



# European Indirect Purchases : the Galileo Paradox

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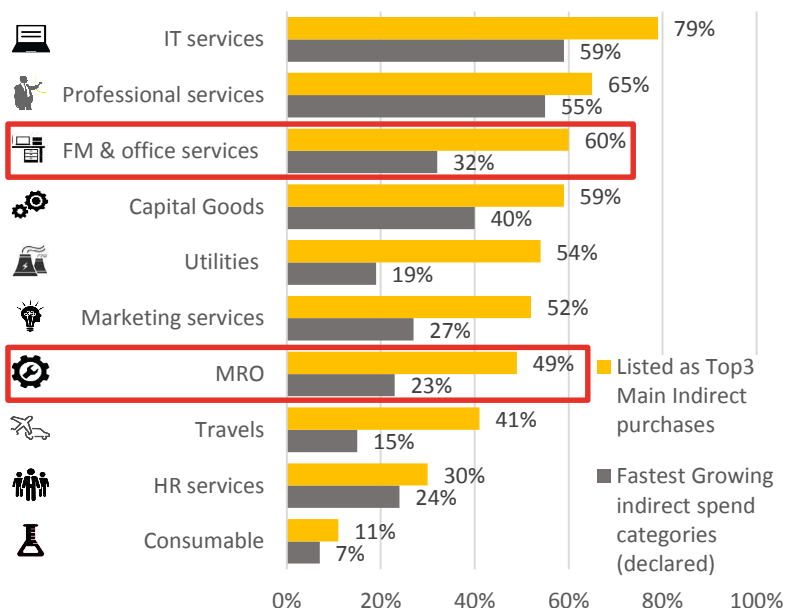


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# After Strategic Procurements, Indirect Proc management has been pointed out for the last decade to boost efficiency and find new savings

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

- ✓ These cover a large scope of activities:



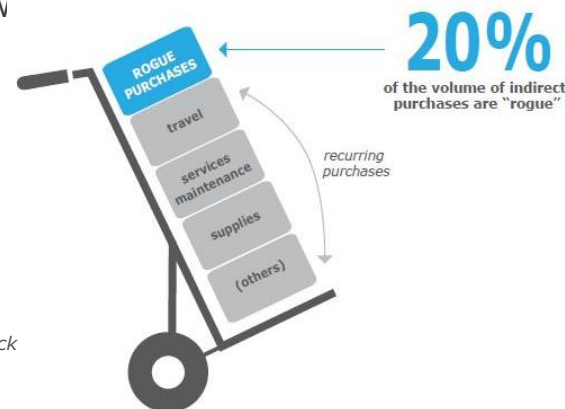
- ✓ Fastest growing indirect spends are the ones who already are listed as more important

## ...but when it comes to MRO it has remained a 2<sup>nd</sup> 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

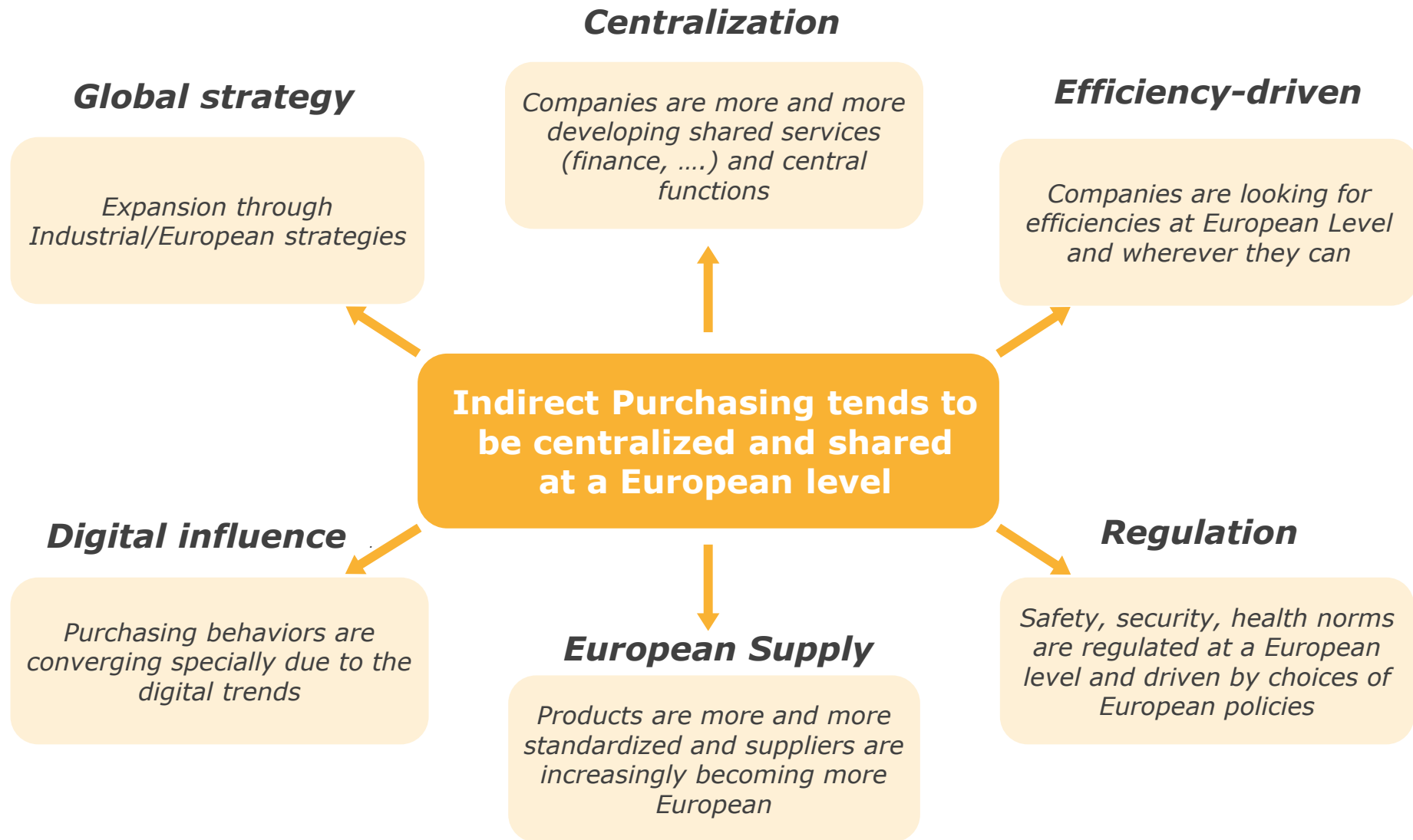


The independent Maverick



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

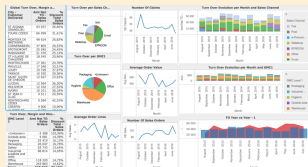
# Amongst the most important trends, managing Indirect Purchasing at European level tends to be generalized for transnational companies



# 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 »



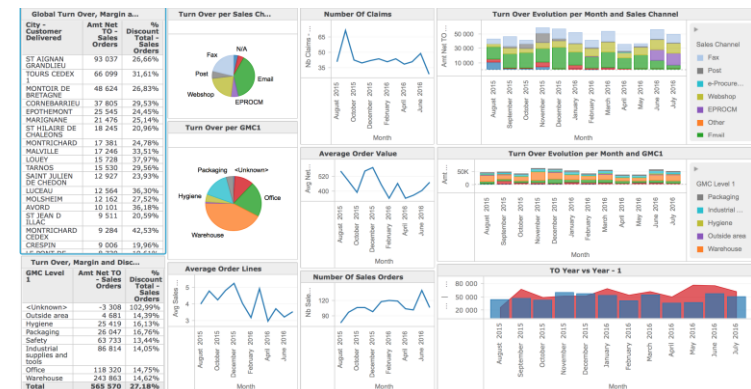
1. HQ needs a central contact point

2. As competitive as a local supplier (delivery, price)

3. Local people want to deal with local people / The true competitor is local

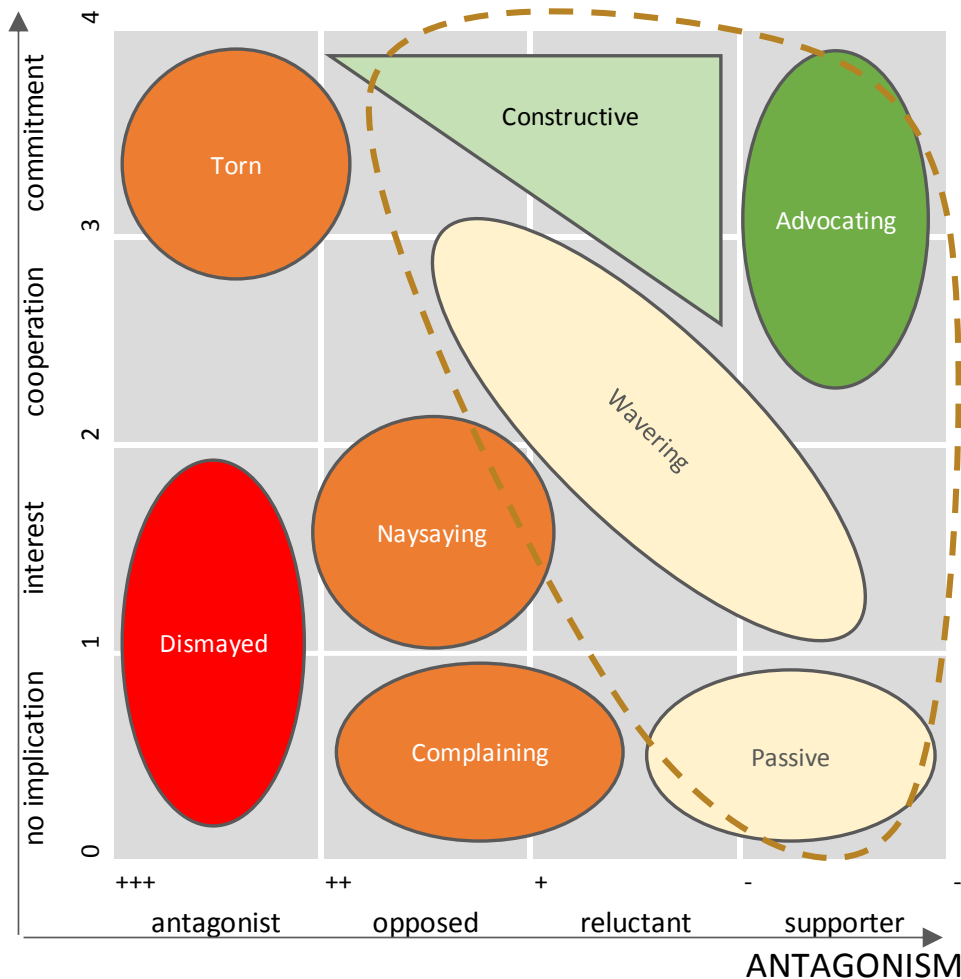
4. Organization must be complex  
The partner shall help to map it

5. Central reporting needs locally managed datas



## 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 »



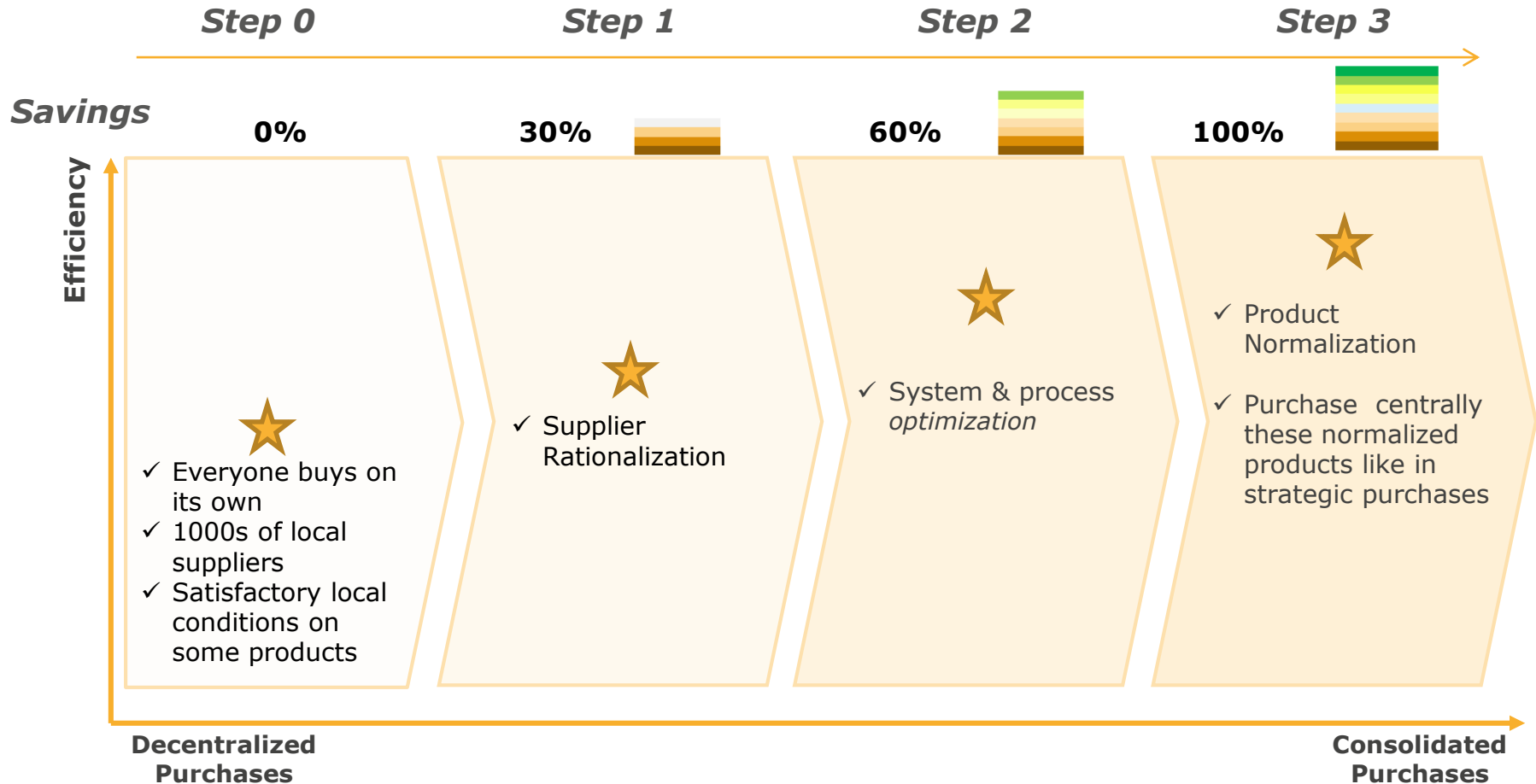
## TIP 3 - e-procurement solutions : increase your efficiency, facilitate your savings - Example of monitoring and efficiency

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

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



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







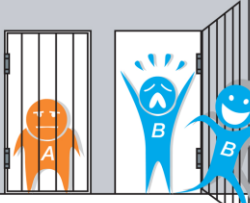
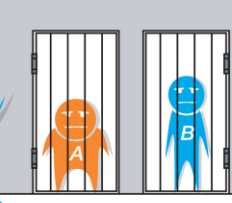


**A well-processed consolidation helps to meet company requirements!  
Choose a supplier able to offer a progress plan on indirect purchases :  
not one shot but a really build sustainable relationship**

*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](mailto:b.imbert@mawenzi-partners.com)

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