



Major food manufacturer builds an indirect spend ecosystem with expert help from Protiviti

Keys to Success

Change Requested

Develop a centralized system to manage an estimated \$1 billion of siloed indirect spending; maximize savings and ensure transparency.

Change Envisioned

Use a competitive process to retain a business process outsourcing partner with the technology and expertise to systematize and monitor all indirect spend.

Change Delivered

A thorough RFP process helped find the best outsourcing option to deliver the expertise and visibility to enable substantial indirect spend savings.

Core competency is an absolute must for a successful organization. But an organization can also enhance its competitiveness by looking beyond its line of expertise. A prime example is the ability to optimize indirect spending — all those expenses that lie outside a firm’s customer-facing products.

One organization that successfully took this approach recently was a U.S. food manufacturer. The company had set an example of steady growth and product quality for more than 100 years. However, after experiencing a significant slowdown in revenue in recent years, it came to the realization that it needed to be more competitive and that there was room for improvement.

One obvious way to optimize the bottom line was to look more closely at an area of decentralized and opaque spending that had gone unaddressed during more prosperous times: The \$1 billion in annual indirect spend — everything outside of expenditures related to the main product, such as fuel costs, computer purchases and even paper and pens. Throughout its history, the organization had delegated management of indirect purchases to individual departments. There was no standardization, no visibility into spending data and budgets, and no economies of scale.

In effect, the organization sought to build a whole new ecosystem for indirect spending in order to achieve significant savings. The company realized quickly that it lacked the expertise to develop such a system internally, and it did not feel confident enough to source one externally without an expert’s help. For advice, it reached out to its internal audit partner, Protiviti. We brought a team of procurement experts from our Business Performance Improvement (BPI) practice to address the need.

Pricing structure, in particular, can be a thorny issue. Some vendors charge by the hour, while others might have a results-oriented fee structure, or a combination of both. For instance, a vendor might offer a lower hourly fee but request a share of any savings the provider generates. Our team communicated these considerations to the client and helped evaluate each vendor's cost fairly so that an apples-to-apples cost comparison could be made.

Step One: The Approach

Protiviti took up the challenge at the conceptual stage, working with the organization to scope out a detailed inventory of work and services to be outsourced. We educated the organization on the technology that would be required, as well as the benefits and disadvantages of various options, such as relying on a vendor versus licensing the technology and training internal staff on it.

One important aspect the organization was looking for in a provider was the vendor's ability and willingness to bring the indirect spend function in-house in the future. While the organization decided to outsource the function in the short to medium term, it hoped that its internal staff, through shadowing, training and knowledge transfer from the vendor, would be able to gradually take over various functions and categories of the program.

Based on these factors, Protiviti helped create service-level agreement (SLA) definitions that would enable the organization to tie performance to cost. Then, using both service needs and SLAs, Protiviti developed a comprehensive request for proposals (RFP) to find the most qualified vendor for the job.

Step Two: The Short List

Once the organization approved the RFP, Protiviti released it to a list of qualified candidates, chosen based on their relevance in the market, along with their different operating models and approaches to ensure a well-balanced RFP participation. Because the candidates used diverse technologies and pricing structures, Protiviti developed scoring criteria for the organization's selection committee to consistently appraise all candidates. By doing so, we were able to unearth hidden costs and put together a holistic cost comparison.

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Cost, of course, wasn't the only criterion. Other key issues included accessibility to data, the availability of vendor staff, the capabilities of the software and any help the vendor could provide in facilitating the major cultural change that would be required within the organization to transition from a dispersed to a centralized procurement model.

Change is never easy, but it can be rewarding — even exhilarating. The organization now has a new ecosystem that brings its indirect spending to the cutting edge of 21-century technology. The RFP process we facilitated helped the company achieve centralized, real-time control over its indirect spending, and as a result, it is set to realize substantial savings over three years.

Step Three: The Selection

Protiviti took a leading role throughout the bidding process. We managed RFP communications by establishing a calendar and deadlines to ensure timely responses, collected and answered questions from the bidders and analyzed the initial round of RFP responses. At the end, we narrowed the list down to two key providers, based on their capabilities and superior operating models.

At this point, in recognition of the importance of the change the organization was seeking, the senior vice president of finance and the chief risk officer became involved in the decision-making process. Protiviti scheduled and outlined the expectations for oral presentations to ensure the candidates provided all the information the executive team needed.

Following the oral presentations, we recommended the service provider we thought should be awarded the contract based on both its objective data scoring and our subjective assessment of how well the provider and the organization would work together in achieving the organization's goals.

The New Ecosystem

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