



A growing U.S. manufacturer discovers the value of an indirect sourcing function and builds a procurement department with Protiviti's help

Keys to Success

Change Requested

Help a rapidly growing company create a procurement department to manage more than \$600 million in indirect spending.

Change Envisioned

Build a sustainable sourcing process, identify and onboard procurement resources, and support transfer of the function to the client.

Change Realized

Established a procurement capability, secured nearly \$13 million in annual savings, and identified additional \$9 million in savings going forward.

It's not unusual for fast-growing companies — especially those evolving into a global enterprise — to overlook important but often out-of-sight processes that may end up hurting them later. Typically, the blind spot develops when companies are busy making acquisitions or pouring investment into product innovation, capital improvements, or research and development.

One of our North American manufacturing clients encountered its blind spot during a recent period of rapid growth fueled by multiple acquisitions. Even though annual sales were advancing toward \$6 billion — a growth rate of 130 percent over six years, the organization had nevertheless suffered from unexpected expenses and a sizable drop in stock price.

Looking for a way to reduce SG&A expenses, the company realized that while they were focused on their direct material spend, no one was managing the more than \$600 million spent annually in the form of indirect costs (costs not tied directly to the manufacturing process). Those expenses typically include necessary but not always well-controlled items such as laptops, mobile phones and travel.

To address this indirect spend, the company turned to Protiviti. In the prior year, Protiviti procurement experts had performed a spend assessment and identified opportunities to reduce costs in the area of indirect spend. When a newly hired Director of Supply Chain received this analysis, he contacted Protiviti with a request to help him build an indirect procurement department from the ground up.

Protiviti procurement experts held over 20 meetings with business units and executive leadership to analyze and appropriately categorize sourcing practices and identify opportunities to consolidate and renegotiate supplier contracts. Among other activities, Protiviti collaborated with stakeholders in several functional areas to provide sourcing support, prioritize sourcing opportunities, and develop sourcing plans and savings estimates.

Workflow Initiated

Protiviti used the first 90 days of the 10-month engagement to establish relationships with 85 stakeholders — an exercise of good will, which proved to be critical in creating support for the change. Protiviti procurement experts held over 20 meetings with business units and executive leadership to analyze and appropriately categorize sourcing practices and identify opportunities to consolidate and renegotiate supplier contracts. Among other activities, Protiviti collaborated with stakeholders in several functional areas to provide sourcing support, prioritize sourcing opportunities, and develop sourcing plans and savings estimates.

Protiviti then embarked on a three-pronged workstream solution.

- **Building the foundation for a sustainable procurement process.** This included developing sourcing templates, defining roles and responsibilities, and designing the governance structure. A critical part of this phase hinged on creating a plan that would communicate the procurement function's value to business units and foster buy-in. Protiviti also developed a system which the procurement function could use to prioritize, manage and address internal requests to negotiate with suppliers on behalf of other business units.
- **Resource planning and enablement.** Protiviti defined the procurement function's organizational alignment, and then worked closely with the client to define roles and responsibilities, develop job descriptions and conduct a search for candidates.
- **Transfer of the function to the client.** The function was transferred to the client following a thoughtful onboarding and transition plan, and Protiviti continued to support sourcing during the transition. Part of that effort also included the creation of a playbook, which detailed the entire program to ensure its sustainability — from the processes, procedures and policies, to the governing model, onboarding plans, reporting requirements and other principles.

This multiphase process benefitted greatly from the support we received from the business. The IT department was particularly engaged, reached out with concerns and requests regularly, and communicated to the rest of the business the benefits that were delivered.

The company prides itself on its spirit of independence and ability to lead and get things done. The success of the new program thus pivoted on the stakeholders' confidence in the design of the solution and their willingness to lead its adoption. This trust was gained in the course of numerous close working sessions, during which many problems were resolved on the fly.

Gaining Trust With Specific, Bottom-Line Wins

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In all, by targeting 14 categories of procurement spending, Protiviti identified \$22.2 million in potential savings, and the company was on track to save nearly \$13 million by the end of 2018. Early savings targets were achieved two months ahead of schedule, and a 10-to-one return on investment smashed initial expectations of a four-to-one return.

Growth With a 360-Degree View

When growing organizations lose sight of necessary but out-of-sight functions, they miss opportunities to avoid problems, improve efficiency and trim fat. Frequently, companies become aware of those opportunities only after growth has accelerated so much that the inability to manage it causes significant disruption to operations and profit. To avoid this scenario, organizations must intercept the problems before they can interrupt accretive initiatives and lead to weakness. In the case of our client, it was a lesson learned and a problem solved before it could grow out of hand, positioning the company to achieve its growth objectives with a solid and sustainable procurement function.

"We would not have been successful without indirect sourcing's support."

- Vice President of Information Systems – Global Operations, Engineering and Supply Chain

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