

WHITEPAPER

# THE INDIRECT SPEND OPPORTUNITY: WHAT YOU DON'T KNOW COULD COST YOU





## INTRODUCTION

In today's ever-evolving business and supply chain landscape, the pressure is on CEOs, CFOs, and their leadership teams to choose the right steps to position themselves for future growth. Besides managing strategy, product mix, culture, talent, organic growth, and strategic acquisitions, organizations must also deal with today's macroeconomic challenges, which are steadily increasing pressure on organizations to reduce costs to achieve financial targets.

While headcount reductions are typically a key pillar in cost reduction strategies, indirect expense is also an area of significant potential for cost reduction and profit improvement.



**QUICK FACTS:** Indirect expense covers the goods and services required by organizations to operate day-to-day, covering complex categories like Marketing, IT, Facilities, Corporate Services, Packaging, Logistics and Distribution, and more.

**20% of a company's annual revenue is typically spent on indirect goods and services.**

**Effective management of this base of spend can drive between 7% and 12% in cost reductions and associated profit improvement.**

In this whitepaper, we will explore the potential impacts of managing indirect spend and how to begin making strategic changes to turn spending inefficiencies into substantial savings and long-term value.





## SECTION 1

# MANAGING INDIRECT SPEND: TAMING THE CHAOS OF COMPLEXITY AND DISORGANIZATION

True spend management through an effective indirect procurement team will drive profit improvement that immediately impacts the organization's bottom line without changing quality, turnaround time, or cost to consumers.

Value can typically be driven across indirect spend in three ways:

1

**COMMERCIAL SAVINGS:** Rate reduction through strategic sourcing and direct supplier negotiations

2

**OPERATIONAL SAVINGS:** Process and policy changes to drive demand reduction and reduce overhead

3

**TECHNICAL SAVINGS:** Service and specification changes to reduce complexity and cost drivers across Indirect products and services

Organizations need to consider all three methods to maximize and sustain savings across indirect expenses.

Leaders already know they could do more to cut costs by optimizing indirect spend. [A Coresight Research survey](#) of retail and consumer packaged goods executives found that two-thirds of executives admitted to buying efficiencies, with 66% agreeing that they could do more to cut unnecessary indirect spend. But why do so few do it well?

## PROBLEM 1

### Organizations have limited controls in place to manage indirect spend

- ! Leaders lack a comprehensive understanding of organizational expenditure due to decentralized spending over various departments.
- ! Each function utilizes a different set of suppliers and manages indirect spend themselves, under the assumption that they are the best equipped and most knowledgeable about their needs. For example, marketing controls ads and creative spend; tech controls IT spend, all with their own budgets set and usually without input from any procurement professional.
- ! The priorities of each department are different – some may be focused on getting things as soon as possible, and others are buying without fully evaluating value as long as it fits within the budget.

## PROBLEM 2

### Organizations lack overall visibility into indirect spending

- ! Across the different functions, disparate systems are used to track buying data with varying degrees of precision.
- ! Leaders usually find it difficult to get an accurate and cohesive report of total indirect spend.
- ! They are unable to quickly establish what they're purchasing, from whom they're buying it, or how much they're paying for it.
- ! Many struggle with visibility into organizational compliance and determining if purchases are being executed based on previously-agreed upon rates and terms.



## END RESULT

**Complexity + disorganization = High cost base and inability to leverage indirect procurement for deep savings**

Opportunities to cut costs exist across all categories and lines of business, but knowing where to look and how to find them can be easier said than done.



## SECTION 2

# GETTING STARTED: ASSESS CURRENT INDIRECT CAPABILITIES

Organizations tend to focus their scarce and high-value resources on buying direct goods and services that are core to their business, but lack the same focus, scale, systems and resources for indirect. Here are some steps to take toward building similar capabilities for the indirect function:

### STEP 1

#### START WITH ANALYZING SPEND AND SUPPLIER DATA TO FIND AREAS OF OPPORTUNITY

- » The goal is to understand what is being bought and from whom to get an overall view of spend by supplier and category. This way, organizations can consolidate their supplier base and take advantage of volume purchasing power.
- » At this point, it may make sense to invest in a **spend analytics software** to improve visibility into indirect spend and clean up existing data.

### STEP 2

#### GET FULL BUY-IN FROM LEADERSHIP AND BUSINESS FUNCTIONS

- » Leadership must be committed to doing something about it, setting the example, and articulating why full organizational buy-in is essential.
- » Savings usually come from consolidating spending across the organization, championed by different leaders and stakeholders.
- » Commitment across the board to address the opportunity is important to maximize the savings and value of indirect spend.

## STEP 3

## DECIDE TO PROCEED INTERNALLY OR OUTSOURCE

- » At this stage, the key question to ask would be: Is this an initiative that the organization has the internal resources to tackle?
- » Other considerations for handling the next step internally versus outsourcing are below:



### INTERNAL

#### KEY CONSIDERATIONS:

- » **RESOURCES**  
Will the organization invest in the resources needed to build out the capability?
- » **TECHNOLOGY**  
Does the organization have the technology and data visualization capabilities needed to properly execute?
- » **MARKET INTELLIGENCE**  
Can the team access benchmarks and market intelligence from outside the organization to better inform buying decisions?
- » **SPEED-TO-VALUE**  
How quickly can the new procurement function be implemented? What is the timeline for the organization to generate ROI on the investment?



### OUTSOURCE

#### KEY CONSIDERATIONS:

- » **RESOURCES**  
Is the organization ready to work with third party resources to manage the procurement function?
- » **TECHNOLOGY**  
Does the third party bring new technology capabilities as part of its program?
- » **MARKET INTELLIGENCE**  
Does the third party bring actionable market intelligence and benchmarks to accelerate and increase value realization?
- » **SPEED-TO-VALUE**  
What level of change management expertise will the third party bring? How quickly can they begin executing and driving value?

Whether organizations choose to tackle indirect spend optimization internally or outsource it, these are some benchmarks of high-performing indirect procurement teams:

**0.5-0.7%**

investment or funding of the indirect procurement function based on the total spend managed

**80-90%**

of total indirect spend actively under management

**4-20x ROI of value**

and self-funding through savings within the first fiscal year of deployment

**>3% profit lifts**

when evaluating or after evaluating indirect spend (seen by **65%** of businesses)

Done right, procurement teams find deep savings that drive long-term sustainable profitability, extend budgets further, fund future investments, and increase shareholder value.

# OPTIMIZING INDIRECT SPEND: WHAT DOES AN ORGANIZATION NEED?

To be successful in their journey to buy better, organizations must build competencies in these five areas. A third-party procurement solution should cover all five in order to help fill in the gaps that the organization has.



### PEOPLE

Teams must have the expertise and capability to provide effective spend management and support business objectives. Indirect procurement functions are often understaffed and underinvested in relation to the scope of spend they are tasked to manage, and typically lack the same focus and rigor as seen on the direct side of the business.



### PROCESS

Indirect spend can account for 80% of purchase transactions, although it's about 20% of total spend. Clear and ordered processes ensure work gets done efficiently and effectively and reduces internal cycle times. These may include:

- » Streamlining admin-intensive and repetitive tasks like supplier onboarding
- » Templating/automating frequent/regular purchases
- » Developing and implementing robust procurement and legal policies



### TECHNOLOGY

Tools and technology provide transparency, speed, and governance from concept to purchase. Key features should include real-time visibility into spend, suppliers, contract and project data, and powerful analytics to allow leadership to make better buying decisions, identify cost-reduction opportunities, maintain their sourcing roadmap, and measure savings and overall sourcing performance.



### SUPPLIER ECOSYSTEM

Choosing the right suppliers is a critical aspect of indirect procurement. A comprehensive network of suppliers that meet the organization's procurement goals and can deliver services or goods on time, cost-effectively, and at high quality standards is essential.



### LEVERAGE

Volume and frequency are often needed to command best-in-market pricing and access to purchasing power. Spend leverage and the resulting market intelligence backed by price benchmarks enable cost reductions with suppliers, price protection, preferred service levels and quality assurance.

# REINVENTING SOURCING AND PROCUREMENT: PURPOSE-BUILT TO DRIVE PROFIT IMPROVEMENT

LogicSource is a service that combines all the critical components of successful buying into a solution tailored to our clients' needs. These include dedicated, on-the-ground account resources, more than 120 indirect category experts in our Center of Excellence, our OneMarket Source-to-Pay technology platform, a supplier ecosystem of thousands of preferred and pre-vetted suppliers, and more than \$85B in cross-client spending leverage and market intelligence.

What makes LogicSource unique?



## FOCUS AND EXECUTION

We are purpose-built to address the indirect buying needs of our clients and execute on their behalf to ensure the value is realized. We either take full control of our clients' operations to achieve sustainable profit improvement or join forces with existing procurement teams to achieve best-in-class capability.



## INVESTMENT-BASED BUSINESS DEVELOPMENT

We put up our time, money, and resources to show our clients what is possible. LogicSource invests upfront – using our self-funded Mutual Value Assessment approach – to identify potential value opportunities at no cost or obligation to the client.



## ASSET-BASED DELIVERY

We have built the tools our clients need and can implement them immediately in a customized plan to start capturing value. We provide resources and technology that would be cost-prohibitive for you to build on your own. We don't just identify – we do the critical work and deliver day-in and day-out.

**In five weeks or less**, our engagement will identify any areas where substantial, attainable, and measurable improvements can be made, and provide a comprehensive plan to achieve the proposed value.



## RESULTS:

We have a **93%** conversion rate,  
with our clients typically achieving a **4-15x ROI**.



**PROFIT ENHANCEMENT:** 7-15% average savings across addressable indirect spend



**PRICE PROTECTION:** Over \$85 billion in managed spend and pricing data, growing by billions each year



**PROCESS EFFICIENCY:** 15-30% reduction in critical project timelines across key indirect categories, including a four-week reduction in overall sourcing timelines



**SUPPLY CHAIN CONTINUITY:** Partnership with an organization with the scale and experience to source critical suppliers and ensure business continuity.



**RISK MANAGEMENT:** Expertise, resources, and data to highlight risk points, drive mitigations and deliver consistent customer experiences.

A client CEO once said that “**procurement is my priority #99, why should I worry about this today?**”. But after engaging with LogicSource, he quickly understood that getting the indirect procurement function right can unlock tens of millions of dollars to generate value and fund priorities one through ten.

**ARE YOU READY TO  
BUY BETTER?** →

**CONTACT US TO LEARN MORE**



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## ABOUT LOGICSOURCE

The innovative leader in procurement services and technology, LogicSource is purpose-built to drive profit improvement, mitigate risk, and ensure supply chain continuity through better buying.

Unlike traditional advice-based consultants, LogicSource is a purpose-built buying utility with assets that are configurable to their clients' needs and ready to deploy. By combining decades of sourcing and procurement expertise, superior market intelligence, cross-portfolio spending leverage, and their OneMarket® Source-to-Pay technology, LogicSource executes customized solutions that deliver immediate savings and sustainable value.

For more information, visit [www.logicsource.com](http://www.logicsource.com).

