European Indirect Purchases: the Galileo Paradox
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:
  - IT services: 59%
  - Professional services: 65%
  - FM & office services: 60%
  - Capital Goods: 59%
  - Utilities: 54%
  - Marketing services: 52%
  - MRO: 49%
  - Travels: 41%
  - HR services: 30%
  - Consumable: 24%

- 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 ½ of French companies have Indirect Purchase (dedicated) departments*
- Weak organization prevented from optimizing Procurement savings and leaves “mauvais coûts” growing

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

*Source: ProcureCon Indirect Europe – 2015 Benchmarking Study
**Source: Decision Achats - Enquête de « La Conference des Achats Indirects » 2015
***Source: Manutan
Amongst the most important trends, managing Indirect Purchasing at European level tends to be generalized for transnational companies.

**Global strategy**
- Expansion through Industrial/European strategies

**Digital influence**
- Purchasing behaviors are converging specially due to the digital trends

**Centralization**
- Companies are more and more developing shared services (finance,....) and central functions

**Efficiency-driven**
- Companies are looking for efficiencies at European Level and wherever they can

**European Supply**
- Products are more and more standardized and suppliers are increasingly becoming more European

**Regulation**
- Safety, security, health norms are regulated at a European level and driven by choices of European policies
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)

*Source: Analysis Manutan*
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")

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*Source: Decision Achats - Enquete de « La Conference des Achats Indirects » 2015
**Source: ProcureCon Indirect Europe – 2015 Benchmarking Study
Go beyond the Paradox: the Road to Success based on Manutan experience

1. Preparation
   - 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
   - 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
   - Extend e-procurement
     - if not done in step 1
   - Consolidate data
     - in order to find product rationalization and then product normalization
   - 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 datas
TIP 2 - Find allies internally and rely on them to go for a quick roll-out

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:

<table>
<thead>
<tr>
<th>All accounts</th>
<th>&gt; 100 orders</th>
<th>51 - 100 orders</th>
<th>21 - 50 orders</th>
<th>6 - 20 orders</th>
<th>4 - 5 orders</th>
<th>2 - 3 orders</th>
<th>1 order</th>
<th>0 order</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>71%</td>
<td>22%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>2016</td>
<td>70.9%</td>
<td>21.9%</td>
<td>3.1%</td>
<td>1.0%</td>
<td>0.3%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

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)

*Source: (average customer matrix over FY2010 to FY2014)
**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** *

**E-procurement users report 4 main benefits:**

1. **Gives visibility** on the whole purchasing process
2. **Enables time saving** for purchase in purchasing process
3. **Brings under control** «ad-hoc» purchases: limit the «maverick effect»
4. **Facilitates reporting and communication** on gains by countries, categories,...
### Annual potential saving - model results

<table>
<thead>
<tr>
<th>Nbr of orders forecast</th>
<th>Current Cost</th>
<th>% no Search Solution</th>
<th>% Search Solution only</th>
<th>% Integrated Order</th>
<th>% Integrated Invoice</th>
<th>Target Cost</th>
<th>Target Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>No e-procurement</td>
<td>821</td>
<td>77,995 €</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>77,995 €</td>
<td>- €</td>
</tr>
<tr>
<td>PO Only</td>
<td>821</td>
<td>77,995 €</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>53,693 €</td>
<td>24,302 €</td>
</tr>
<tr>
<td>PO + eOrdering</td>
<td>821</td>
<td>77,995 €</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>21,510 €</td>
<td>56,485 €</td>
</tr>
<tr>
<td>PO + eOrdering + eInvoicing</td>
<td>821</td>
<td>77,995 €</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>15,476 €</td>
<td>62,519 €</td>
</tr>
</tbody>
</table>

E-procurement is one of the main tools that help Indirect Purchases management and becomes unavoidable for efficiency-driven purchasing policies.
**TIP 4 : Products consolidation helps to find « gold in the mud »**

### Step 0
- Everyone buys on its own
- 1000s of local suppliers
- Satisfactory local conditions on some products

### Step 1
- Supplier Rationalization

### Step 2
- System & process optimization

### Step 3
- Product Normalization
- Purchase centrally these normalized products like in strategic purchases

**Savings**
- 0%
- 30%
- 60%
- 100%

**Efficiency**

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**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)*

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“Prisoner’s Dilemma”: the paradox in decision analysis

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

- 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
  - $E (betray) = 2.5$ years
  - $E (silent) = 10.5$ years
- But not the best gain!
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!
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