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# MANAGING INDIRECT SPEND

Enhancing Profitability through  
Strategic Sourcing

SECOND EDITION

JOE PAYNE, WILLIAM R. DORN,  
DAVID PASTORE, and JENNIFER ULRICH

WILEY



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**JOE PAYNE  
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*Managing Indirect Spend is and always will be dedicated to Abraham Podolak and Steven Belli.  
Without your perseverance, vision, and enthusiasm, these pages would surely not have been written.  
Your joint leadership, guidance, and compassion built a unique company that changed  
all our lives forever.*





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# Preface

**W**E WROTE THE FIRST EDITION of *Managing Indirect Spend* in 2010. At that time changes were happening in procurement, and many organizations were moving to centralized indirect spend and fully leveraging the aggregated purchasing power of their companies. Investments in procurement were high, with organizations adding people, processes, and technology to meet their objectives. Early in that decade, much was written about “Procurement 2020” and how far the function had come.

Still, not everyone got the memo. When we wrote the first version of this book, strategic sourcing and category management for indirect categories was still relatively new for many organizations. Now, organizations have teams of category managers, third-party outsourcing, and comprehensive savings tracking. At the same time, they still have many of the same problems as they did in those early days. They lack spend visibility, they’re seeing diminishing returns in terms of cost savings, they’re having trouble driving change, and procurement is still perceived as a tactical, nonstrategic function.

The organizations that were in “build mode” earlier in the decade now need a seat at the table at the C-level, they need investment in new systems that drive adoption and compliance with procurement policies through enablement, and they need training for their teams. They struggle, however, to create the business case for this investment. As Kurt Vonnegut wrote in his novel *Hocus Pocus*, “Another flaw in the human character is that everybody wants to build and nobody wants to do maintenance.”

Many large organizations—from publicly traded services companies without procurement departments, to large industrial manufacturers that allow each plant to purchase independently without leveraging volumes, or healthcare providers that have relied on their group purchasing organization to effectively manage budgets for them—still do not know how to achieve substantial cost savings on all of the “stuff” they buy. The people burdened with these tasks often do not know where to begin. It is for these beleaguered souls that this book has been written.

In our experience, resources for these types of organizations are sorely lacking. Many consulting firms and analysts pitch sourcing optimization and a variety of other buzzwords with which they seek to replace the term “Strategic Sourcing.” For some reason, people have begun to associate the Strategic Sourcing process with the standard three-bid-and-buy process that most organizations have been using for decades. They all believe they are sourcing strategically; therefore, management does not see the need to provide the proper people, technology, time, and training to effectively manage spend and look for cost reduction opportunities. Industry analysts and other experts are already looking to identify the next big thing—calling strategic

sourcing irrelevant, outdated, or ineffective—while their customers continue to struggle with getting their arms around the basics of what it means to source strategically.

## WHAT THIS BOOK WILL DO FOR YOU

Whether you are an executive, procurement professional, or any individual concerned with reducing spend and strengthening your supply chain, this book will provide you with the knowledge and necessary tools to successfully reduce costs in the area of indirect spend. The processes and real-world examples in this book are based on more than 20 years of consulting experience and the successful implementation of cost reduction strategies for clients of all sizes, in just about every industry and in hundreds of spend categories.

Specifically, this book provides you with the following:

- An overview of the challenges faced when sourcing indirect spend categories
- An overview of the Strategic Sourcing process
- A description of the tools and technology that can help you source and manage the procurement process more efficiently and effectively.
- A do-it-yourself guide to building and maintaining a best-in-class procurement organization

This book focuses on specifics instead of theory and will detail how to actually get started, run through the process, and implement cost savings across a wide variety of indirect spend categories. It also details the most important aspects of strategic sourcing that many other books overlook: the use of creativity when performing research; how to identify leverage points during negotiations; and most importantly, effectively dealing with people, both externally and within your own organization.

## WHO WE ARE

Recently, the procurement and supply chain management profession as a whole has received more focus than ever before. In fact, procurement and supply chain professionals are now regularly covered in mainstream media publications and are even quoted on cable news channels. Because of this sudden awareness of our profession, no shortage of consulting firms have been jumping on the bandwagon and offering strategic sourcing services. Many of these firms employ the same standard tactics that organizations have been using for years, while trying to rebrand their services to sound more impressive.

The primary authors of this book were utilizing a Strategic Sourcing process and best-in-class procurement techniques long before they were well known. Our team consists of experienced supply chain and procurement leaders who have led and managed thousands of strategic sourcing initiatives for mid-market and Fortune 500 customers and have helped stand up or digitize hundreds of procurement organizations. We are successful in producing savings in more than 97% of all of the initiatives we have tackled. Over the course of our work, we have seen what companies do right and, more importantly, what companies do wrong and in many cases fail to do at all.





## HOW THIS BOOK IS ORGANIZED

The book is broken into four parts: Process, Tools, Examples from the Field, and How to Do It.

### **Part One: The Process**

Part One of this book provides you with a detailed, step-by-step account of the typical Strategic Sourcing process, outlining the steps with which most sourcing professionals are already familiar. These steps include Data Collection and Spend Analysis, Research, the RFx process, Negotiations, Contracting, Implementation, and Continuous Improvement. Each step of the process is covered as a separate chapter in this section, providing an explanation of the goal of that step in the process, a high-level overview of the tools needed to reach the goal, and the people involved. Each chapter also provides an in-depth account of how to work with people, both inside and outside your organization, to achieve optimal results.

Part One concludes with a chapter on “What Not to Do,” specifically focusing on our years of hands-on experience seeing the mistakes other procurement professionals have made in the past (and continue to make) and offering lessons to help you avoid similar pitfalls. Some topics of discussion include sending spam RFPs, creating overly complicated sourcing documents, allowing a supplier to write RFPs for you, and not engaging the right stakeholders within an organization.

### **Part Two: The Tools**

Part Two of this book provides an overview and analysis of the resources and technologies that can help professionals source and purchase more effectively. The first chapter in this section defines market intelligence and its importance as a primary tool in the Strategic Sourcing process. It also defines the distinction between static and dynamic intelligence and offers guidelines for using each. It continues by describing types of static and dynamic market intelligence, such as industry publications and commodity reports, group purchasing organizations, online tools, and consultants.

The second chapter in this section focuses on the technologies and software solutions that are available in the marketplace. It explains the advantages and disadvantages of using software tools and sheds light on some of the best-kept secrets of procurement tools as well as little-known free technologies that are available online.

The last chapter in this section discusses using stakeholder engagement as a tool to motivate suppliers and implement change within the organization, outlining how critical it is to your organization to have a team of committed stakeholders to ensure the success of your sourcing project.

### **Part Three: Examples from the Field**

Part Three provides a detailed account of some first-hand experiences we have had helping customers reduce costs by employing the Strategic Sourcing process, including some of the most creative solutions we have developed as well as some of the most challenging sourcing

engagements we have come across. Each chapter in Part Three offers you an example of each experience and covers different sourcing strategies.

The first chapter defines some of the creative methods you can use to get your incumbent supplier, or potential supply base, to assist you in strengthening a relationship and reaching your own organization's goals. We discuss tactics that can be used to help get your suppliers on board with your goals and help them help you drive savings.

The second chapter discusses tactics that help you become the ideal customer in the eyes of your supplier. Typically, gaining this status leads to improved supplier relationships and even larger savings opportunities. We then conclude with specific examples in which clients have leveraged supplier feedback to gain improvements in their supply chain.

To summarize, we also discuss uncovering savings through data analysis. The last chapter in Part Three focuses on ways to achieve savings without negotiations by purchasing more efficiently and utilizing easy-to-manage tracking and scorecarding tools.

## **Part Four: How to Do It**

In Part Four, we provide insights and sourcing strategies for specific indirect spend areas. Some of these include office supplies and telecommunications services. Each spend area is detailed in its own chapter and provides an industry overview with sourcing strategies you and your company can use to produce the optimal result.

## **BEGINNING YOUR JOURNEY**

As you read through the book, keep in mind that the methods and processes we discuss are not rigid instructions that you should apply to your organization. Just as markets are ever-changing and flexible, so should your strategies. Start thinking about how to apply these concepts in the most effective way based on the objectives, constraints, and culture of your own organization. You can only successfully transition from process to profit by customizing your sourcing strategy based on your own unique internal considerations and restrictions.

# Acknowledgments

**S**PECIAL THANKS TO BENNETT GLACE. Without his mastery of the English language and attention to detail, this book would be virtually unreadable.

We'd also like to thank Kathleen Jordan and Scott Decker, who contributed to the first edition of *Managing Indirect Spend*. Much of their contribution remains intact in this edition.



# About the Authors



## JOE PAYNE

Joe has dedicated the last 20 years to helping improve the procurement and sourcing function within midmarket and Fortune 1000 companies. Over that time, Joe has held several positions, from leading a consulting organization dedicated to the build out of indirect procurement functions to most recently running a business unit that provides technology, advisory, and managed services support to enhance and improve the full source-to-pay life cycle.

During his career, Joe has developed insight into the challenges that organizations face when undertaking initiatives to reduce costs in the area of indirect spend and create sustainable procurement value. While reviewing the consulting market and existing printed publications, he identified a gap in this critical component of business and created the idea for this book.

Joe is a long-standing contributor to the Strategic Sourceror blog and leads discussion groups and brainstorming sessions at various training seminars and networking events.

Joe holds a bachelor of science degree in operations and information management from the University of Scranton.



## WILLIAM R. DORN

William R. Dorn or “The Bill Dorn” as most call him, started his career in manufacturing and mechanical engineering before transitioning into technology, automation, procurement, and operations. Bill subsequently helped transform Source One into a leading consulting firm known for delivering high-quality procurement advisory, sourcing technologies, and strategic sourcing managed services. Bill and Joe started in the weeds, conducting hundreds of sourcing events, building a library of best practices, and later focusing on building and scaling the business itself. Bill and Joe later became partners at Source One. Bill focused primarily on operations, finance, sales, marketing, product management, and information technology. In 2018, the business was sold to a growing financial services technology company, Corcentric, in order to build out a complete source-to-pay solution offering.

After participating in the sale of Source One, Bill stayed on after the acquisition and took on a new role within the organization, managing the upstream product strategy for Corcentric. Corcentric subsequently acquired Determine, a P2P SaaS provider where Bill then led the

technology teams focused on sourcing, analytics, contract lifecycle management, and supplier portal and supplier performance management.

Bill holds a bachelor of science degree in information technology, an associate of arts degree in electronics engineering, and is a certified Six Sigma Black Belt.



## DAVID PASTORE

David is a procurement thought leader. For 15 years he has lead teams of consultants who help midmarket and Fortune 1000 companies manage their most complex and strategic spends and supplier relationships. David's work focuses on elevating the role of procurement to become a leader and create a competitive advantage in clients' respective industries.

David contributed to the first edition of *Managing Indirect Spend* and regularly writes for the Strategic Sourceror blog. His work has been featured in numerous publications, and he speaks regularly at industry events.

David graduated summa cum laude with a bachelor of science degree in management information systems from Lock Haven University of Pennsylvania. He has a remarkable sense of humor, which he prefers to keep to himself. He lives in Pennsylvania with his wife, Nettie, and two dogs, Gary and Gray.



## JENNIFER ULRICH

Recognized industry-wide as an authority on procurement, finance, and digital transformation and category management, Jennifer boasts more than a decade of consulting experience. Jennifer provides cross-functional procurement knowledge and innovative strategies necessary to develop top-performing procurement and finance teams and realize long-term savings. Her efforts have also included developing customized training programs for strategic sourcing, contracting and negotiations, spend analytics, procurement process redesign, and supplier relationship optimization.

Throughout her career, Jennifer has worked on both sides of procurement as an end user in a previous role and now leading a team of advisory consultants in the areas of procurement and finance transformation, digital transformation, and change management.

Jennifer is a regular contributor to the Strategic Sourceror blog, actively participates in industry-leading publications and events, and has a bachelor of science degree in marketing and a master of business administration from the University of Phoenix.

PART ONE

# The Process





# 1

## CHAPTER ONE

# An Introduction to Strategic Sourcing

**M**ANY AUTHORS HAVE ALREADY WRITTEN on Strategic Sourcing and Supply Chain Management. In general, each describes a sourcing process that includes somewhere between five and seven steps. The primary differences among their books are in the ways those steps are defined and segmented. The process described in this book should look familiar in that it includes six steps, starting with the inception of the initiative (Project Kickoff) and concluding with final monitoring of the implemented program (Continuous Improvement). This book's process, however, specifically applies Strategic Sourcing techniques to indirect spend categories and offers insights and strategies that have been applied successfully for decades. Our process is not based on theory; the techniques described have been refined through years of experience alongside many types of organizations to reduce their costs for indirect goods and services. As you will discover, the process itself serves primarily as a project management tool. Creative strategies and adaptability in the face of uncertainty are the key elements that make your sourcing initiative truly strategic.

In the first edition of this book, published back in 2010, we noted that many organizations still neglected to apply Strategic Sourcing techniques to their indirect spend categories. Instead, indirect spend was treated as a series of one-off purchases or was sourced with a simple three-bid strategy with little effort beyond reviewing the supplier price responses. Typically, with indirect spend, per-item prices are relatively low, the product or service is not crucial to the business, and the overall costs are rarely examined because of the difficulty entailed in gathering meaningful spend and market data.

Things have changed in the years since our first edition, but not as much as we might have hoped. Most organizations are now familiar with a Strategic Sourcing process. True best practices for sourcing indirect spend, however, are still rare. Sourcing managers are still accustomed to the old way of running bids and still continue to engage suppliers at arm's-length, which does not engage the supplier community in a way that maximizes competition. Concepts like category management have become even more important, yet even organizations with dedicated category managers suffer from diminishing returns and increased costs as they attempt to hire in-house specialists for virtually every category of spend.

In the current world of procurement, leaders and managers shouldn't focus on effective sourcing processes alone, but they should also turn their attention toward ensuring a high return on investment for the function, creating efficiency and effectiveness metrics that drive results faster, increasing visibility, and engaging their stakeholders and suppliers effectively. Strategic Sourcing, combined with proper category management techniques, continues to allow organizations to shift away from thinking about indirect spend in an ad hoc manner and provides spend visibility, objective decision-making, and a project management tool to ensure efficient use of the sourcing team's time and efforts.

## VISIBILITY

Strategic Sourcing provides a new level of visibility into business processes, operational concerns, and spend details that may not have been available to management and stakeholders in the past. The process provides a road map for collecting and analyzing this information and determining how particular products or services truly fit into the overall business operations of an organization, from the identification of a need to the use of the product or service, and (if necessary) its disposal. This includes identifying the following:

- Who buys the product?
- How is it ordered?
- How is it received?
- How it is paid for?
- Where is the payment information stored in your systems?
- What are the payment reconciliation processes?
- Where is the product stored?
- When is it used?
- Why is it needed?
- Who are the suppliers?
- What value-adds or services are provided?
- What happens to the product after its useful life is over?

As we discuss throughout the book, all of this information is necessary to properly perform Strategic Sourcing, to ensure the most efficient processes and tools are utilized, and ultimately to implement and maintain the final program developed through the process.

## OBJECTIVITY

Strategic Sourcing allows organizations to change the way they manage indirect spend, shifting it from a series of one-off purchases to a more coordinated effort with checks, balances, and objectivity to justify costs and requirements. Historically, indirect purchases and spend for most organizations were managed by one or many individuals, with little oversight from management and no requirement to justify their selection of suppliers. Strategic Sourcing provides a

process to identify the true requirements of the organization (rather than those of the individual(s) managing the spend) and to identify suppliers and price points that appropriately meet those requirements. The process is performed in such a way that requirements are identified well ahead of supplier identification, and stakeholders agree to those requirements before exploring alternatives to the existing arrangement.

## PROJECT MANAGEMENT TOOL

Finally, a well-designed Strategic Sourcing process becomes a project management tool that can ensure engagements will not end in failure due to scope creep or lack of clear paths forward and that those working on the project will make the most efficient possible use of their time and resources. Attempting to reduce costs without a formalized Strategic Sourcing process can easily end in frustration, as roles are not clearly laid out between team members, steps are not identified, and timelines are not set.

As discussed throughout this book, even organizations that employ a strong Strategic Sourcing process will face many challenges, and teams can easily get bogged down in noncritical details or fail to reach consensus at critical points. The process in itself includes steps that can be integrated into a comprehensive project plan to avoid convoluted outcomes.

The Strategic Sourcing process has six basic steps:

1. Data Collection and Spend Analysis
2. Research
3. The RFx Process (requesting information, quotes, and proposals from suppliers)
4. Negotiations
5. Contracting
6. Implementation and Continuous Improvement

Our goal is to help you navigate through specific activities that most sourcing books fail to cover—dealing with and effectively utilizing internal constituents, motivating the supplier marketplace, and gathering the information required to make informed decisions during each step of the process.

### Data Collection and Spend Analysis

Once you identify the need for Strategic Sourcing, the next step is collecting and analyzing spend data. The purpose is twofold. First, you need this data to determine where you should focus your efforts. Your resources are more than likely limited, and it will not be possible to immediately reduce costs across all of your organization's spend areas. You need to identify areas of opportunity and develop a project road map to provide context and timelines for your efforts.

Second, you need these data to determine both the quantitative and qualitative requirements associated with a particular spend category. When we discuss the quantitative aspects, we are referring to current price points, discounts, payment and freight terms, and other costs associated with a particular area of spend or specific suppliers. Qualitative requirements refer to the quality

and services tied to these costs. The current suppliers were more than likely chosen based not just on price, but other value-added considerations as well, and these factors need to be understood and considered. The quantitative baseline and qualitative requirements become the launching pad for the rest of the engagement, which makes it critical not just to identify them, but also to make sure they are agreed on by other interested parties within your organization before moving to the next step.

## Research

The research phase provides context for the categories you are sourcing. The purpose of research is to develop or refine your sourcing strategy by determining what competition exists in the marketplace. This entails identifying any available alternative products, services, or processes and whether or not current market conditions make it a good or bad time to go to market.

## The RFX Process (Requesting Information, Quotes, and Proposals from Suppliers)

During the RFX phase, you will execute the sourcing strategy that you developed during the Data Collection and Research phases. In all likelihood, this will include requesting proposals or quotes from alternate suppliers or performing a reverse auction. Depending on market conditions, the competitive landscape, and how the product or service fits into your overall business strategy, however, it could also mean focusing on other cost reduction strategies that do not involve bidding out the business. During the RFX stage of Strategic Sourcing, you will also evaluate the proposals and other information submitted by suppliers to determine both their quantitative (cost savings) and the qualitative (service/value-add) benefits. This culminates in an objective grading or scorecarding process.

## Negotiations

Once you've received, refined, and analyzed the initial proposals, you will move into the Negotiation phase of Strategic Sourcing. At this stage, you will develop target price points for the products or services you buy, identify preferred suppliers (incumbents or alternates), and request that suppliers meet the established targets in order to win your business. Chapter 6 provides strategies for identifying price targets and leveraging multiple bidders against one another.

As discussed in Chapter 6, organizations should not view Negotiations as separate from the rest of the Strategic Sourcing process. Even thinking of it as a distinct "phase" can be misleading. Some form of negotiations should be taking place with the supplier community throughout the Strategic Sourcing process.

## Contracting

Once you've selected the final supplier (or suppliers), your next step is to award the business. The Contracting phase converts the business terms you agreed to during the sourcing phase into a legally binding document that details the rules of engagement between the customer (you) and the supplier. The Contracting phase does not necessarily end with a signed contract. It could result in a pricing agreement with agreed-to terms or a simple purchase order.

## Implementation and Continuous Improvement

Often overlooked, Implementation and Continuous Improvement ensure that the work performed throughout the Strategic Sourcing process pays off for years to come. Simply entering into an agreement with a preferred supplier does not result in cost savings. You need to ensure end users and stakeholders adhere to agreed-upon terms and crack down on maverick purchasing. You need to track savings to ensure the supplier is holding up its end of the bargain (price) and your organization is holding up its own end (volume). This means rolling the agreement out internally, reviewing invoiced pricing as well as other internal documentation to ensure internal customers are not buying off-contract, and requesting credits for improper billings—and that's just the start.

### IN SUMMARY

Part One of this book covers each of the steps in the Strategic Sourcing process in great detail. While some of the challenges discussed may not apply to your organization, we have taken care to use examples we find in many of the organizations we work with, regardless of size, industry, or type of project.

While the Strategic Sourcing process on its own can produce cost savings, working to optimize your results requires reflecting on the steps in the process and determining the best way to customize those steps for your organization. Developing cost-savings strategies, delving into market research, and negotiating with both internal stakeholders and external suppliers requires a highly creative approach—it is not all analytics. Applying Strategic Sourcing techniques to indirect spend categories can be a challenging endeavor; however, for organizations looking to cut costs or enhance profitability, these spend areas can provide a wealth of untapped savings opportunities.

