

## The Value of Outsourcing Procurement

**Outsourced Procurement companies such as IronStar Consulting have emerged as a solution to the indirect spend challenge.**

Controlling expenses and improving margins are imperatives for every Chief Financial Officer. One of the areas of expenditure that is of relatively easy reach of CFOs is corporate expenditure or indirect spend (also known as head office or non-productions costs). As most CFOs have direct control of this expenditure, they often use traditional levers to reduce costs such as rightsizing the workforce, tighter control on spend, shifting production and back-office operations to lower cost locations (off-shoring operations). However, these traditional levers appear to have lost their potency, most companies have already maximised the yield of these options and now need to consider other mechanisms to gain additional savings.

It has been quoted that as high as 70% of procurement executives cite indirect spending as their top focus area to reduce costs. But few internal procurement departments have the staff, tools, and expertise to effectively manage this spend and achieve the savings required.

Many organisations have achieved savings by focusing on indirect spend, which can account for 8% to 15% of total revenue and span across 30 different categories (or even higher), ranging from office supplies to complex services such as legal services.

The challenge is how to deal with this area of expenditure quickly and effectively and yet not lose the focus of current procurement resources to continue to tackle production-based expenditure. The solution is to consider engaging the services of a specialised procurement consultant who can either assist in tackling certain areas or tackling the entire spend profile. These expert consultants offer several advantages and have several tools at their disposal. Some of the advantages of engaging a procurement consultant company is their ability to hit the ground running as it is their core business, they have the required expertise in a number of categories and can provide quick solutions based on their knowledge of the market (this is also known as their buying power). Outsourcing procurement or engaging a procurement consultant company can often involve some hesitation on the part of senior management in the form of what will I get back from this step and junior management in relation to loss of control and job security.

With their buying power outsource procurement companies such as IronStar Consulting (ISC) have grown to be a major factor in the aged care, non-profit companies, sporting organisations and other multi-site federated and franchisee-based companies where control of this spend category is difficult by the nature of the organisation. Through agreed pricing across various categories, under the bundled buyer power facilitating pricing access to more than \$700 Million of goods and services annually for their clients, these procurement consulting companies can offer a quick and effective solution. In Australia, the horizontal corporate outsourced group procurement concept market is new, agile, and quietly growing.

## Procurement Speed-to-Market Advantage

The Procurement outsourced; leveraging buying power via group procurement concept is primarily based on the expectation of quickly achieving hard dollar savings. This speed-to-market benefit is attractive at any time, but especially in the slower growth, more uncertain economic environment that has been the norm lately.

With the designated activities outsourced, companies discover that they have more time to devote to their more core strategic business initiatives. Backed by the leverage of a much larger organisation, they can expect to experience improved supplier responsiveness, governance, and compliance with and higher product availability (DIFOT)

Meanwhile, with the collaborative business partnerships with clients, the client can either manage the supplier KPI or alternatively via combined score card inputs the outsourced procurement company continues to jointly manage the contract and the suppliers over the lifecycle of the agreement, applying its category expertise, conducting audits, and identifying and implementing opportunities for improvement and innovation.

Companies realise the full value of the collaborative business review approach as they become part of the outsourced group procurement concept which involves actively facilitated network of spend management professionals who freely share best practices and their solutions to everyday issues. Companies find they no longer must buy expensive reports or attend broadly themed conferences to benchmark against like companies.

Perhaps the last appreciated benefit of the outsourced group procurement enables a company to expand spend under management to areas that typically lie outside of procurement's control, such as, Human Resources, Legal, and staffing benefits, etc. With access to a broad array of relevant agreements, procurement has a reason to open a meaningful dialogue with their cross functional colleagues in Legal, Human Resources, IT, and other functional departments

## Not for Everyone

Still, outsourced procurement buying groups are not for everyone. A company must be honest about its current capabilities and capabilities, with the maturity and open to change, willing to let the outsource procurement be the driving force behind tactical and strategic procurement and business procurement strategy. To realise the full benefit, it needs to be an active participant in the consortium's peer network. Highly successful companies with more secretive cultures may not be a good fit.

IronStar Consulting noted, companies that have the most success in procurement outsourcing are those that were not notably don't have a procurement department or not proficient in procurement and need to deliver savings set by their CFO and CPO before outsourcing it.

As a result, the outsource buying group concept has emerged as a hybrid outsourced solution for a reason. It can provide superior flexibility, speed to market and savings

compared with internal or other third-party procurement efforts. Companies retain their data and can maintain direct relationships with their internal customers and suppliers, while saving the time and resources associated with sourcing and tactical supplier and contract (KPI) management and reciprocal business opportunities.