



Clotilde HANNETEL  
www.achazconsulting.com

# Under the pressure of the e-economy: Indirect Procurement

***The development of e-business is hitting new economic fields one year after the other.***

***It is bringing a lot of innovation and new business models, which are affecting old and current logic associated with procurement.***

***This is to my mind particularly true in the field of Indirect Expenses.***

Travels, Information storage, Trainings, Social networks  
Payment means, News...The digital revolution has invaded our lives and lessened the border between our private and professional lives. Most people for example are highly equipped with technological devices and take their professional devices home to use. It enables them on the one hand to be better Procurement Managers for their own private spend and to learn everything about indirect categories.

On the other hand it creates new needs in terms of services for their professional needs: extended hours of availability for a travel booking service or a technological help desk, access to all professional documentation anytime and to a certain number of applications that were initially seen as private (Facebook, LinkedIn, Skype...etc).



As an Indirect Procurement Manager, competing against what is available in shops and on the net is harder than ever. As a consequence, there is increasing pressure on Indirect Procurement Managers to show their added value.

Let's dive into these changes and the actions that can be taken to continue to bring efficiency into organisations in this new framework.



## 1) Traditional characteristics of indirect procurement

Indirect procurement, like all procurement, have got more professional over the last 20 years, and have adopted approaches very much like direct procurement: Consolidation of volume, Cost saving challenges, Category management, implementation of SLA, introduction of innovations. Although it should be noted that indirect procurement continues to maintain its own characteristics that are still current today.

First of all, all employees are concerned with these categories. Some are concerned with a few categories (office supplies, phones and laptops), while others are concerned with many of them (office supplies, phones and laptops, car renting, relocation, catering services....). This means that instead of having to manage the needs of a small group of users, Indirect Procurement Managers face dealing with the needs of all employees in the organisation.

In almost all organisations this requires defining the different levels of services dedicated to the different categories of employees. And according to the policy of the company, the number of “layers” of services can be very different. Companies may have two levels of services, one for “VIP” and one for all remaining

employees, whereas others may create more categories of users. Where these different categories exist, contracts have to be drawn up to agree accurate sets of services, prices, conditions.

An added complication is that this process is to be conducted in an organisation where nobody is really assigned to describe the needs of employees for indirect goods and services. It is very unusual to find someone in an organisation who is responsible for this. Specification description falls in most cases into the hands of the Procurement Manager.

Ultimately everybody feels that they know the fair price of indirect goods and services - be it a pen, a phone, a trip to New York - but without considering any constraints of such professional purchases (i.e. payment terms, customer service, guarantee, delivery of a product, availability in time and geographical terms etc...).

There is probably a lot more to say, but let's try not to dive into the “old status” of indirect procurement and instead focus on the reasons why pressure has been building up over the past few years.

## 2) Indirect procurement under pressure

First of all there has been a ***rapid growth in the information available on the net.***



The volume of information is now measured in Zetabytes (= 1 billion terabytes) and it is doubling every 1.2 years for business data! It is likely that a lot of this data is not of any interest to indirect categories, but we are confident that a lot of it is. More information implies more opportunities for everybody (in our professional as well as our private lives). Furthermore the speed that we can access this information is also increasing with no apparent limit. This makes any research easier than ever to conduct, on any topic that an employee wants to look into (i.e. the cost of a flight of course, but also, specific training, low cost communications, office furniture or even the development of a specific IT program).



***Then we have to recognise that most of the employees in a company have now become regular or intensive buyers (privately speaking)*** of many indirect services on the internet for their own needs (travel, telecom, books, high tech devices...). This reinforces the feeling that they know everything about most of those categories. Additionally, on top of being regular or intensive buyers, people are now used to being able to find anything at any time: the internet shopping centre never closes, and customer services are provided by teams that run 24/7. It can become difficult for an employee to understand that the same level of services is not available in its professional environment.

***With these new technologies entering our private and professional lives, the border between these two spheres has become much thinner.*** For example, almost everybody is reachable for private calls at work via their own private phone and vice-versa, some applications for private use are becoming professional (Skype, DropBox, Facebook...).

It is driving a change in employees' needs; they may claim to have only one phone, but they use two numbers (a private and a professional one). Employees want access, for professional reasons, to those tools that were only seen as private at the beginning (Facebook, LinkedIn, Viadeo, Skype, DropBox...). Others may need to change travel arrangements at night while checking professional emails after a family dinner. This provokes many changes in the tools and services that Indirect Procurement Managers need to provide to their colleagues.

Another factor that is ***increasing pressure on indirect categories is that the digital economy, by essence, is profoundly modifying the business sectors*** it is involved in (online trainings, cloud services, new taxi services available on web/mobile platform, document sharing platforms, conference call service...), leading to a strong competition between "old" professional services and the new digital ones. Some of these services are by the way highly specialised. For example a hotel website offers only a high quality standard hotel list at discounted prices. It could become a price base

comparison with the regular negotiated rate of the company.



It is also important to point out here that these ***new services come up with new business models which are difficult for companies to adapt to.*** We can give as an example services published at a very low price, but for which each extra is added at an additional cost (especially in travel), while some services are completely free (i.e. Skype, Viber, We Transfer...) or social sharing website services (AirBnB for accommodation). This leads to a seemingly non-limited number of propositions: from projects' to sell tickets @ 10 eur for a transcontinental flight, to platforms that invite competition between a high number of worldwide designers to create images/logos, to a 6 eur/day rental car offer on the first page of Google, or to an unlimited number of travel price comparator. But due to confidentiality, security, payment process, those services are sometimes difficult for companies to deal with.

Let's guess that the pressure will not decrease. Many applications and services in the field of indirect procurement are in the process of being created - from the availability of wifi on planes, to payment via mobile phones and many others that we probably don't know yet about. These are many challenges that Indirect Procurement Managers will have to face in order to gain clarity in the panel of services that they can provide, and at what conditions.



### 3) How to show professionalism and added value ?

The challenge for indirect is therefore to remain highly professional, by:

- choosing and proposing services at the best conditions of price/quality, and improving their level of quality,
- communicating with the different groups of users,
- working internally and externally to integrate the new business services and models.

1. **First of all, it is imperative to ensure to always bring the necessary added value in the agreements that are made, aside from a “good” price.** It is highly likely that a business need is different from a private one, so let's take the advantage of it. This added value can be found through :

- Secured and easy payment, which is a fundamental criteria for any business;
- Level of price secured over time and not only the spot price- that is hardly compatible with a business request. Spot prices do not have to be discarded though; they can be seen as opportunities, but as a way to complement the agreed prices. It can even be a good way to show reactivity by being able to take advantage from time to time of special offers that can arise from the market;
- Get a good understanding of the total value of an indirect purchase (cost of an invoice to a new supplier, time to make sure the transaction is going smoothly, services that may not be include) to make a proper comparison between supposedly low cost offers and a regular one;
- Fast transaction over an electronic Procure to Pay process;
- Assurance of confidentiality of the information that is provided by the company over the procurement or using process;
- Efficient customer service in place with the supplier to deal with incidents, so that employees find a fast solution to their problem;



- Delivery of proper statistics from suppliers (as indirect often lack good master data to get a sharp set of information internally) in order to implement a good contract management;
- Continuous improvement actions in place with suppliers to be able to show progress to internal customers.

Most of these points can be checked over a RFI / RFP process to make sure that the chosen service really delivers extra value versus basic internet offers (that challenge professional services).

It starts with a good understanding of the requests of the organisation in order to find the best fit (price, level of services, process of purchasing, customer service...). If for private purchases, whatever they are (phone, travel, insurance, training...etc), the user, the finance manager, the person responsible for security or payment is the same person, it is not the case for professional ones. Therefore it is crucial to stay highly connected to all people involved in a professional procurement process: users, controllers, finance, most of time the IT department, and also sometimes human resources.

2. **Non-tiring communication about the added value of a professional service contracted by Procurement versus any service found on the net.**



Communicating to employees has always been essential for indirect services and it is now even more important as the competition is available three clicks away from the starting page of a navigator.

I am not a communication professional, and as such I cannot say if this should be through a mail newsletter, text messages to users, a “blog” on the employee website, through the regular communication of the Directors or news on the social network page of the company. The Communication department is probably the best branch to get support in this area to find the right media to do so. In this field things are also moving very rapidly and a lot of different tools are available.

- 3. Getting more and more agile in managing changes in the indirect world.** Thus being able to adapt to new services, offers, prices, and set up the right conditions of use before the majority of the employees do it by themselves. A good example from the past few years was the opportunity of buying low cost flights through a process, as secured and controlled as that of regular travel agencies. The path to the change was at that time not only to work with travel agencies to be able to manage this,

but also, as a first step, to make sure that internally, employees could buy tickets themselves in a secure way and manage the expenditure according to the company financial process.

Agility is found through internal and external processes. But it also deals with communication: the ability of Procurement to alert employees about any changes, prices opportunities, better services. Furthermore it is about control, to make sure that the changes are being implemented.

Finally, if Procurement Managers want to keep up to speed with the exciting and rapidly changing indirect market, it is obviously key to keep very updated with all these new offers, services and applications- especially as employees may use them to challenge the Indirect Procurement department. So let’s not fear to go out there, find out the truth behind these offers and analyse them. Let’s then assess if an opportunity does exist and at what prices (process changes, communication, new policy inside the company, extension of a contract with a supplier... etc). A good tool to keep connected to the news and trends, to innovation, to valuation is the Category Management.

## Conclusion

Every day we see changes in the world economy, which continue to challenge our old frameworks and uses. Indirect procurement has a key role to play in order to lead the integration, in acceptable conditions, of those changes deemed as real opportunities.

There will be no rest in this field. As we have seen the introduction of digital money (the most famous being the Bitcoin), which so far has not yet proved to be a real alternative to the original, trusted money transactions, we can’t imagine which sector could resist the e-economy. So it’s crucial to follow closely these changes and grasp the opportunities to show how much value indirect can bring to businesses.



**CLOTILDE HANNETEL**  
**FOUNDER AND DIRECTOR OF ACHAZ**

