



# The dangers of tackling indirect cost and tail spend

A Market Intelligence Survey of 360 CIPS members, presented by Supply Management magazine and Expense Reduction Analysts



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# Market Intelligence Survey

## Editor's introduction

Welcome to the market intelligence survey carried out by Supply Management magazine and Expense Reduction Analysts.

We asked 360 procurement professionals (CIPS members) ranging from CPOs to junior buyers, about the nature of the challenges they face in regard to indirect procurement and managing tail-spend, and how they feel these could be addressed.

The research came up with fascinating insights: for instance 71 per cent of our respondents regarded maverick spend by non-procurement professionals as the biggest challenge relating to indirect procurement.

And procurement professionals are divided on how this challenge should be addressed: about a third think all employees with some responsibility for spend should get procurement training, and a similar proportion think that control for indirect procurement should be handed to the procurement function.

This survey highlights the challenges associated with getting better control of organisations' indirect spend. It also offers some potential solutions from those really in the know – procurement professionals themselves.

I would like to thank everyone for taking part.

**Anna Scott**  
Special projects editor  
Supply Management

## Introduction from Expense Reduction Analysts

As a specialist procurement consultancy, we are well aware of some of the issues businesses have in controlling indirect spend, as well as the difficulty some procurement functions have with gaining the proper status within organisations.

We're delighted to work with Supply Management on this research, and there are some telling insights from the report. For example, the procurement teams we spoke to are split down the middle about how best to tackle maverick spend by non-procurement staff.

It's a complicated picture and one not easily overcome with basic strategy or sweeping statements. The reality is that effective procurement requires focus, but the survey also shows that the focus is constantly shifting between direct and indirect spend and not always in the same direction.

There are huge gains to be made by allowing procurement strategies to be given higher status by businesses, and better analysis of indirect spend – perhaps by allowing procurement functions to have greater visibility across all areas of spend – can have significant benefits.

## Quick survey facts



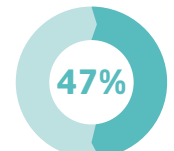
**71 per cent**

of respondents believe the biggest indirect challenge for their business is the maverick spend of non-procurement employees.



**Over one third**

of those respondents think training these employees could reduce maverick spend.

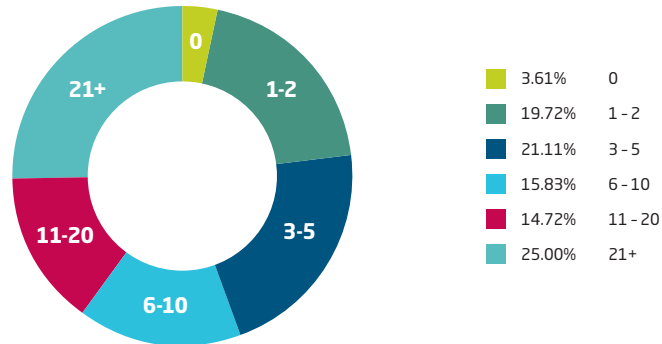


**Nearly half**

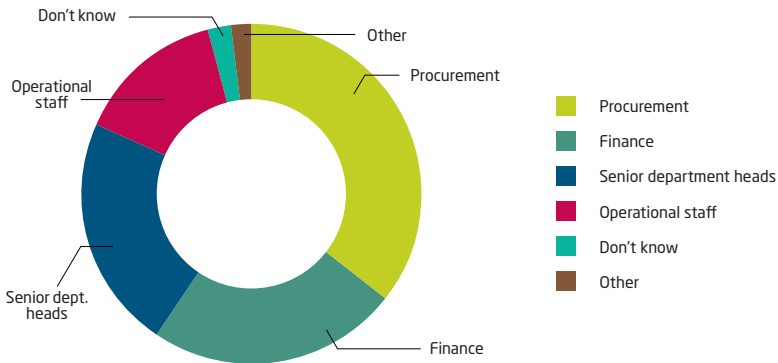
think higher status in the boardroom would increase the function's influence. 42 per cent think better oversight and reporting spend would do that.

- Our respondents manage up to 27 indirect categories from professional services to workwear and HR services to temporary labour.
- Procurement professionals seem to be excluded from certain predictable categories – those of complex services – but there is a spectrum of responses within our research. Influence is wielded by 49 per cent and 39 per cent for audit/accountancy and legal services, respectively.
- It's the simple and clearly-measurable indirect categories that procurement tends to oversee. The highest proportion of procurement professionals have complete control of spend in office consumables (52 per cent) and office equipment (46 per cent).
- Communication between procurement and other internal stakeholders is cited as a problem by 61 per cent of respondents.
- However, indirect categories of complex, specialist service areas typically fall outside procurement's remit. The highest proportions of respondents have no control over spend in legal services (42 per cent) and audit/accountancy (37 per cent).
- Nearly half think higher status in the boardroom would increase procurement's influence.

Q. How many staff are in your procurement department?



Q. Who is responsible for managing indirect costs in your organisation?



Analysis

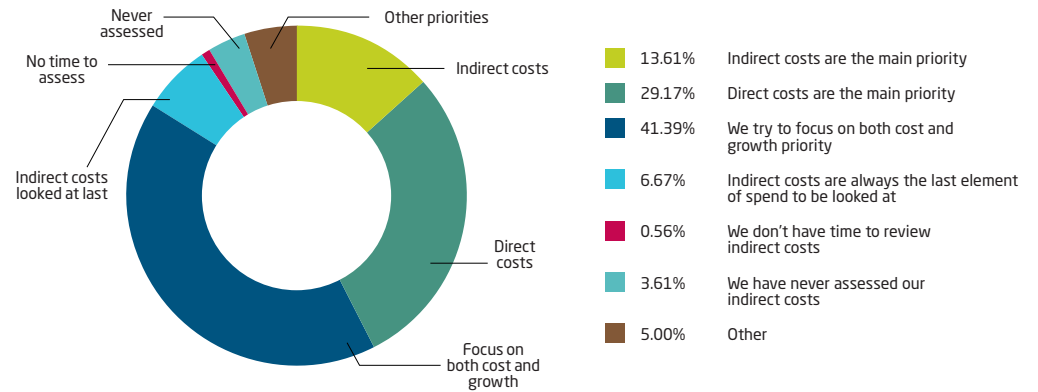
Procurement professionals have responsibility for managing indirect costs in nearly two-thirds of our respondent organisations. But they do not have sole control.

Indirect costs appear to be the shared responsibility of a number of different departments. As well as procurement having power, a significant proportion of organisations also give responsibility for purchasing goods and services used by internal stakeholders rather than customers or clients to finance (39 per cent),

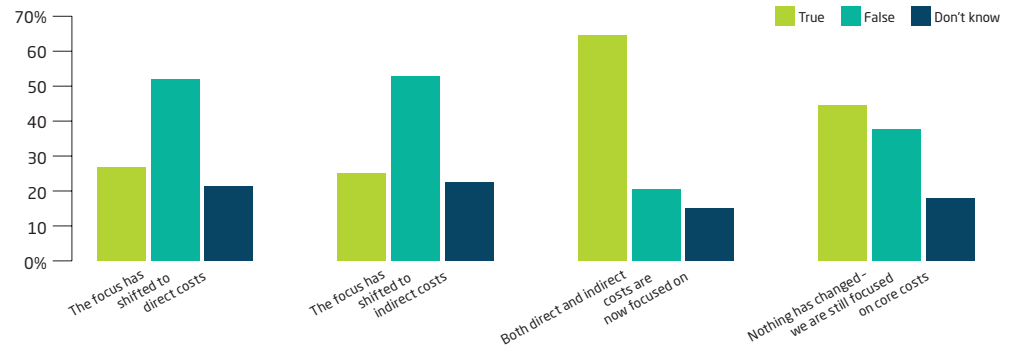
senior department heads (42 per cent) and operational staff (25 per cent).

This joint control could be explained by the varied number of procurement professionals that our respondent organisations have – small procurement teams may report into finance and share control and responsibility with them, for example. Or larger procurement functions may find that they are sharing control of marketing spend with marketing directors, for instance.

Q. What best describes your organisation's priority with regards to procurement?



Q. Have attitudes to procurement within your organisation changed in the last 12 months?



Analysis

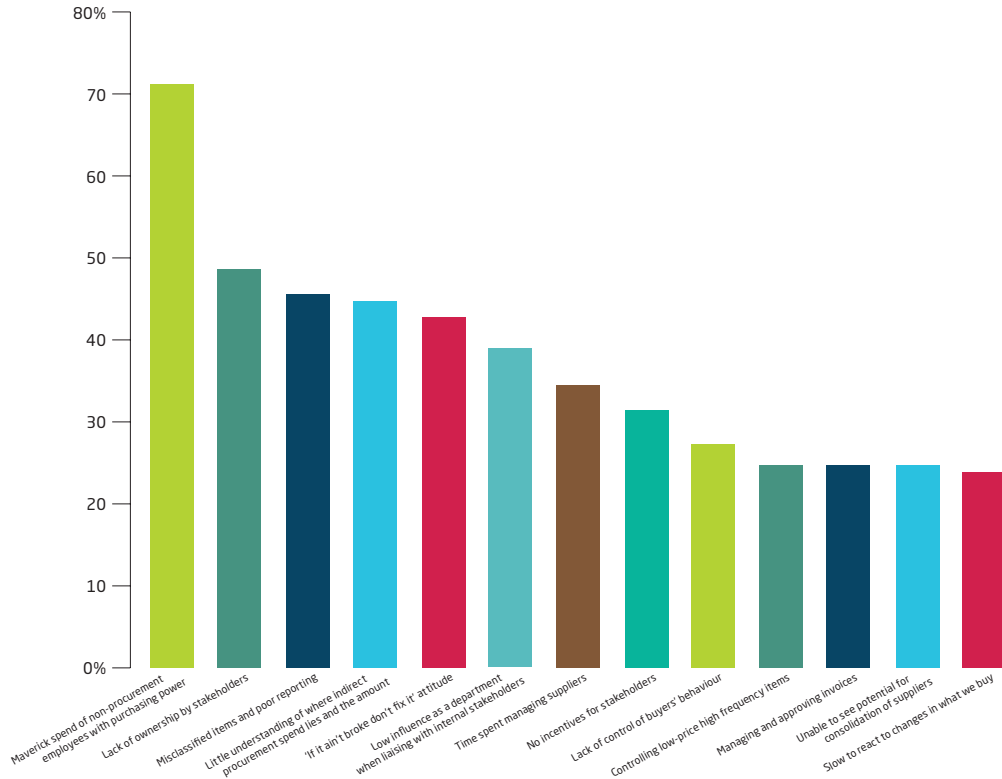
Procurement priorities for most of our respondents tend to fall into three categories. The largest proportion (41 per cent) focus on both cost and growth, for 29 per cent direct costs within procurement are the main focus and 14 per cent have prioritised indirect procurement.

Indirect procurement is the poor relation. For some respondents, business running costs are not addressed: 7 per cent say they are always the last element of spend to be considered, 4 per cent have never assessed indirect spend and 1 per cent don't have the time.

But this is changing. The last year has seen a focus on both indirect and direct costs by 65 per cent of our companies, and a quarter report that the spotlight has now moved to indirect costs.

There are contradictions: 27 per cent say priorities have shifted towards direct costs, 25 per cent report the same for indirect costs and 45 per cent say nothing has changed. But companies seem to be either looking more at indirect spend and are already prioritising indirect procurement, or they are shifting their focus towards it.

Q. What challenges do you face in relation to indirect costs?



Analysis

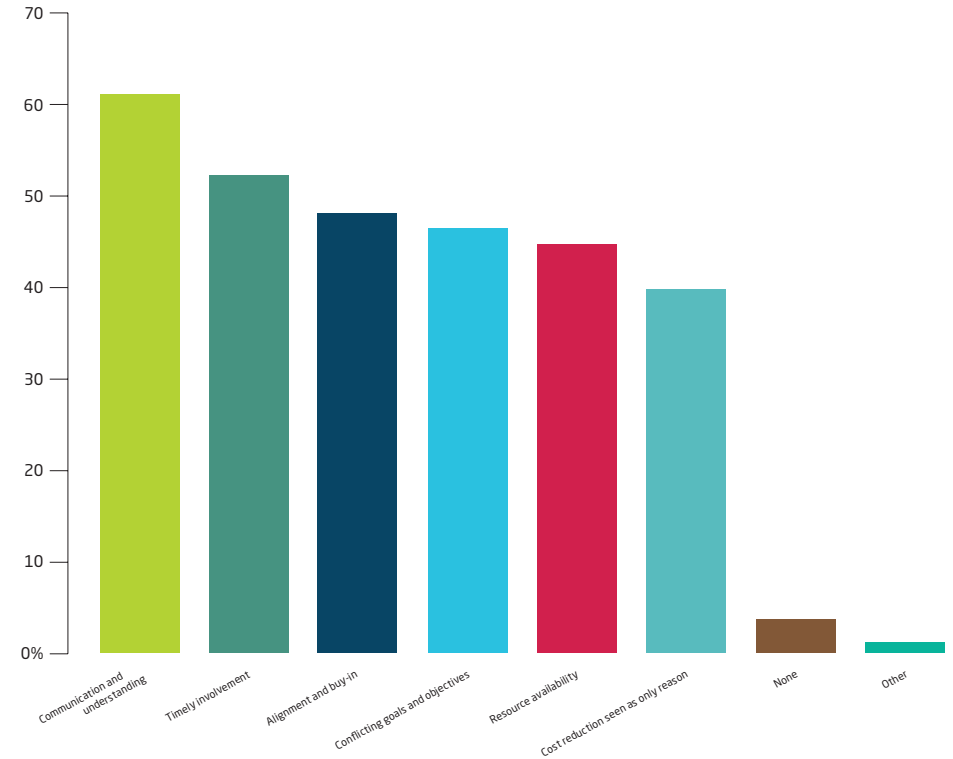
While the range of challenges that procurement professionals face in relation to indirect procurement is wide, by far the most significant issue faced by 71 per cent of our respondents is maverick spend of non-procurement employees with purchasing power.

In turn, this maverick spend is closely linked to other challenges our respondents face, including misclassified items and poor reporting (46 per cent) and little understanding of where indirect procurement spend lies and the amount (45 per cent).

However, our responses illustrate that there are many reasons behind indirect procurement challenges: lack of stakeholder ownership; procurement's low influence as a stakeholder; time spent managing suppliers and a lack of incentives for stakeholders, for example.

Any organisation can face any number of these, and if senior management – or procurement professionals themselves – have the attitude of “if it ain't broke, don't fix it”, then it becomes more likely that little will be done to address the challenges.

Q. What are the challenges you face between the procurement function and stakeholders in your organisation?



Analysis

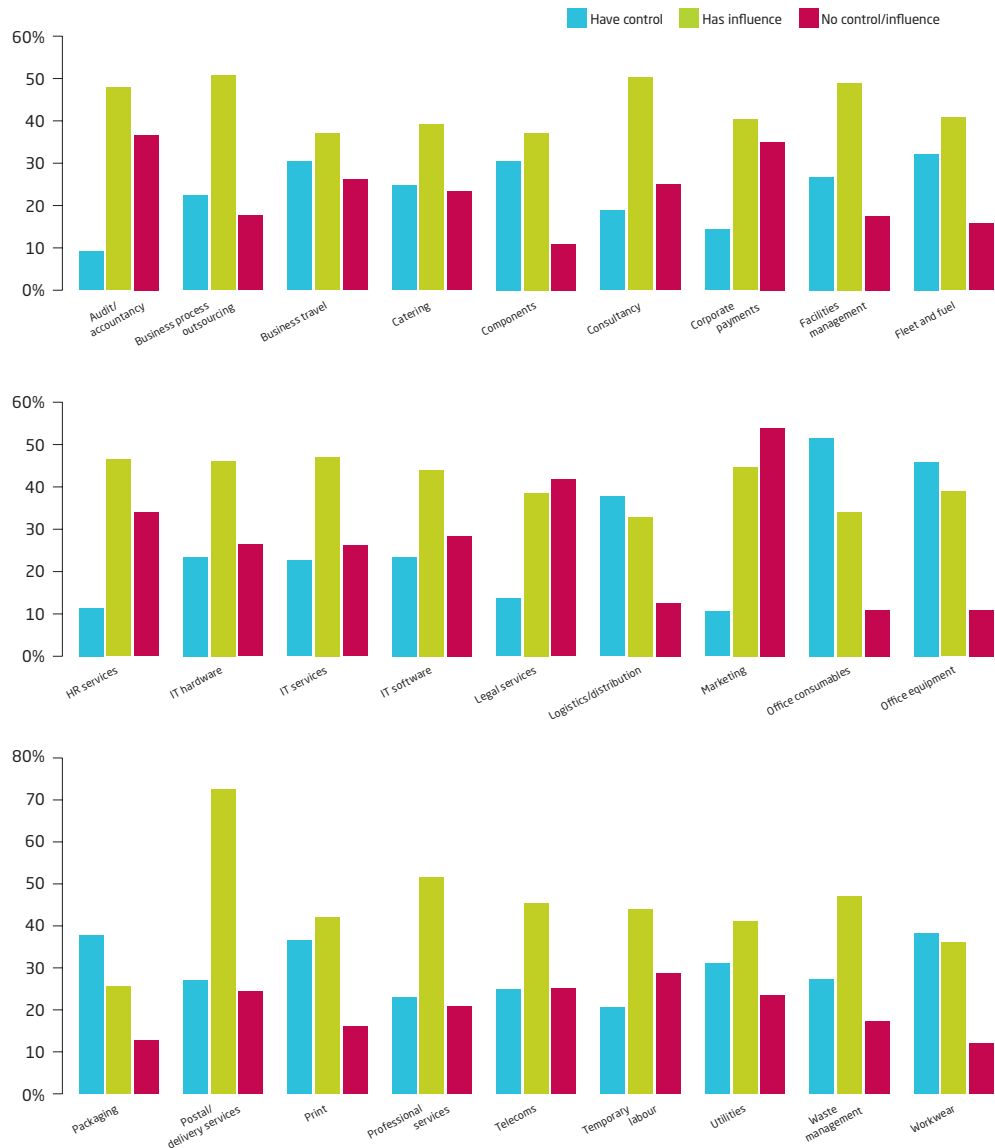
Its perceived low status within organisations continues to afflict procurement, creates challenges in dealing with stakeholders, and – as we can see from the range of challenges they face – this has big implications for how well indirect procurement is managed.

The top three stakeholder challenges for procurement professionals are linked: communication and understanding (61 per cent), timely involvement (52 per cent) and alignment and buy-in (48 per cent). If one is tackled they could reduce the impact of the others.

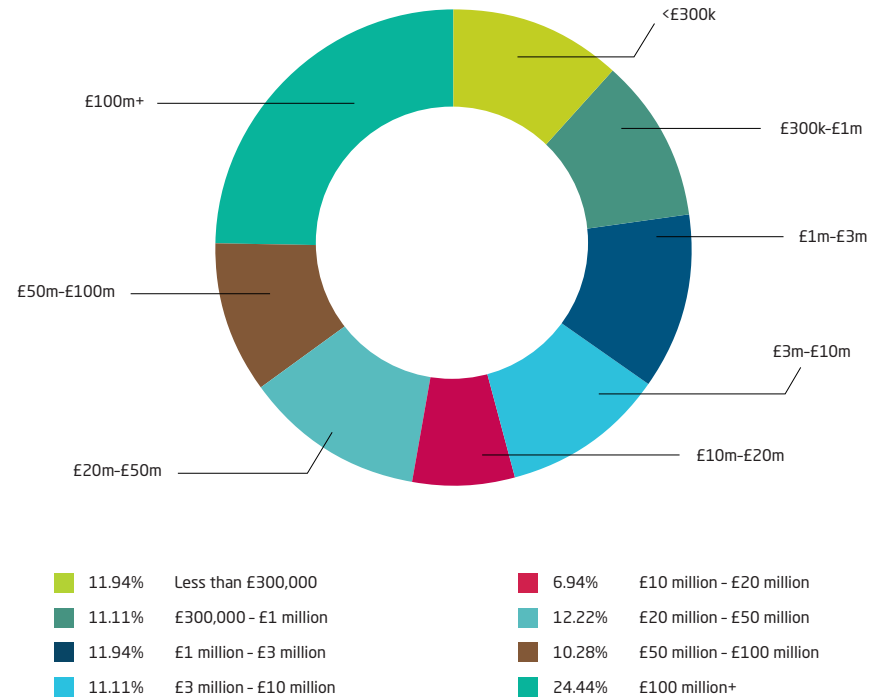
Better communication and understanding is likely with more timely involvement and both will enable and be enabled by better alignment and buy-in.

But for this to happen adequate resources are needed within the procurement function and the rest of the organisation. Nearly half (45 per cent) of our respondents say resource availability is one of the challenges they face between procurement and internal stakeholders. This must be tackled first to address the other challenges.

Q. Within your organisation where does procurement have control or influence over indirect costs?



Q. How much is your organisation's total annual indirect spend?



Analysis

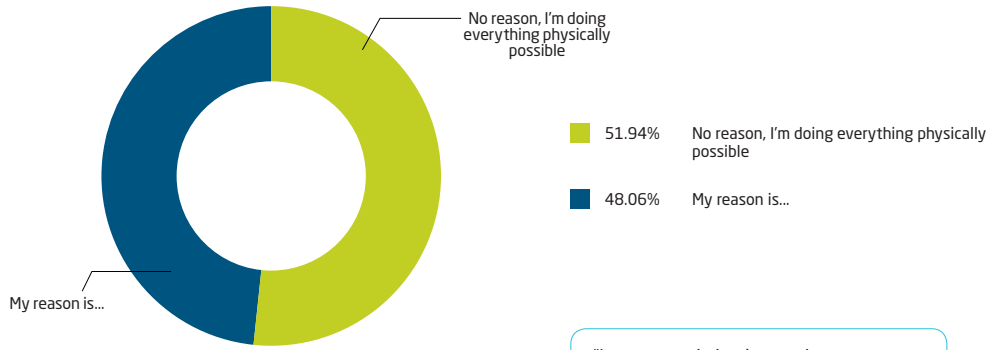
The level of control, influence, or lack of both, that procurement functions have varies across different categories of indirect spend. When it comes to control, procurement functions rule the roost in office consumables (56 per cent), office equipment (46 per cent) and workwear, packaging and logistics and distribution (38 per cent each).

But they have neither control nor influence in legal services (42 per cent), audit accountancy (37 per cent) and marketing (36 per cent).

The picture is complicated, however. Procurement functions have influence in professional services (51 per cent), business process outsourcing (51 per cent) and consultancy (50 per cent).

Levels of control and influence appear to operate on a spectrum for the procurement profession. And while they may not have control of particular indirect categories, they typically still share overall responsibility for indirect spend with finance and other departments.

Q. What is the single biggest reason that prevents you managing indirect costs better?



"The viewpoint of senior management - they consider the spend too important/crucial to be managed by the purchasing function. Therefore it is left with non-purchasing trained staff managing the areas with the greatest spend and potential for saving. It is often said they want good service not the best price. It is now our job to demonstrate that purchasing is about best price with the same, if not improved, service."

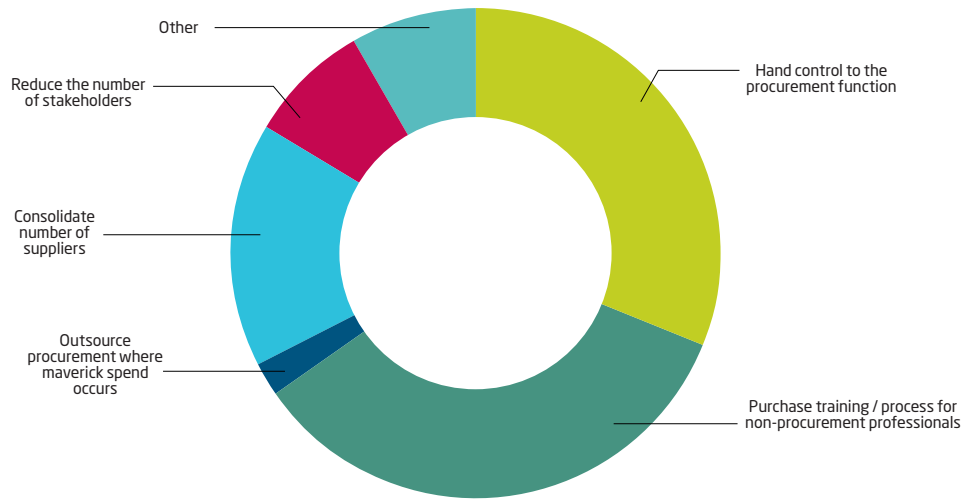
"I am currently having to change attitudes towards procurement. Stakeholders are given free reign to purchase what they want despite having a procurement department in place."  
 "I do not have the power that the biggest 'offenders' in this area have, some are at a very senior level. Also the senior manager in procurement does not have the resources to take on additional spend control."  
 "Lack of alignment between procurement's desire to improve value and organisation's need to produce cost savings year-on-year."

"We need more people with softer skills that go beyond hard procurement - stakeholder engagement, communication, analysis, influence and persuasion skills."  
 "Too many stakeholders across the business units."  
 "A higher status, alignment and buy-in to procurement at board-level."

"Everyone thinks they can do procurement better, because they don't think about the 'indirect' costs!"  
 "Too much maverick spending."  
 "Training of operational staff who procure indirect items on a day-to-day basis."  
 "Trying to convince stakeholders we are more than just price-cutters wanting control of their budgets."



Q. Name one thing your organisations could do to reduce maverick spend?



<span style="color: #92D050;">■</span>	31.39%	Hand control to the procurement function
<span style="color: #4F81BD;">■</span>	34.17%	Purchase training/process for non-procurement professionals
<span style="color: #003366;">■</span>	2.22%	Outsource procurement where maverick spend occurs
<span style="color: #00AEEF;">■</span>	16.11%	Consolidate the number of suppliers
<span style="color: #C00040;">■</span>	8.06%	Reduce the number of stakeholders
<span style="color: #669999;">■</span>	8.06%	Other

Analysis

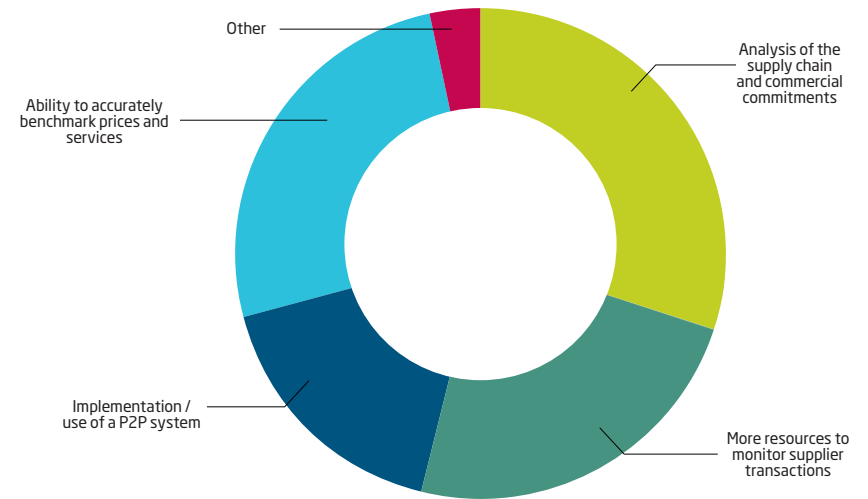
Many of our respondents recognise that maverick spending – particularly by non-procurement professionals – is a big issue for them in controlling their organisations’ indirect procurement.

Training in purchasing and processes for non-procurement professionals is another solution, as is outsourcing or reducing the number of suppliers or stakeholders.

But when it comes to the best way to tackle this, our respondents disagree. Similar proportions offer different solutions. Some clearly believe that handing control of indirect spend to procurement will be the one single thing to improve this area of purchasing.

While there is little consensus on the best ways to tackle maverick spend, our respondents offer procurement professionals a range of suggestions to consider, which could be introduced by organisations either individually or in tandem.

Q. What would help improve your understanding of your organisation’s indirect costs?



<span style="color: #92D050;">■</span>	53.61%	Analysis of the supply chain and commercial commitments
<span style="color: #4F81BD;">■</span>	42.22%	More resources to monitor supplier transactions
<span style="color: #003366;">■</span>	30.28%	Implementation/use of a P2P system
<span style="color: #00AEEF;">■</span>	45.56%	Ability to accurately benchmark prices and services
<span style="color: #C00040;">■</span>	5.83%	Other

Analysis

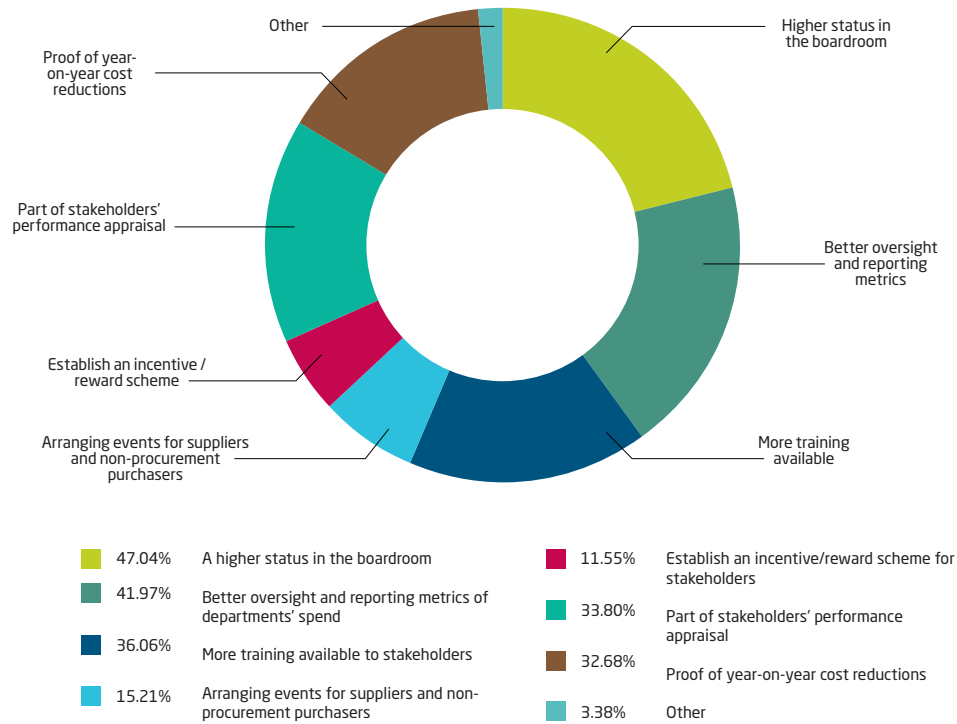
At a certain level, procurement professionals know that they have the skills and experience to improve indirect spending, especially among non-purchasing professionals. But they still fall short in some areas.

Most significantly, more than half (54 per cent) need to be able to analyse their supply chain and commercial commitments and almost half (46 per cent) must have the ability to accurately benchmark prices and services.

Whether it is the result of not having sight of indirect procurement spend by other departments, or simply not understanding their commercial commitments, procurement professionals must take steps to improve their understanding of their organisation’s indirect costs.

Certain factors can help address this challenge: 30 per cent believe implementing and using a procure-to-pay system could improve their understanding, for example. And resources remain an issue: 42 per cent think that having more people and systems to monitor supplier transactions will make all the difference.

Q. What would best help increase the influence and profile of procurement in the organisation?



Analysis

Generally, our respondents feel that having greater influence and status can help them to gain more control and understanding of indirect spend.

Higher boardroom status – a perennial concern for some in the procurement profession – is considered by 47 per cent of our respondents to be the key to increasing their profile.

However a spot in the C-Suite alone is not the answer. For procurement professionals themselves, recognising how benchmarking can help them understand and report their data is vital for getting to

grips with indirect spend and better overseeing other departments' metrics.

But they also need to communicate to their key stakeholders the ways that fundamental procurement tools and techniques work to deliver value and cost savings.

Introducing incentives for non-procurement stakeholders and including 'good' procurement within their performance appraisal and reward schemes can help to ensure effective spending habits within organisations are maintained.



Conclusion

Most of the problems that procurement professionals have in managing indirect spend are linked to other stakeholders. Maverick spend, a lack of oversight or control, low status and poor levels of influence, weak communication – these issues could be managed through better relationships.

There are exceptions of course. There is recognition by our respondents that they need to develop a greater understanding of the commercial imperatives of the organisation, and the ability to benchmark data. Systems such as P2P can also improve indirect procurement processes and data, respondents agree.

Very often it comes back to the way procurement and other functions – finance, section heads, budget holders – work together. Our respondents think if procurement had a higher status and overall control, things could improve.

That view isn't held by everyone. Training in purchasing skills for non-procurement professionals is a recurring theme in our research. It seems that by raising procurement's profile more generally – educating company leaders about what indirect spend actually looks like, training everyone who can spend company money in best procurement practice and communicating more widely about how procurement's involvement can help companies – greater value from indirect spend can truly be realised.

Procurement professionals may find areas in which they have little influence or control are those which require specialist category expertise and effective procurement techniques. Understanding where they need to improve their knowledge will strengthen procurement's status and allow them to realise financial benefits. It's a learning curve for everyone involved.

About the participants

- 360 Supply Management readers with differing levels of seniority took part in our online survey.
- Respondents represent a wide spectrum of UK business, ranging from those with an annual turnover of over £500 million to companies with a yearly revenue of up to £1 million.
- One quarter have more than 21 people within the procurement function, and just over 40 per cent have between 1 and 5 procurement professionals. Over 15 per cent have 6-10 procurement professionals, and almost 15 per cent have between 11 and 20 team members.
- Almost one quarter have an indirect spend of more than £100 million. The rest are spread between annual indirect spend of less than £300,000 up to between £50 million and £100 million.



Expense Reduction Analysts (ERA) is a global network of specialist procurement advisors. Its teams enable organisations to save money and boost business performance through effective procurement, improved supplier management and smarter spending habits.

ERA's sector specialists build long-term relationships with medium to large enterprises, going beyond short-term gains to deliver objective analysis, informed market expertise and continued financial benefits.



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