



TAIL STORIES

With companies putting a renewed focus on indirect spend due to the recession, the search is on for those less-obvious savings opportunities

You would be hard pressed to find a better time to look for hidden opportunities in indirect spend. With a seemingly never-ending financial downturn and the pressures from senior leadership and investors to squeeze costs as intense as it has ever been, procurement must think more creatively if it is to claw back cash without harming long-term profitability and growth.

So, finding these hidden gems was the subject of the latest *Procurement Leaders* roundtable, held in London during May and sponsored by outsourcing company Genpact.

Attendees had mixed thoughts about the current downturn – while they were in agreement that it presented many challenges, they were also aware of the opportunities which it provides. “People have become more conscious,” said Sergio Di Fabio, category manager for strategic sourcing at Abbott Laboratories. “Their budgets have been cut and, therefore, they are more open-minded to coming to us. They are very much moving towards understanding the added value that procurement or strategic sourcing [can bring].”

It was a point which everyone at the table agreed with – despite the obvious challenges of a global recession, at least it has brought people to the table, and stakeholder engagement can be improved as a result.

And it’s not only internal stakeholder engagement that has improved – a point made by Alistair Watt, head of technology procurement at Virgin Media. “We feel that there is a tremendous opportunity for us to get closer to our key suppliers because, right now, they are feeling the pinch and are more likely to want to get closer to us, and secure their future,” he said. “And they’re probably going to look at deals that they wouldn’t otherwise do.”

While it was a strategy that most agreed with, Clive Dedman, head of procurement at Trillium Property Services, urged caution. “Where we are trying to tread very, very carefully is that it’s very easy for a supplier to feel that you’re trying to screw them down in this environment to a much better deal. [And] there may be a potential commercial backlash when things do begin to get better,” he said.

Portraits: Julian Cornish Trestail



Adrian Turner
Apple



Kees Gerretse
Corus Group



Alistair Watt
Virgin Media



Steve Parr
Carillion



Peter Ingamells
Petrofac



Neil Deverill
Procurement Leaders
Network



Clive Dedman
Trillium Property
Services



Satyen Pathak
Genpact



Adrian Cook
Tarmac



Sergio Di Fabio
Abbott Laboratories

Kees Gerretse, chief procurement officer of steel giant Corus Group, however, pointed out that his company is in “survival mode”, meaning that he has little option but to go after cost improvements – and that the tail end of his budget is where much of the value can be found. “The opportunities are actually at the tail of your spend – your indirects, your MRO goods, your fleet management, that sort of thing,” he said.

To outsource or not?

It was a point picked up by Satyen Pathak, vice president, procurement practice, at Genpact, the roundtable sponsor. “We really work with clients and try to address the bottom 20% - 30% of their spend because that’s where we feel we can add more value than the sourcing, or strategic, part which you know better than us,” he said, before adding that being in an outsourced environment allows Genpact to achieve the better deals on this bottom 20% - 30% of spend.

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Adrian Cook, executive director of procurement at Tarmac, pointed out that while supplier relations are key, the current climate has created two distinct types of supplier – those that think very carefully about whether certain deals are actually profitable and those who are so desperate for revenue that they are willing to cut a deal. Differentiating between the two is key.

So, suppliers are where the money is to be found. But, as Steve Parr, supply chain director at Carillion, pointed out, the current climate allows buyers to demand more from their suppliers – and in more imaginative ways than simple price cuts.

“What we are able to do now, that we weren’t able to do 18 months ago, is to actually sit very, very strong competitors in a room and have true collaboration around cost planning,” he said. “So people that are really competitively entrenched in their behaviours are now completely different and will work with each other



Bill Knittle
BP

to make sure we as a client are absolutely clear that we’ve got, not just cost certainty, but they are taking cost out. It really is a sort of sacred business.”

One issue which brought many nodding heads around the table was that of how, up until the current recession, indirect savings were not always religiously tracked to the profit and loss account. “All of a sudden, we are much more passionately interested – as much as the sourcing activity – in how we see

the money and how do we take the money out of budgets,” said Tarmac’s Cook.

Adrian Turner, European head of corporate procurement at Apple, said that a company he once worked for was fighting a hostile takeover and, as a result, had to put a huge pot of money back into the P&L. “Effectively, the CEO reassigned everybody’s budgets. He just issued a global statement and said, ‘By the way, if you want to achieve your budgets, go and see procurement.’”

The broad-brush approach is one which resonated with Carillion’s Parr. “What we did, to try and mobilise the whole of the organization, was to cut down on some of the soft things that everybody used to have, you know free coffees, teas, biscuits, that sort of thing and let them know how much of a crisis we were in,” he said. “What it allowed us to do was to build a portal where all their [employees’] initiative was coming in around the soft and indirect spend – whether it was cancelling 3G cards, not giving employees 



ees Blackberries when they entered the organization, whatever.

“So the stop spending message got hit very, very quickly – and it wasn’t a top-down decision that was making it happen. It really came from the grass roots of the organization and mobilized very, very quickly.”

Parr went on to say how he has now handed his people a challenge to cut corporate travel in half. “People have literally stopped travelling,” he said. “We are probably not at 50%, but we are

surprising cost savings. “It’s incredible,” he said. “And it’s like plucking apples off a tree.”

Naturally, outsourcing was touched upon as a potential answer to taking cost out of the business. For many of the attendees, this made sense, “the outsource contracts that we have that are our business have got clearly defined SLAs, clearly defined financial penalties for non-performance, and the saving is that you don’t have the staff yourself,” said Trillium’s Dedman.

Simple things like asking cleaners to work during the day can generate surprising cost savings. “It’s incredible – and it’s like plucking apples off a tree.”

probably at 27% of the costs of fuel that we used... We get double ticks in the box because we improve our sustainability credentials and we save money.”

It wasn’t long before attendees were offering examples of specific ways to save cash. Tarmac’s Cook talked about his procurement card programme which also helps to improve compliance (currently, about 8% of spend is on cards) and Carillion’s Parr talked about how simple things like asking cleaners to work during the day can generate

To others, it didn’t. “We actually got to the point three years ago when we sat down with three outsourcing agents and actually started talking about deals, and said ‘let’s sign some confidentiality around certain areas you say you can beat us and let’s do some comparisons,’” said Bill Knittle, global procurement director at BP. “And what we found in five out of the seven, was that we had better deals than they did.”

But perhaps the biggest single issue that the CPOs around the table

saw as worth tackling was maverick spend. Virgin Media’s Watt, said he had introduced a “two strikes and you’re out” system to try and combat the issue. “It took our CFO to effectively write to everybody and say, ‘this is now not going to happen – you’re not going to commit any expenditure without the proper approvals and it’s going on a purchase order,’” he said, before going on to emphasise how a much better system is to ingrain the process into new starters before bad habits flourish.

It did, however, stir some debate. Tarmac’s Cook said he “has a real problem” with the term maverick spend because it points the finger of blame squarely at the end-user. “The other side of that is that the procurement department hasn’t explained well enough which supplier to use or hasn’t provided a better alternative,” he argued. “I think nine times out of 10, it’s the procurement department’s fault not the user’s fault.”

The communication problem was picked up by both Abbot Laboratories’ Di Fabio and Thomson Reuters’ Eddy Hills, its UK head of sourcing. “There are a couple of components you’ve got to get right up front, and some of that’s just common understanding,” said Hills. “So, for example, you have a discussion on one common travel provider – you’ve got to be absolutely sure that everybody understands the starting point.”

As well as the communication of policies, one of the biggest issues around the table was to make sure that when implementing them they don’t result in an increased workload for the end user. “This is probably one of the challenges that we should be addressing in procurement – that compliance invariably means an increase in process,” said Apple’s Turner.

Turner said that he was considering letting staff “spot purchase” certain goods because, often, you can save a lot of money by cutting out the process overhead of stringent policies. For example, not only would staff often be able to get a better deal for a flight online than the company would through its corporate travel agent, but process costs would be reduced as well.

It remains to be seen how many CPOs share his views, however. [PI](#)

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