

YOU'RE MISSING THE POINT %

Three reasons a margin point
(or more) is walking out your door...
and how you can get it back

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Indirect spend is bigger than you think. It is a lot **BIGGER.**

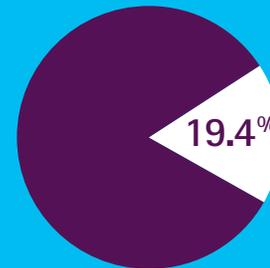
It's no secret that many organizations spend a lot of money on managing direct materials—the stuff that goes into the products they make. These costs impact revenue (and the availability of product) and profitability (Cost of Goods Sold)—so it's no surprise that companies have their direct materials spend under control.

What many executives don't realize is that organizations are spending another 15 percent to 30 percent of revenues on the "indirect" goods and services needed to operate the business, in areas such as ad agencies, IT, capital equipment, temporary labor, employee benefits, audit, travel, and telecommunications.

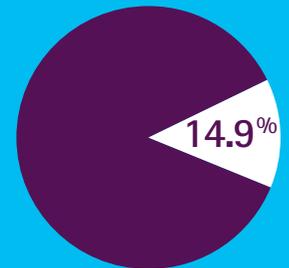
CONSUMER PRODUCTS



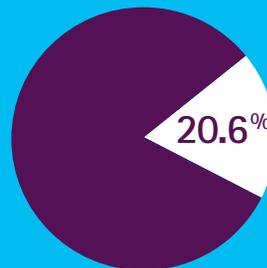
MANUFACTURING



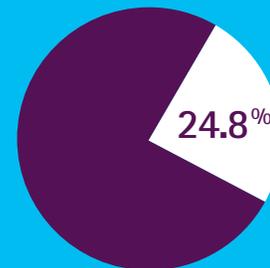
SERVICES



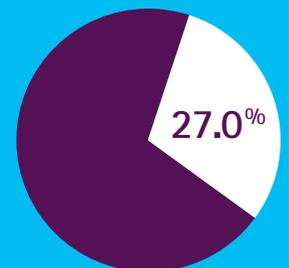
RETAIL



PHARMA & LIFE SCIENCE



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It's big, yet it is **UNDERMANAGED.**

Our benchmark data shows that even the best organizations professionally manage only half of their indirect spend, and most organizations are well below that level.

Budget-holders think they are getting good deals, and purchase order approvals are occurring, but that's not truly managing spend.

By not applying category expertise, market intelligence and an end-to-end process across all areas of spend—you're missing a margin point (or more) of savings.

"Only 8% of F100 executives believe that their procurement department strategically manages and optimizes all indirect spend."

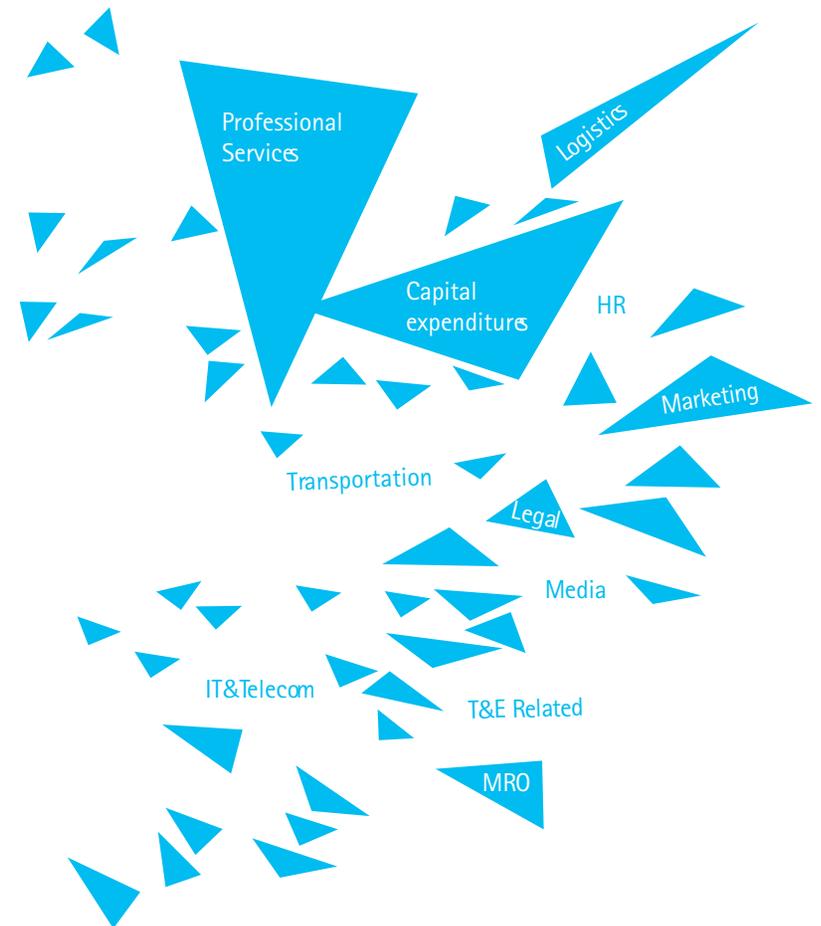
Source: Harris Interactive Survey

Why isn't it well managed?

Because it is **REALLY HARD.**

Indirect spend is a significant and untapped source of savings because it is difficult to manage. The spend is fragmented across hundreds of unique subcategories, each with unique characteristics, with hundreds of buyers spread across the organization.

When you combine fragmented categories and supply markets with fragmented departmental buying and fragmented process, you get leakage and missed opportunity at every step.



The same old approaches just won't work because of these **THREE** major barriers.

01.

Limited reach

Budget owners of these categories resist Procurement and block nearly half of the spend.

02.

Lack of information

Suppliers still have the advantage and thus value is left on the table.

03.

Lack of follow-through

One third of savings are never realized due to dropped or disconnected processes.

And these barriers are costing you money...

01.

Limited reach

You can't drive savings when you can't get access to the spend. The biggest roadblock to accessing spend? The budget holders. If you can't show the budget holders that you understand their business problems and objectives, they won't let you anywhere near their budgets.

Most Procurement organizations have generalists who try to apply a one-size-fits-all approach across hundreds of sub categories that all require different expertise. For example, the same team that knows how to buy specialty chemicals may not know how to buy ad agency services.

Implication:

50%–60% of spend is off-limits, cutting the savings opportunity in half.



02.

Lack of information

Suppliers have near-perfect information—about their costs, about what prices their customers are paying and about what demand looks like.

Suppliers know that buyers are just looking to get a discount off of list prices—and most buyers are happy with what they think is a 10 percent discount. But will you be happy with a 10 percent discount when you realize that some of your peers are paying 30 percent less?

Implication:

Organizations are leaving another 3%–5% of potential savings on the table relative to their best-in-class peers.



03.

Lack of follow-through

Negotiating savings is great. Unfortunately, almost half of these savings disappear between the point of negotiation and spending.

HOW?

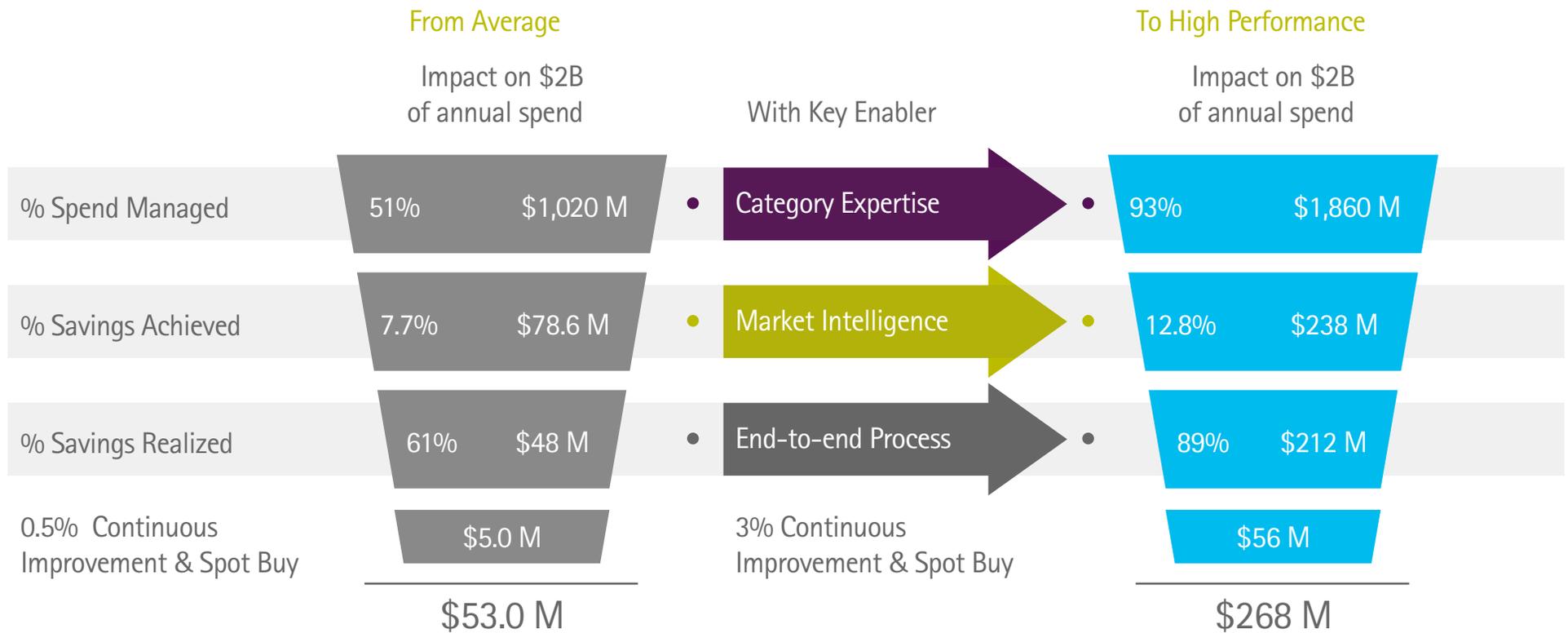
- Buyers may ignore preferred suppliers because they weren't engaged in the selection and don't support the decision.
- Buyers may be unaware of new contracts and preferred suppliers.
- Organizations may not enforce their own policies.
- Suppliers may charge the wrong price.

Implication:

Another 30% of negotiated savings are never realized.



By fixing these three barriers, Procurement can drive **FIVE TIMES** the savings for an organization—**THE MISSING MARGIN POINT.**



5 yr program and \$10B revenue with 20% indirect spend

Source: Accenture

Addressing these barriers drives savings.

CHALLENGE

Limited reach

SOLUTION

Manage more spend with dedicated category specialists, not generalists.

To gain access to the spend areas that are usually off-limits to procurement requires strong partnerships with the functional stakeholders in the organization. To build that partnership requires that the procurement leadership or organization demonstrates a nuanced view of the business objectives of the stakeholder and deep understanding of the spend category.

Category specialists with detailed understanding of their domain, the stakeholder, and the goals of the business will allow Procurement to unlock previously "off limits" areas of spend, and earn access to 90 percent or more of the spend, doubling the potential savings opportunity.



CHALLENGE

Lack of information

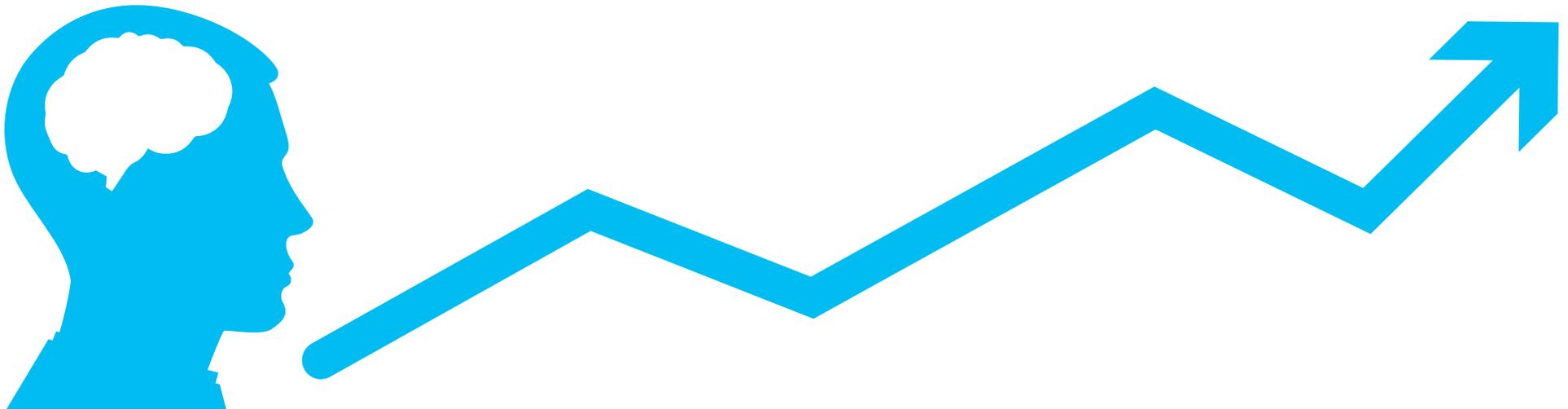
SOLUTION

Market intelligence drives better savings.

Negotiating the best price for a product or service requires real-time information into supply market dynamics. This knowledge can only come from domain expertise, research, and being in the market every day.

This is where suppliers usually hold all the cards. If you source ad agencies once every 24 months, your market knowledge will never be current. However, if you can access real-time intelligence on supply, demand, pricing, and best-in-class terms and conditions, you can level the playing field with suppliers.

Armed with the right intelligence, you can drive double the savings (real savings, not just standard discounts from list prices) over buyers without market intelligence.



CHALLENGE

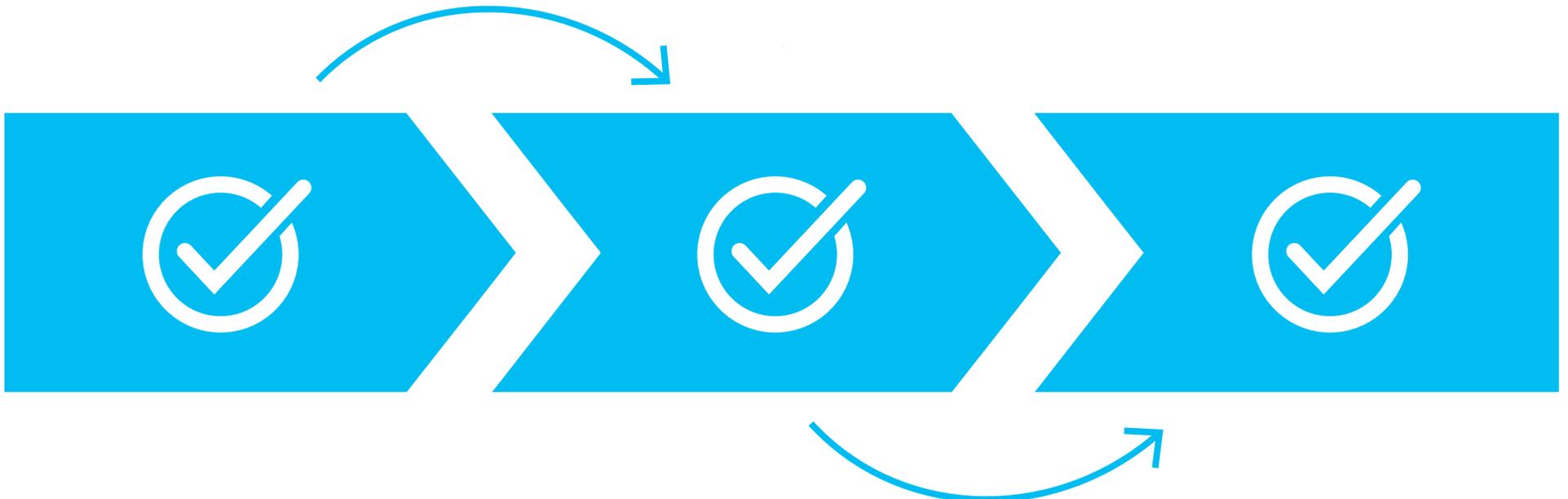
Lack of follow-through

SOLUTION

End-to-end process stops leakage and drives 90 percent compliance.

By tracking spend—at the line-item level—as it occurs, you can ensure savings are realized, ensure that supplier pricing is accurate, and identify when compliance problems arise and maverick purchases occur, providing an opportunity to stop these transactions before they are executed.

Compliance is never 100 percent, but it is possible to realize more than 90 percent compliance through a connected, end-to-end process that can stop the leaks.



The pay-off: A margin point or more

By overcoming these barriers, organizations can drive big savings and can see five times more savings according to our benchmark data.



Let's RECAP

In closing, there is a big opportunity to seize a margin point or more on your indirect procurement spend.

The choice is yours: Would you rather drive savings of \$53M or \$265M?

Learn more about Accenture Operations and how an extended enterprise model can help you capture a margin point or more.

www.accenture.com

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 293,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

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