



European Indirect Purchases : the Galileo Paradox

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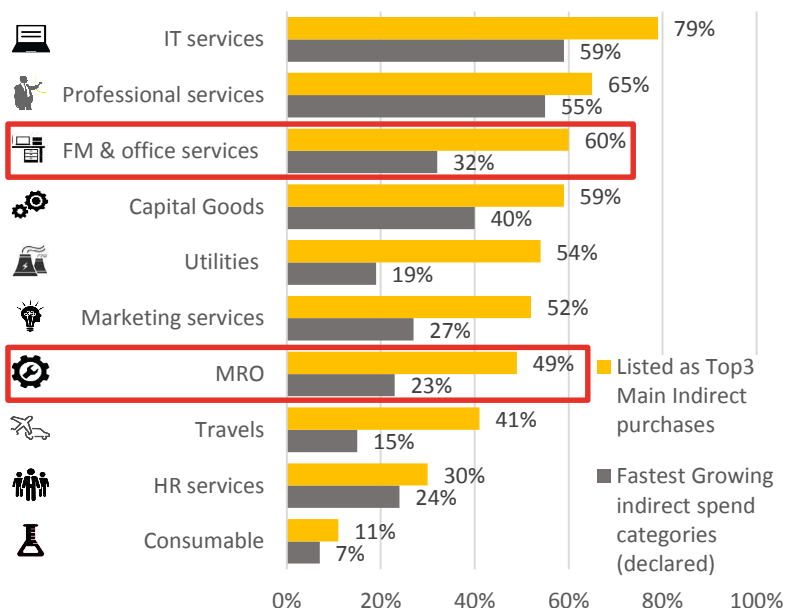


All you need. **With love.**

After Strategic Procurements, Indirect Proc management has been pointed out for the last decade to boost efficiency and find new savings

Indirect Procurement accounts for 20% to 40% of companies spend ...

- ✓ These cover a large scope of activities:



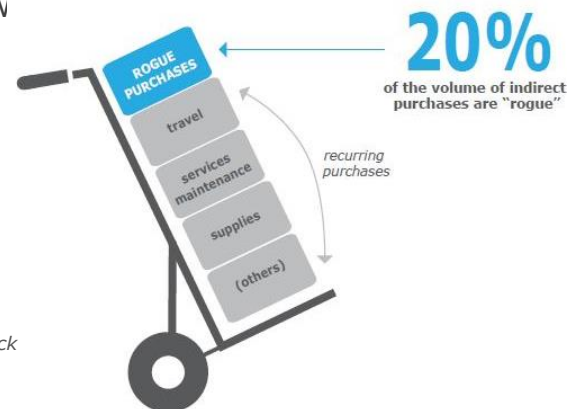
- ✓ Fastest growing indirect spends are the ones who already are listed as more important

...but when it comes to MRO it has remained a 2nd priority for most companies

- ✓ Indirect procurement are still often managed locally
- ✓ Less than 1/2 of French companies have Indirect Purchase (dedicated) departments*
- ✓ Weak organization prevented from optimizing Procurement savings and leaves "**maverick costs**" grow

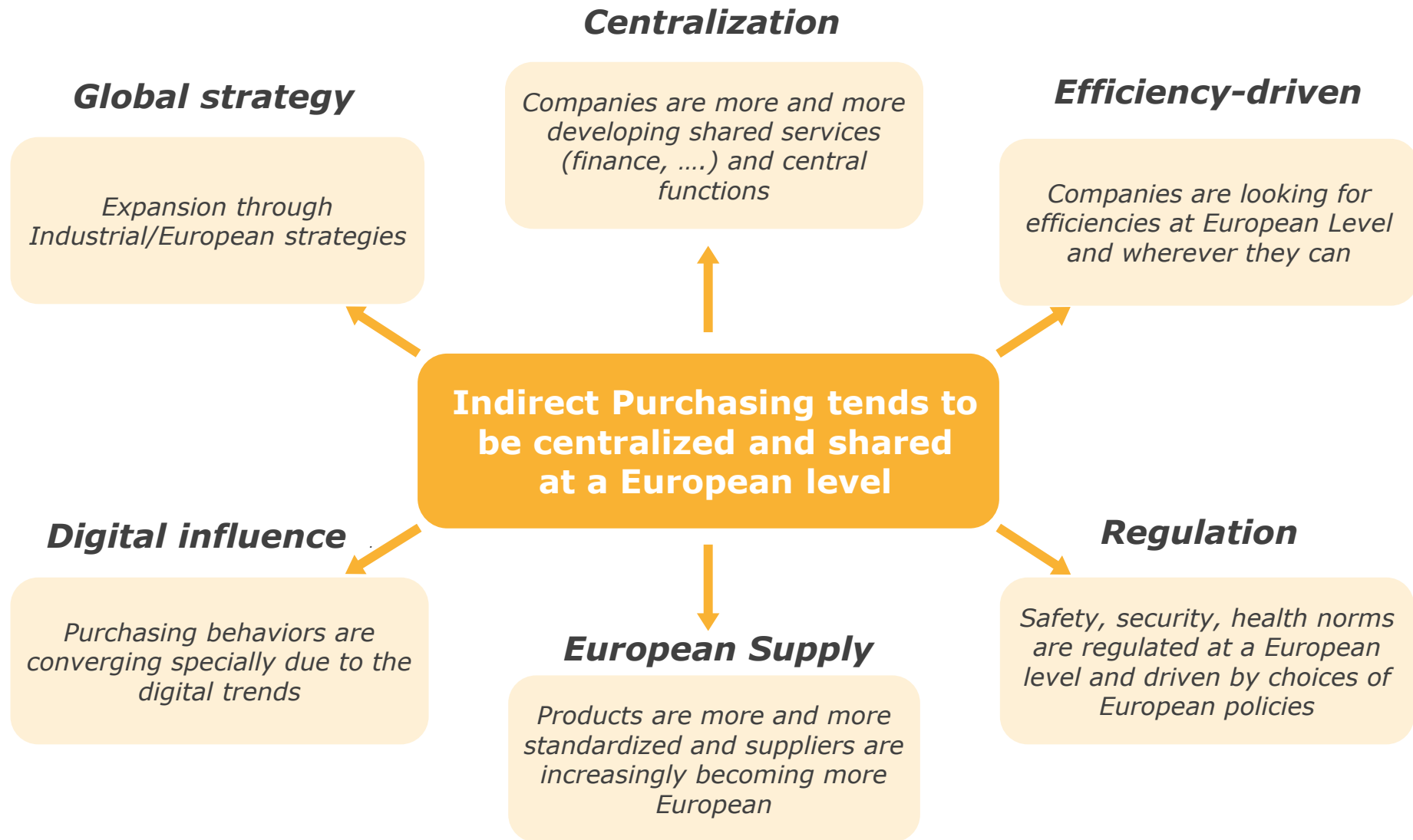


The independent Maverick



Procurement management methods are now extended from direct to indirect procurements : digitalisation, e-procurement, centralisation...

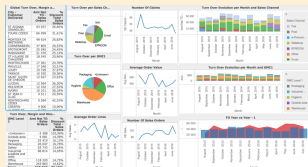
Amongst the most important trends, managing Indirect Purchasing at European level tends to be generalized for transnational companies



Keep the path: real savings are ahead when organized at European Level but not only savings ...

3 MAIN COMPLEMENTARY BENEFITS

VOLUMES VISIBILITY & DEVELOPMENT



- ✓ Improved **visibility on sales** and reporting
- ✓ Wider catalog for smaller countries with new products available from new suppliers

ADMINISTRATIVE COSTS REDUCTION



- ✓ **Reduction of costs** and **time-saving*** :
- ✓ Mainly for "ad-hoc" purchases for which administrative costs accounts for **80% of the costs**
- ✓ Total cost should be taken into account : invoice treatment, management of the supplier relationship, time spent for treatment...

SAFETY & QUALITY ENHANCEMENT



- ✓ Improved **control of suppliers** (and better WCR)
- ✓ Strengthening of **specifications**
- ✓ **Homogenization of working conditions**
- ✓ Facilitator for **ethic conditions** (Eastern Countries)



Indirect proc. centralization however faces the « Galileo Paradox »: question the system, but keep the good order

Indirect procurement mission is a hard balance
in the shadow of Strategic Purchase:

**reach quicks savings & results
but with limited support and without triggering « big waves »**

Roadblocks

**"My company has
not a dedicated
organization"**

- Not all companies made the choice of an indirect purchases organization
- In France, 44% of companies have a Direction dedicated to Indirect Purchases *
 - In Europe, ¾ of companies have separate direct and indirect procurement teams**

**"One fight at a
time"**

Every centralization is painful. Indirect purchases are often deprioritized, sometimes even to compensate the bad perception of centralization of Strategic Purchases.

**"More coordinated
than centralized"**

Initiatives can be considered closer to a "central coordination" model rather than a real "centralization" of Indirect Purchases. Dedicated team then receives little support.

**"We need the local
roots"**

Some elements remain very local and prevent from a full centralization: some products, some services, some behaviors ("field-connection")

Go beyond the Paradox : the Road to Success based on Manutan experience

1. Preparation

1 Sign European Agreements with a partner who can:

- work at central level AND at local level
- satisfy all the needs of the internal customers
- provide 1st string of data whatever the system
- help you understanding the organization
- plug with your e-proc system (if any)

2. Quick Expansion

2 Roll-Out quickly by:

- Partnering with your internal allies
- Working with controlling department to explain the “total costs” approach and profit sharing
- **Maintain field visits as a key point :**
 - “how often we visit” is more important than “to be the next door”

3. Consolidation and extension

3 Extend e-procurement

- if not done in step 1

4 Consolidate data

- in order to find product rationalization and then product normalization

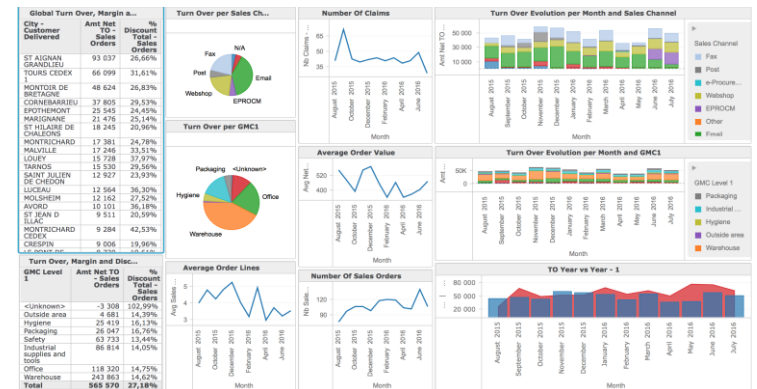
5 Manage a network of local purchasers



TIP 1 - Choose your partners : a central presence with a strong local « look and feel »

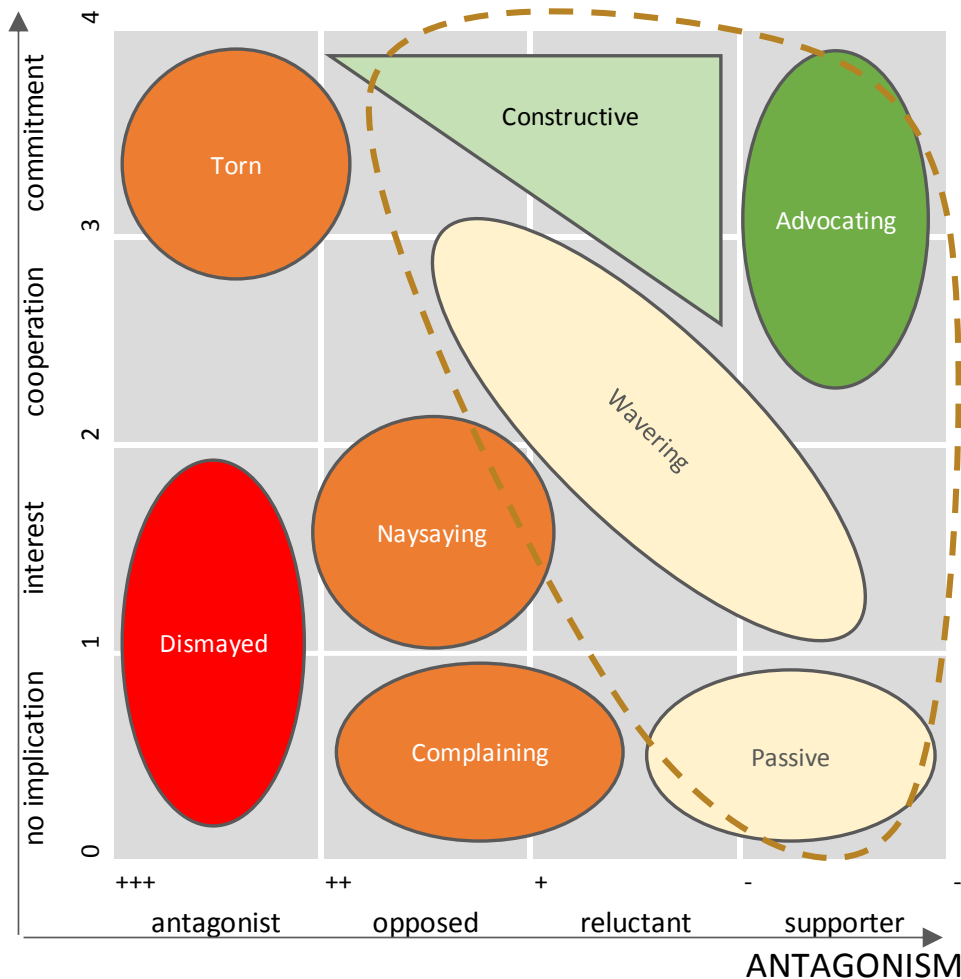


1. HQ needs a central contact point
2. As competitive as a local supplier (delivery, price)
3. Local people want to deal with local people / The true competitor is local
4. Organization must be complex
The partner shall help to map it
5. Central reporting needs locally managed data



TIP 2 - Find allies internally and rely on them to go for a quick roll-out

SYNERGIES



The Matrix of Allies or “how to convince the group”

1. Identify your « allies » !
 - **Local Purchaser**
 - **Controlling / Accounting**
 - **C-suite**
2. Dedicate time to boost synergies with Allies, not to make opponents change their mind
 - Show your POCs work
3. Encourage your Allies to convince themselves the waverings and to limit antagonists' influence

Harness the waverings will prove more efficient than fighting the antagonists



Good news: when a sub is playing the game, its loyalty will remain

The study of Customer Matrix of all European countries showed 3 regular behaviors:

All accounts		2016							
		> 100 orders	51 - 100 orders	21 - 50 orders	6 - 20 orders	4 - 5 orders	2 - 3 orders	1 order	0 order
2015	> 100 orders	71%	22%	3%	1%	0%	1%	0%	2%
	51 - 100 orders	8%	55%	30%	4%	1%	1%	1%	2%
	21 - 50 orders	0%	7%	54%	30%	2%	2%	1%	4%
	6 - 20 orders	0%	0%	7%	51%	15%	13%	6%	9%
	4 - 5 orders	0%	0%	1%	21%	18%	26%	15%	20%
	2 - 3 orders	0%	0%	0%	7%	10%	22%	20%	42%
	1 order	0%	0%	0%	2%	3%	10%	15%	71%
	0 order	0%	0%	0%	3%	4%	22%	70%	



- 1 Most customers order with the same frequency every year (**STABILITY**)
- 2 Frequent buyers have a smaller risk of exit (**CHURN**)
- 3 The most active customers maintain their high level of purchase year after year (**ACTIVITY**)



TIP 3 - E-procurement solutions : increase your efficiency, facilitate your savings

E-procurement is one of the main tools that help Indirect Purchases management and becomes unavoidable for efficiency-driven purchasing policies

86% of biggest purchasing directions have deployed e-procurement solutions

*82% use e-procurement only for Indirect Purchases **



1. Gives **visibility** on the whole **purchasing process**



2. Enables **time saving** for purchase in purchasing process

E-procurement users report 4 main benefits :



4. Facilitates **reporting** and **communication** on gains by countries, categories,...



3. Brings **under control** « ad-hoc » purchases : limit the « maverick effect »



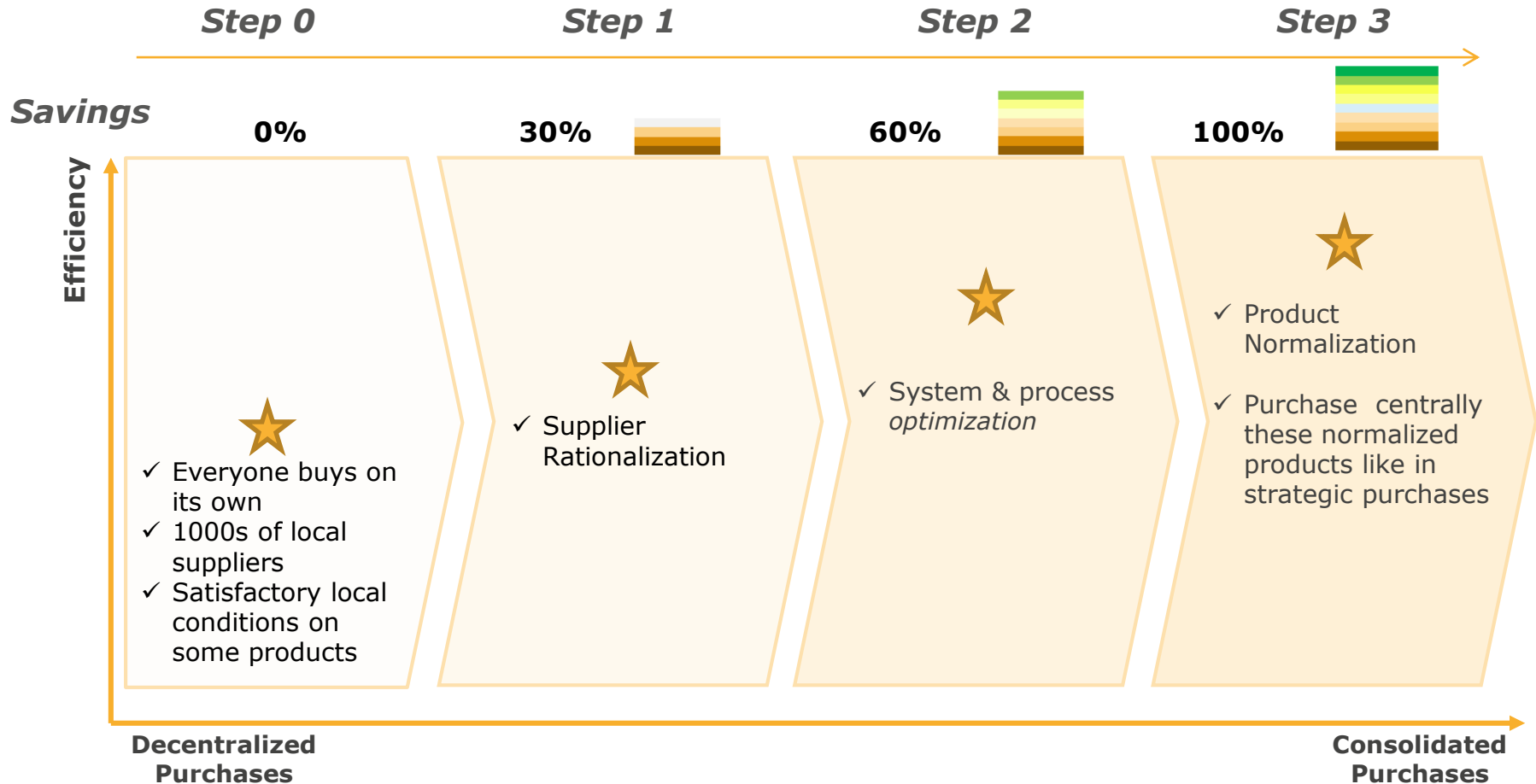
TIP 3 - e-procurement solutions : increase your efficiency, facilitate your savings - Example of monitoring and efficiency

E-procurement is one of the main tools that help Indirect Purchases management and becomes unavoidable for efficiency-driven purchasing policies

Annual potential saving - model results	Nbr of orders forecast	Curent Cost	% no Search Solution	% Search Solution only	% Integrated Order	% Intergrated Invoice	Target Cost	Target Savings
No e-procurement	821	77 995 €	100%	0%	0%	0%	77 995 €	- €
PO Only	821	77 995 €	0%	100%	0%	0%	53 693 €	24 302 €
PO + eOrdering	821	77 995 €	0%	0%	100%	0%	21 510 €	56 485 €
PO + eOrdering + eInvoicing	821	77 995 €	0%	0%	0%	100%	15 476 €	62 519 €



TIP 4 : Products consolidation helps to find « gold in the mud »




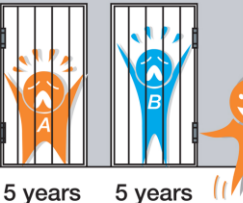
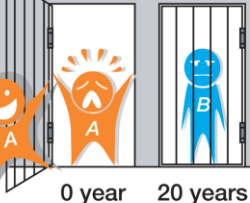

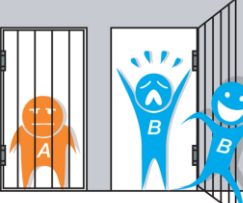
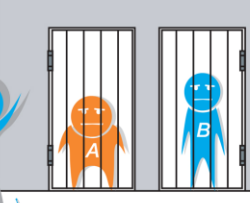


**A well-processed consolidation helps to meet company requirements!
Choose a supplier able to offer a progress plan on indirect purchases :
not one shot but a really build sustainable relationship**

*Ex: Sunseeker (Shop In Shop), SGD (VMI), Opening Kit (Carglass, Printemps, Maisons du Monde),
conceptualization of production goods (Pasquier's Bin)*

TIP 5 - To go beyond the paradox can't be achieved without a 3rd player

"Prisoner's Dilemma" : the paradox in decision analysis

		prisoner B	
		betray 	remain silent 
prisoner A	betray 	 5 years 5 years	 0 year 20 years
	remain silent 	 20 years 0 year	 1 year 1 year

- 2 individuals acting in their own self-interest pursue a course of action that does not result in the ideal outcome
- For individual/personal interest, « betray » has a better expectation
 - ✓ $E(\text{betray}) = 2,5$ years
 - ✓ $E(\text{silent}) = 10,5$ years
- But not the best gain !

1. The European Director/Coordinator of Indirect Purchases is like a "referee" responsible for general interest

2. Consolidation really works when savings/profits are fairly shared with subsidiaries :

- for « fair » subsidiaries which play the game of transnational consolidation despite some « saving opportunities » missed
- for « rogue » subsidiaries which need this remuneration to accept the consolidated system



TIP 5 - Indirect Purchases coordinator/director: SHOW ME A HERO !

H

High energy: strong communicator, influencer

E

Empathy: to understand local constraints and who is ready to support

R

Rational: not a data-averse ! system & analysis are key

O

On the field: to get to know the organization

Thanks for your attention !





Contact: Boris Imbert - Associé Fondateur
b.imbert@mawenzi-partners.com

06.68.92.09.66

