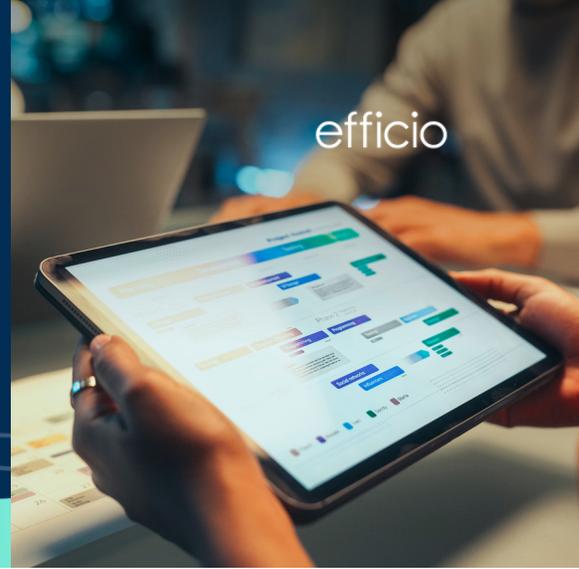


Unlocking Procurement's Opportunity in Complex Spend Categories



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WHAT WOULD THE C-SUITE SAY ABOUT PROCUREMENT'S CURRENT SCOPE?

Picture a garden, within a park, located in the wilderness. There is a core, highly productive garden that procurement manages closely and which produces measurable results. In the larger park, procurement tidies and addresses big ticket items: perhaps a new system, a large supplier, or a key renewal. And then there's the wilderness, wherein lie challenges that the business sees as too thorny, risky, or far sweeping for immediate intervention. Strong procurement teams often find their impact limited in the wilderness of complex spend categories. Here, the business holds the supplier relationships close, preventing procurement from reviewing the market. Even if procurement does get involved, it's on too limited a basis to make a real impact.

Unlocking complex spend categories has a double impact. Broadly, it tames the wilderness by expanding spend under management. But the more significant impact is in how procurement is seen; it results in stronger stakeholder relationships and a mandate to go further with demand levers to unlock strategic opportunities for the company. These halo effects impact both the category and the wider team, providing a much stronger foundation for procurement's future involvement. So, what makes spend complex, and how can procurement help the business succeed in complex situations?

Complexity comes from many sources, including the market landscape, how closely suppliers, services, or products are integrated within the business, and what impact they have. As many sources of complexity as there are, there is also a broad range of ways to address them. In fact, almost by definition, truly complex spend categories will always require bespoke solutions – ones developed to meet the specific needs of the spend at that company.

In this whitepaper, co-developed by Art of Procurement and Efficio, we consider:

- **What makes a spend category complex?**
- **How can procurement assist the business in driving maximum results despite the complexity?**

We also share case studies that address complex spend management situations, demonstrating just how many sources of complexity businesses face – and, equally, how often they can be overcome when procurement plays an active part in the solution.

Waste Management: Complexity at the Fleet Level

CASE STUDY

Waste management companies make significant investments in the specialized vehicles required to run their garbage and recycling routes. The range of options and configurations in the fleet of vehicles is extensive, and with lead time being a major concern – given the impact of any potential down time – accelerated sourcing and decision-making are essential.

At one waste management company, the fleet department would check its internal database of vehicles each time a need arose. Fleet would then run its own tender each time and, if a successful proposal was received, it would provide the details to procurement for contract execution. Procurement had no influence or negotiating power, opening the company up to disadvantageous pricing and contract terms.



The solution was to harmonize needs and create a pre-negotiated catalog of vehicles that renewed every few months. Fleet then had a "live" option each time it needed one, reducing effort, lead time, and potential down time. Procurement worked with the business to establish minimum requirements and technical specifications and then negotiated up front, delivering both savings and operational improvements.

What makes a category complex ... and how can external triggers unlock opportunities?

Spend categories may be considered complex when:

- **Their potential impact on the business and/or operation is high.** These products and services not only determine revenue in some capacity, but they are also often tied to internal processes based on a specific product, service, or supplier.
- **The supply market is complex.** Certain spend categories require a higher level of expertise specific to the company's industry. This can be particularly challenging if the procurement function is staffed by process experts who happen to be category generalists or are new to the industry.
- **Suppliers hold most of the negotiating leverage.** When stakeholders know negotiating leverage is limited because of demand or relative buying power, they may not want to disrupt existing relationships to drive savings or improvement. This makes it difficult to ensure that the overall value delivery meets expectations or to build a business case to address it.

Economic conditions, new regulations, and significant changes within a supply market may all provide an incentive for a business to review complex spend categories. These types of external triggers drive internal stakeholders to seek solutions ... and responding to them credibly and creatively presents an opportunity for procurement to unlock complex spend areas.

A Closer Look at Packaging

CASE STUDY

Packaging provides an excellent example of complexity as well as rapid change, which is driven by this category's role in many sustainability programs. It is a customer-facing change, one that can quickly move the needle on sustainability targets.

Procurement is often already driving sustainability efforts and incorporating sustainability considerations in the sourcing process. The first step is usually to gather data on current and prospective suppliers' sustainability practices, looking at cost.

The pace of change in this space requires an ongoing effort to remain compliant with local and regional regulations about material usage (such as single-use plastics) and continuous shifts towards alternative packaging materials.

A secondary area of complexity routinely found in the packaging category is the sophistication of packaging design and efficiency from leading providers. Companies often seek innovation in packaging for branding, customer appeal and retention, or to meet certain regulations. Packaging providers are in turn continually innovating to balance material usage, product protection, and waste reduction goals. Procurement is ideally positioned as the intermediary to help the company evaluate and balance its appetite for innovative packaging with the cost of acquisition and implementation.



Several factors, including the e-commerce boom, contributed to a sharp increase in demand for all types of packaging and tie this category more closely to revenue. However, the recent COVID pandemic and geopolitical instability in some countries created new and complex supply chain challenges, meaning that procurement needs to work more closely than ever with suppliers to ensure that sources are stable and reliable, regardless of how cost-effective or sustainable the packaging might be.

There are many reasons a spend category might be considered complex, but the cause is rarely just one. Procurement needs to capture and confirm the source(s) of complexity with the broader business before determining what impact they can have.

CASE STUDY**Food Production: Reducing Complexity Through Alternatives**

Food quality is so closely tied to ingredients that any change is complex. Just think of the uproar when major brands change their recipes!

One food producer was facing margin pressures but needed to maintain the quality of its product. It typically purchased a tightly controlled size and source of salmon and used that across all its products, but the precise SKU it wanted was not always available in sufficient quantities or at the desired price point.

Procurement's solution was to recommend alternative products – origins, cuts, and sizes – and help the factories understand their options. Because quality is always a top concern, procurement supported the testing and evaluation process, ensuring that substitutes were suitable for the business's needs and met customers' preferences. While many options didn't work, half a dozen options were selected that met quality needs for specific products. This improved revenue via availability and the new options also increased the business's margins.

How can procurement impact complex categories?

Although each spend category requires its own specific strategy and planning methodology, there are general frameworks that can help procurement work through complexity to land upon the right approach.

This process requires proactive stakeholder engagement, with procurement asking informed questions and then listening to what the business says and how they say it. When the business is looking to make a change, procurement is then already in an advisory position, and can work to enable and activate marketplace innovations that reduce cost and increase the category's performance. To grasp the complexity of a category, it is key to understand three points:

- **How does this spend create value for the company?**
- **What are the key pain points or perceived opportunities?**
- **What needs to be considered in a business case or total cost review?**

As procurement increases their understanding of the category, they can start building a fact base. This should include the systematic collection of supplier, cost, and operational data – even if it is unlikely to be used immediately. Procurement's approach to evaluating the current cost of the product or service must match the level of category complexity, for example, by reflecting the total cost of manual operations and resource utilization, assessing productivity levels, or capturing training costs and/or facility expenses.

Procurement should also investigate recent developments within the supply market. What new product or service offerings are available? How much change has occurred since the last time the category was sourced or contracted? The answers to these questions may be key to procurement's ability to address the business's longer-term vision for the category.

When needed, procurement can also lean on suppliers for technical knowledge. In most cases, complex spend categories are associated with strong or strategic supplier relationships. This is a key asset for any company.

A Closer Look at Media and Creative Content

CASE STUDY

In some categories, complexity is associated with the nature of the product or service being purchased. As an example, media and creative content spend are so unique that procurement is often not involved in either content acquisition or production. At one educational firm, procurement accepted the challenge to explore three key areas:

Collaboration and consolidation

It is quite possible that the supply base for media and creative content is highly fragmented, especially if the company works with independent contractors and freelance creators. When this information is also made available through a centralized digital platform, it reduces friction in the business's decision-making process and increases access to content. Sharing clear analysis across different departments and brands helped target collaboration, spread best practices, and opened the door to consolidation for rate improvements with trusted providers from elsewhere in the business.

Commercial structure

Explore different types of agreements and negotiation strategies that analyze the short and long-term cost outlook for both content and production. This especially applies when a company must manage the royalty agreements associated with creative content.



Exclusivity and market dynamics

With creative work, it may be important to avoid working with the same content creators used by competitors. Opening the business to options to manage this issue unlocked permission to address the category, such as making exclusivity part of provider contracts, selecting vendors in certain sub-sectors, or minimum guarantees.

Procurement can make it possible for the business to manage this complex spend category by balancing the business' preference for exclusivity with associated cost considerations and supplier relationships.

Once a complex category sourcing project is underway, procurement should keep recommendations and preferences front-and-center, remaining aligned with the broader business and proactively identifying the key stakeholders for each category, region, or business unit. Managing change is always critical to operational success, so procurement should take early steps to plan the change and keep sponsors aligned.

Sub-products: Turning Complexity Into Structured Revenue in Waste Management

CASE STUDY

Waste management companies are well known for their ability to take material in, but they also resell some of the materials processed within their treatment facilities to recyclers.

For one company, this process was so unstructured that an important source of revenue was being under leveraged. Although procurement does not typically get involved with sales activities, this company saw the skill sets in procurement and took a creative approach by bringing procurement into the process to find a solution.



Procurement created a process to centralize the sale of sub-products. It ran regular competitive auctions every month and invited several recyclers in Spain and France to participate.

The results were significant. The consistency of the process transformed new sub-product materials into a reliable revenue stream for the company, adding one percent to growth that year.

Conclusion

Managing complex spend categories requires an ongoing effort from both procurement and the broader business. Any progress should be considered a beachhead, rather than a destination in and of itself. Procurement needs to focus on delivering longer-term planning, continual reconnection and realignment with the business, and continuous improvement from suppliers.

Best practice takeaways from procurement functions that were able to successfully unlock the opportunity within their company's most complex spend categories include:

- **Listen to stakeholder needs and understand the overarching business context.** How does this spend add value? What are the key pain points? How much change is needed or desired?
- **Reflect on market changes.** Are there new market entrants, regulations, materials, or approaches to service delivery that have not been evaluated or were not previously relevant?
- **Build a comprehensive fact base.** Procurement must combine internal and external inputs that are qualitative as well as quantitative to identify the best approach and maximize results.
- **Focus on implementation.** Complex category sourcing is an ongoing effort. Procurement must emphasize change management as much as continuous improvement and give voice to all interested parties and stakeholder groups.
- **Lead the charge.** Procurement has the power to unlock complexity as a barrier, evolving with its knowledge of innovations in the market to advise stakeholders throughout the business.

About Efficio

Efficio is the world's largest independent procurement and supply chain consultancy. We partner with our clients across the globe to help them operate more efficiently and create tangible value for their business. The expertise, data, and machine-learning technology delivered through our platform – combined with our human intelligence – delivers value improvements at speed, allowing organizations to compete more effectively in an ever-changing landscape.

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