How to Improve The Bottom Line with Mandated Spending

Procurement expert Keith Hausmann highlights how CFOs can deliver real cost savings through strategic procurement mandates and autonomous sourcing technology.

Keith Hausmann, Chief Customer Officer, Globality

In the face of continuing economic uncertainty and a recession threat, every company is hyper-focused on cost management and financial performance. But whatever any possible downturn may bring, what is clear is that the CFOs is on the hook to deliver a solution, and many are now looking to deliver real cost savings through strategic procurement mandates and autonomous sourcing technology.

Companies must focus on their financial viability, so when it comes to cost management and financial performance, most internal finance leaders will turn to hard spending reduction by curbing back on marketing budget, cutting training spend and trimming headcount, often without considering without considering their strategic needs of the business.

This works 99% of the time and may seem the right tactic, in the short term, at least. But managing the money spent on products and services their companies consume, as well as the processes through which these products and services are acquired, is actually the road less travelled that in inflationary times is the smarter option.

For most organizations these consumables (indirect spend, as the Economics 101 textbook calls it) represents 40% of the cost base. Therefore, any percentage savings secured here go straight to the bottom line, potentially preventing the need for cost reduction elsewhere in the business. At the same time, establishing control over sourcing processes gives finance leaders real, data-driven insight into their true financial position at any given time.

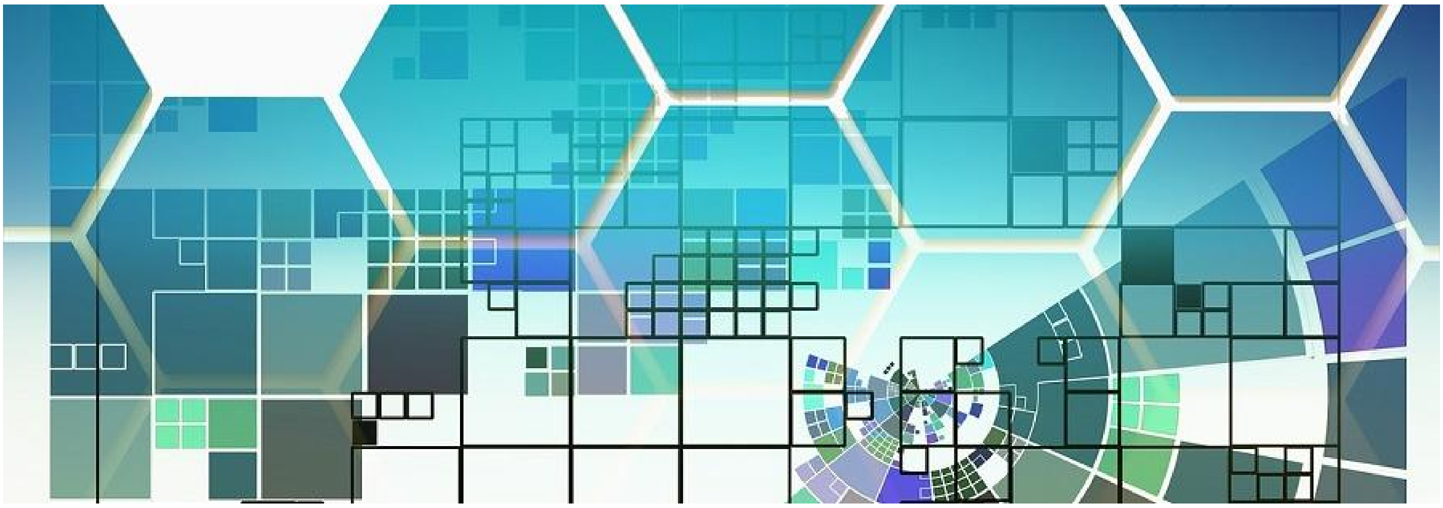
I say 99% of the time. Most organizations have purchasing processes which could be described, at best, as flexible, at worst – chaotic. Global 2000 companies spend billions of dollars each year on the materials, professional services and advice they need to run their businesses, but legacy procurement processes and technology mean it's far from optimized.

Unmanaged spend

Another issue is line managers and team members simply bypass the designated systems and engage in unmanaged spend. They don't do that to offend against the company: they do it to be able to execute their jobs in marketing, Research & Development (R&D), technology, human resources, real-estate and other functions in the company with speed and simplicity.

Too often the paper-based processes their organizations use as the way to source are cumbersome and time-consuming – taking up the time of valuable senior personnel who find work-around solutions, such as purchasing goods on credit cards and claiming the purchase back on expenses. As there can be unforeseen business requirements, it means goods have to be bought quickly, this "shadow" procurement is a fact of life.

Traditionally, controlling or mandating of purchases haven't always been welcomed by employees, particularly those within the "frozen middle" of organizations where there can be a disconnect between company strategy and its actual execution by mid-level managers. Employees will take the path of



least resistance and not follow recommended business practices as they know there are no consequences for doing so, if they don't exceed their budget.

While this ensures budgets are not surpassed, the result is not only the high cost of purchase, but a complete lack of financial control and failure to deliver best value.

Which brings us to the 1% option highlighted. Forward-thinking finance leaders have quietly identified a new, AI-powered route to finally maximizing their control over indirect spend.

Autonomous sourcing could be a real answer. The user-friendly, consumer-tech experience of using it means this is one spend "mandate" your team will be happy to embrace.

The good news is there are systems available today that can reduce purchasing costs substantially using this autonomous sourcing approach. By streamlining a slew of back-end processes, autonomous sourcing ensures only approved goods can be purchased, concentrating spend with few suppliers to get better discounts.

Procurement mandates avoid slash-and-burn

The latter point is particularly valuable for large, multi-site organizations which tend to have a greater degree of purchasing anarchy but who find autonomous sourcing ensures that all third-party spend is tendered fairly, competitively, and transparently, and with the right guardrails and policies in place to maintain compliance and risk management.

Take travel booking, for example, which used to be an agent-based travel management function. Once employees were empowered with the technology to compare rates, flight times, routes, and seats, they picked the best option for them and for the company. This same model applies for CFOs looking to implement procurement mandates for all their external spending. By giving employees user-friendly, digital solutions with a modest set of guardrails, you'll empower them to be their own buyer and simplify compliance.

As a result, CFOs are instantly able to get more visibility, control, and assurance of buying the right goods and services at fair market prices across all their expenditures. The results are significant, enabling a reduction in indirect spend which drives costs 10-20% lower.

Procurement mandates help companies deliver savings through indirect spend and not through slash-and-burn, as well as reduced operating expenses and improved overall business results. As a result, they are an excellent new tool in the CFO's toolkit.

The bottom line is that if you empower people with self-serve, intuitive-to-use autonomous sourcing technology, it will make them want to go the mandated way on an ongoing basis.

Autonomous sourcing technology could democratize how an organization buys everything it needs – putting the purchasing decisions in the hands of the experts who own the budgets and allowing them to work however they want.

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Keith Hausmann is the Chief Customer Officer at Globality, the market-leading autonomous sourcing platform. Keith is a hugely experienced executive in the procurement space.

He was previously the Managing Director, Global Procurement & Supply Chain Operations at Accenture, and a Senior Vice President at Procurian.

Keith shares his insights in Globality company blogs at https://www.globality.com/innovation-blog