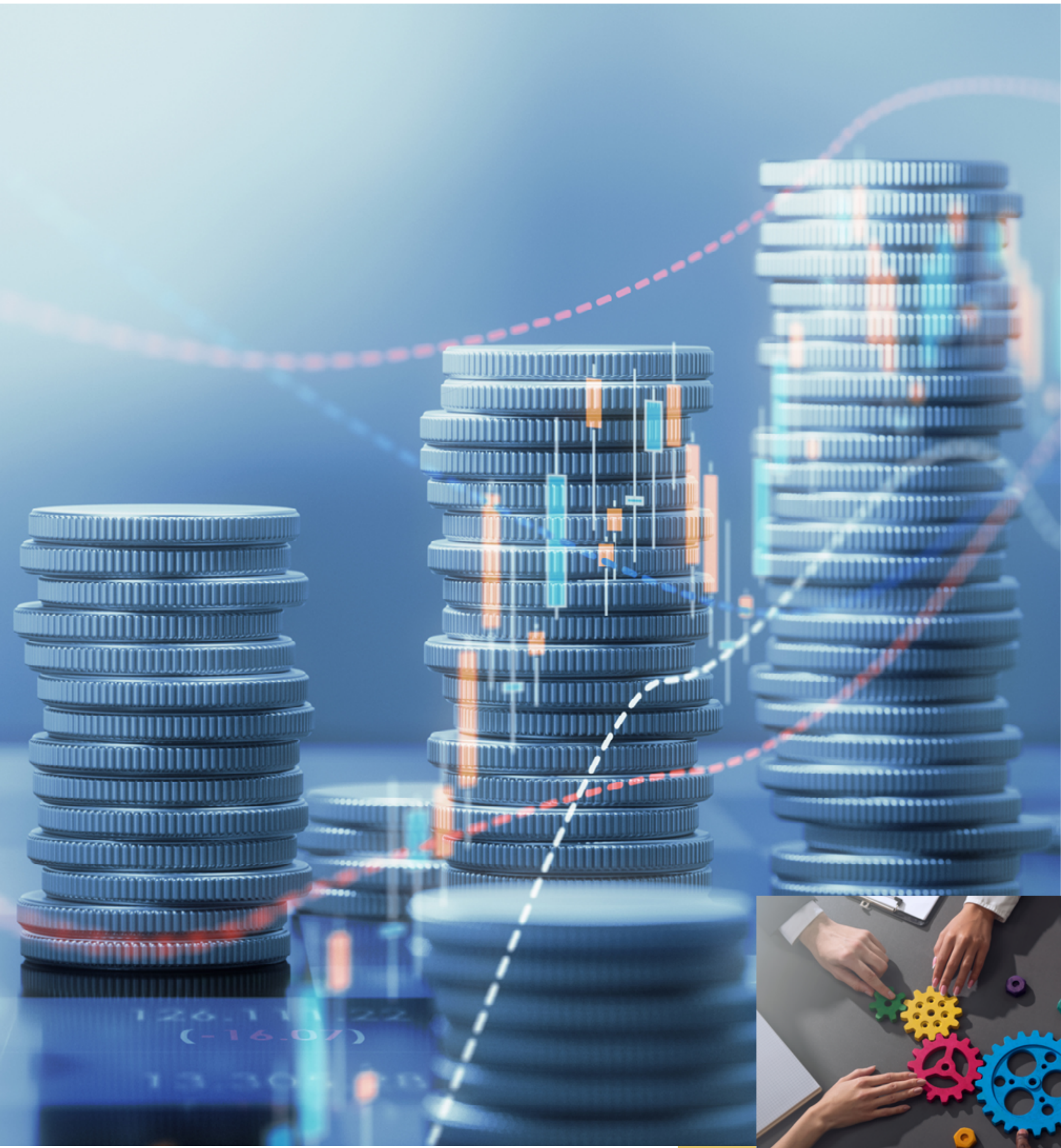


Indirect Spend Management:

SIX CHALLENGES CAUSED BY LACK OF TRANSPARENCY AND HOW TO OVERCOME THEM

JAGGAER

01 |

Introduction: What you don‘t know will hurt you

With changing market conditions, cost reduction and cash preservation are key priorities. One area that organizations tend to loosely monitor is their indirect spend as it is decentralized and not tightly controlled. But a lack of transparency over indirect spend will cost you time and money and it could even land your company in legal difficulties. Getting visibility into these transactions offers opportunities to cut spending without impacting the services and products employees need to grow revenue.

Many companies, and even their procurement departments, are unaware of just how important indirect procurement is for running a profitable business and maintaining a positive cash flow. This is entirely understandable because indirect spend is by nature not part of the core business.

With direct procurement, by contrast, the entire cost goes toward production, which is why companies are usually more aware of it and more interested in gaining the transparency needed to control the costs.

Indirect spend mainly consists of large volumes of relatively low-value transactions. It also involves a lot of buyers (virtually everyone in an organization at some stage needs to buy something) and a lot of suppliers. Depending on your line of business, it might amount to only 20% of expenditure but 80% of purchasing transactions. But the money lost on these many transactions can easily add up, so a dollar lost here, and a dollar overspent there can soon make a difference to the bottom line. The cost of processing such transactions is also very high relative to the value of the transactions themselves.

With so many small transactions being placed with many diverse suppliers, it becomes difficult to stay on top of things. It is especially difficult to track and analyze supplier performance, and even a large procurement team is unlikely to have expertise in each indirect spend category.

However, procurement departments can drive efficiency regularly by monitoring both direct and indirect spend to enable the company to sustain an appropriate liquidity ratio. With a more efficient procurement team, a company can focus their spend by investing in growth.

In this paper we look at the six main challenges caused by a lack of transparency and how you can solve them with a comprehensive procure-to-pay (P2P) solution.

02 |

Challenge #1: Maverick Buying

Maverick buying (or off-contract buying) happens when there are processes in place that make it difficult for someone to purchase items needed for everyday use. Shopping online and submitting an expense report is much easier than submitting a requisition or purchase order that takes ages to process. However, maverick spending can be difficult to monitor spend effectively and potentially results in lost money as employees buy at retail prices when you should be securing handsome bulk or wholesale discounts.

The solution is to give end-users the option to order online and enjoy an e-shopping experience comparable to the one they enjoy as a private customer. This experience should be user-friendly, intuitive, and frictionless. Running low on stationery? Simply pick items from a catalog, review the shopping cart and place the order. This is all done through the procurement department's P2P solution – against contracts negotiated with preferred suppliers. The P2P solution allows end-users to shop and track orders as easily as if they were shopping online with the added benefit that all the information the procurement department needs is captured too.

03 |

Challenge #2: Compliance with Contracts & Regulations

Lack of transparency makes it difficult or impossible to monitor and ensure a supplier's compliance with negotiated contracts and any internal regulations that might apply. Typically what this means is that the procurement department has invested time negotiating terms and conditions of a contract, service level agreements, etc. and wants to make sure that buyers leverage whatever has been negotiated. Without transparency, it is impossible to track such compliance.

A P2P solution addresses this challenge by automatically monitoring compliance with agreed and standardized workflows, approvals, catalogs, expiration and renewal deadlines, etc, and notifying users in the event of non-compliance.

A buyer can create orders from the contract via a catalog-like interface. Only onboarded suppliers that meet compliance standards are listed in the catalog and compliance checks will be triggered automatically.

In some cases, there may be an additional requirement to comply with external regulations. For example, in certain industries it may be that equipment has to meet industry health & safety standards. These can also be applied in the P2P solution.

04 |

Challenge #3: Bundling of Requirements

A lack of transparency means companies are likely to miss out on benefits in existing contracts, and worse conditions invariably mean higher prices. With greater transparency it is easier to bundle requirements and save costs by reducing suppliers and negotiating better deals. Let's take the example of business stationery. A large organization has a frequent need to order business cards. Ordering these one at a time is very costly; much better to get the optimum number printed together. Even better if you bundle your business card order with other office stationery items and order from a single supplier.

A P2P solution helps ensure that all purchases within a certain category are bundled in this way and sent only to designated suppliers in the catalog. Procurement officers can then monitor such purchases and leverage the information and bargaining power to negotiate better deals now and better terms and conditions in the future.

05 |

Challenge #4: Reduced Risk

Supplier risk is less of an issue with indirect spend than with direct, but it might arise in some situations. A procurement department, working with other stakeholders, will decide if it wants to pursue a single-supplier, dual-supplier or multi-supplier strategy. The advantages of a single supplier are the ones outlined above under bundling requirements, but this has to be balanced against the risk that the supplier might not always be in a position to meet all requirements. Let's take the example of marketing communications. The VP of Marketing might have a favorite advertising agency, but is it wise to give them every job every time? A little healthy competition might be beneficial, and it is also useful to have some backup if the lead agency is stretched. With a P2P solution you can also monitor the service provider's performance. This is important for categories such as facilities management maintenance. How reliable is a supplier? Do they arrive on time? Are people satisfied with the service? These are important issues for most companies, but in some businesses it could be critical. If a particular service provider has multiple complaints lodged against it, this may indicate increased reputation risk. The system can be set up to flag such issues, allowing procurement professionals to address the issue and consider alternatives.

06 |

Challenge #5: Audits

Lack of transparency makes it more difficult to respond quickly and efficiently to requests for information from internal and external auditors. Typically, an auditor might scrutinize an invoice and ask for the full audit trail behind the purchase. With an integrated P2P solution, this is easy. All of the information associated with that invoice is available at the click of a button. There is no need to print out files for the auditors or waste time locating receipts and contracts in different systems or filing cabinets.

Every legitimate company, and especially those with high ethical standards, wants to be above suspicion when it comes to procurement corruption. Not so much because of the immediate financial loss but because of the damage to reputation. However, procurement corruption is often subtle and seems harmless—such as when a vendor gives small gifts to a buyer. Many countries have very strict standards regulating such matters. With the transparency that a P2P solution gives you, you are far less likely to be the victim of fraud and corruption. If spend is directed through the P2P solution then individuals cannot easily override internal controls and any wrongdoing is likely to be uncovered by audits.

07 |

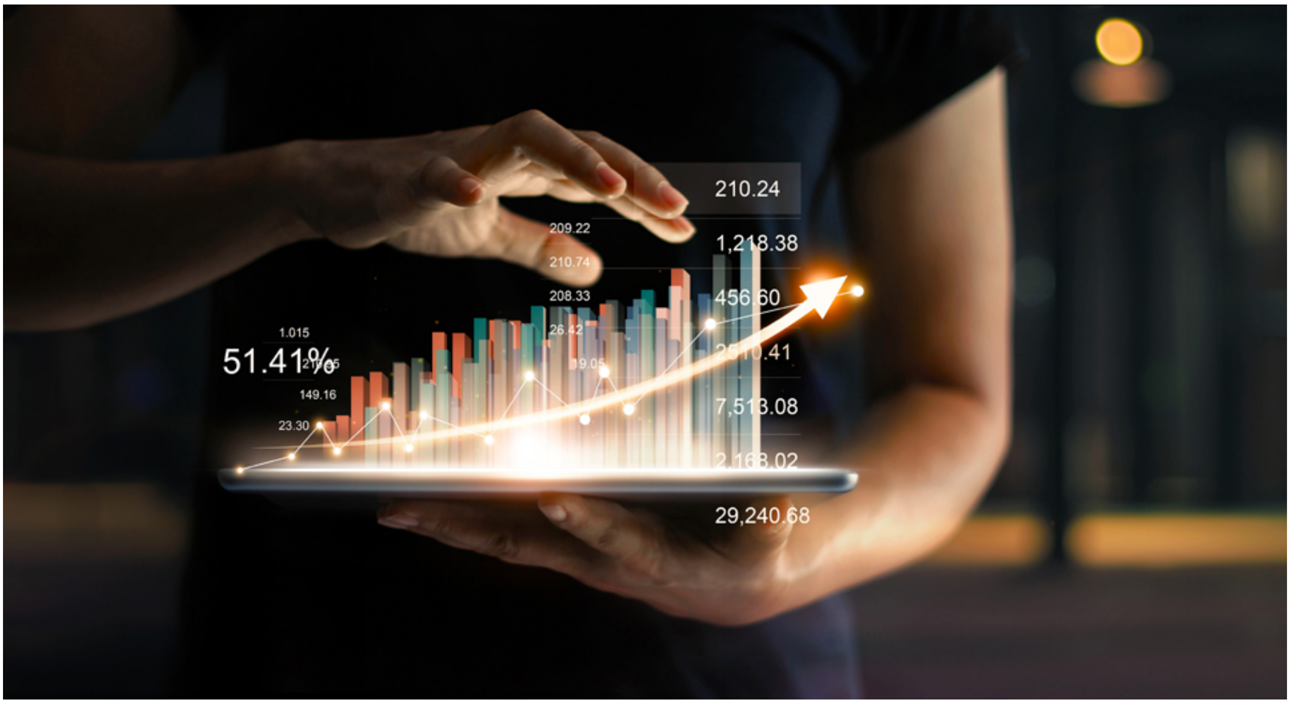
Challenge #6: Spend Optimization

What you can't measure, you can't manage. Data transparency is a prerequisite for taking advantage of advanced technologies (artificial intelligence, analytics, etc.) that enable you to optimize spend in the future through better decision making. For example, if you have visibility over spend, supplier performance, and contract compliance rates, you can use analytics to run "what-if" scenarios to determine whether a single, dual or multi-supplier strategy will deliver the optimal trade-off between cost savings and risk.

This is the beauty of a state-of-the-art P2P solution — it closes the loop. It enables you to track your strategy with dashboards and then, with its analytics and reporting, it provides the information and tools required to adjust, refine and improve your indirect spend strategy.

08 |

What should you expect of a P2P Solution?



A P2P software suite integrates and automates the entire back-office lifecycle of requisitioning, purchasing, receiving, paying, and accounting for indirect goods and services. By creating standard workflows between buyers, procurement and accounting departments, a P2P solution should provide more transparency into, and control over, indirect spend and should create a more congenial relationship between all stakeholders.

SaaS technology accessed in the cloud, such as the JAGGAER ONE suite, has made affordable, flexible and technically versatile solutions available. JAGGAER ONE is a comprehensive suite of solutions allowing organizations to automate processes and extend the solution to new categories as their growth requires and their budgets allow. Even if introduced gradually, organizations experience maximum benefit with eventual full adoption of JAGGAER ONE for all spend categories and the entire procure-to-pay lifecycle.

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