

# Rogue to Riches: How and Why to Tame Indirect Spending

Pet food and treat manufacturers who give indirect spend direct attention can make significant gains.

The supply chain is disjointed and delayed. Getting adequate supply and timely delivery often blows the budget. The labor shortage is putting pressure on all aspects of business operations. And, finally, inflation on direct materials has ballooned, making profitability an ever-elusive goal.

But what often gets ignored among these more apparent concerns is indirect spend.

Managed and supported, it has rich potential to give you control – and much-needed efficiencies – in a sea of uncertainty.

## WHAT COUNTS AS INDIRECT SPEND?

Indirect spend goes toward any item or service that supports your daily operations, such as tools, cleaning supplies and safety equipment, versus direct spend that goes into the products you manufacture.

Pet food manufacturers tend to have a firm grasp of their direct spend. Indirect spend is typically unbridled, with departments sometimes ordering supplies as needed with inconsistent oversight.

It's understandable. After all, how consequential is an extra box of pens?

As it turns out: **It's significant.**

*McKinsey's data shows that indirect spend ranges from 10 to 18 percent of revenue depending on the industry. And that spend has been growing an average of 7 percent each year. Getting control of procurement for indirect spend can reduce costs by 15 percent within the first 12 to 18 months.*

## What's in the Way?

The industry is growing. Why focus on crumbs, like indirect expenses, when there's a feast at the table? The fact is, it's difficult to get a fair share of the pie with the challenges pet food and treat manufacturers face right now. Inflation, labor shortages, ingredient shortages, supply chain disruptions, political upheavals and the pandemic have made controlling direct spend a near impossibility. Prices are high and lead times are long. Money must be spent to keep the business in business.

**13%**

Pet product prices increased **13%** in February of 2022, according to Pet Food Industry.

**37% & 21%**

The costs of key ingredients rose as well, including various meats, wheat (**37%**) and corn (**21%**).

That has shifted manufacturers' attention to indirect spend. But they face many obstacles to taking back control over that area of their business.

## **THE RIGHT TECHNOLOGY WASN'T ACCESSIBLE**

A small to mid-sized pet food manufacturer's options for gaining clear visibility into spend – direct and indirect — have traditionally been limited and expensive. The technological capabilities, resources and expertise simply haven't been available at an affordable rate. That's changing quickly.

## **NO ONE IS RUNNING THE SHOW**

Historically, even large manufacturers haven't tapped a point person to manage or monitor indirect procurement for greater visibility over what they're spending and with whom. In other words, their indirect spending is rogue and unoptimized. Purchasing is done by department, or even by an individual. It's not always tied to a long-term, strong supplier relationship or an optimized purchasing plan. What's more, indirect spend is often spread across up to 1,000s of suppliers.

Extrapolate this across multiple locations and consider the impact.

***“Most companies do not have mechanisms to monitor indirect categories and reflect their performance on financial statements.” – McKinsey***

## **COMPLIANCE AND LACK OF A SYSTEM TO DRIVE IT**

Because indirect spend has traditionally not been a priority, many companies have not prioritized implementing a system to drive compliance with existing supplier contracts. That results in rogue spending through out-of-contract spot purchases. This has become even more difficult as shopping and buying online have become easier.

## **ECOMMERCE HAS KEPT MANUFACTURERS BUSY**

Yes, the industry is growing. But ecommerce is driving that growth. This has meant a business model transformation for many manufacturers. To capture that growth and improve delivery, they've allocated a large portion of their resources to developing their ecommerce arm. That has also complicated how they distribute inventory, plan for demand and work with channel partners.

## **CUSTOMER PREFERENCES HAVE MANUFACTURERS SEESAWING**

Another distraction has been the changing mind of the consumer. Influenced by their own eating habits, pet food industry trends and other factors, they've shifted preferences toward offerings such as refrigerated and frozen pet foods, probiotics and more. That means production process changes, and new requirements and rules for procurement teams to juggle.

# How to Clear the Hurdles

Here are **six ways** manufacturers can take back control:

## LOOK AT TECHNOLOGY – AGAIN

Look again if you thought technology was out of reach to manage this part of your business. Technology has matured in a way that changes everything for small- and mid-sized pet food and treat manufacturers. Advanced technologies allow for automation and digitization of processes, provide transformative insights in real-time, and integrate more seamlessly with your systems – affordably.

This affordability is due in large part to cloud-based models. Businesses can make smaller upfront investments and pay for continual service monthly instead of making large capital investments and maintaining systems themselves. What's more, today's employees – already stretched thin – welcome cloud-based solutions that allow them to function better anytime from anywhere with fewer people.

## GET EVERYONE ON THE SAME PAGE

If multiple departments and locations have free reign to purchase what they need from any supplier via any channel, the business is vulnerable to costly inefficiencies and lost opportunities.

With the right technology, you can create rules in the system that control indirect purchasing. You can lock in budgets, suppliers, service providers, tools and more. You can require that purchases are only made through your chosen system.

Controlling spend and sourcing drives efficiency, standardizes indirect purchasing and reduces SKU proliferation. It also makes compliance simpler, as you can limit purchases to authorized vendors, products and services.

One mid-sized pet food ingredient manufacturer worked with Supply Tigers to coordinate indirect purchasing of power transmission and general industrial supplies across six locations. The supplier successfully streamlined and automated procurement across facilities, realizing a cost savings of 15 percent in these categories. The manufacturer achieved:

**\$2M**

\$2 million of MRO spend for immediate savings

**\$300K+**

\$300K+ in near term savings

**2%**

Additional 2% savings with Vendor Managed Inventory

## **ANALYZE SPEND THROUGH ADVANCED LENSES**

When you work with advanced analytics tools, you gain prescriptive guidance as to the best next steps toward efficiency and savings. Something as messy as uncontrolled indirect spend will throw immediate red flags that you can address right away, as well as long-term opportunities to work toward. Analytics help you track indirect spend to identify areas for improvement and help you forecast more accurate budgets for indirect spend in the future. McKinsey posits that advanced analytics with target-setting tools can reduce costs by at least 10 to 15 percent.

Let's say you make 11,000 indirect purchase orders each year from various vendors. You can evaluate purchases and workflows to streamline both with the right analytics. Can you consolidate purchases to specific time frames or purchase from specific suppliers with better pricing or products?

You could realistically reduce orders to fewer than 3,000 per year.

This is more efficient and relieves your payables department of time-consuming activities related to managing purchase orders, maintaining vendor records and ensuring order compliance – activities that limit employees' capacity to process quickly and efficiently.

## **AUTOMATE ARCHAIC PROCESSES**

Manual processes related to indirect procurement are time-intensive and error-prone. Then you must factor for time and money spent correcting errors – which gets more extensive the longer the error goes unnoticed. It takes enough just to get the data in the system, let alone ensure its accuracy.

Today, automation can perform many administrative and repetitive tasks for manufacturers, including procurement. Process orders quickly and automatically, and you can set recurring orders. This will lead to fewer errors, as well as improved timing. It also means automatic data collection, from which you can pull meaningful insights to improve your processes.

## **REDUCE YOUR SUPPLIER RISK**

In a time of supply chain disruption combined with inflation, procurement organizations must be able to easily access alternate vendors if needed. Consolidating purchases, as well, within a solution such as a marketplace can also reduce risk.

## **ACCESS FORTUNE 500 BUYING POWER**

Bypass resource constraints and insufficient buying power by joining a Group Purchasing Organization, where you gain not only leverage in purchasing power, but also access expertise on how to get the most from every dollar and real-time tracking to enhance decision-making and maximize savings potential.

## Try Marketplace as a Solution (MaaS™)

Supply Tigers Marketplace as a Solution brings all these solutions into one platform – a marketplace for pet food manufacturers to purchase goods to meet their indirect materials needs.

Unlike a business-to-consumer marketplace (B2C), a B2B marketplace integrates controls that allow companies to monitor purchases and track spend by category and other factors. Marketplaces are especially useful for areas of spend that don't require deep technical consulting for product selection.

In a Hackett Group survey, organizations using marketplaces have seen increased internal user satisfaction, improved operational efficiencies in the purchase-to-pay process, and improved spend visibility, among other benefits. Another big benefit: reducing “maverick spend/requisitioner non-compliance” for purchases.

### WHAT IS MAAS™?

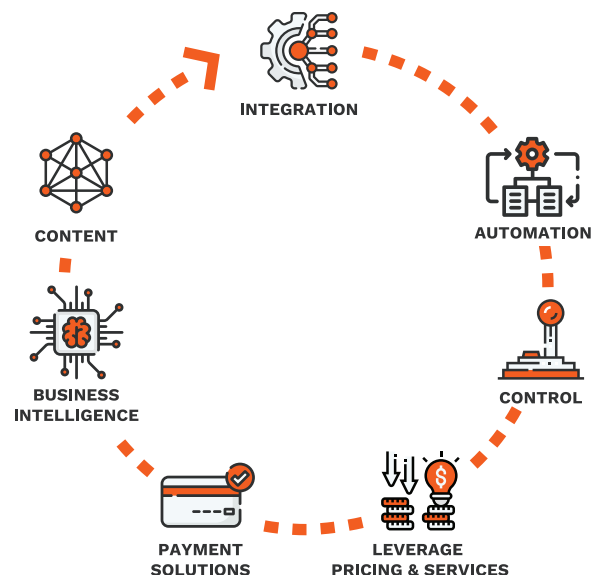
The Supply Tigers Marketplace as a Solution (MaaS™) paired with the curated content of Active GPO® and local vendors is helping small- and mid-sized pet food and treat manufacturers leverage the purchasing power of a large company to reduce indirect spend and boost process efficiencies. In year one of an investment, an average \$200 million business sees an ROI of 152% from the MaaS™ platform. By year three, they experience over 1200% ROI. This return comes through gained efficiencies, the impact of savings through the GPO and rebates.

### HOW'S IT WORK?

Manufacturers use the Supply Tigers multi-channel cloud platform to facilitate automated and advanced purchasing of indirect materials, accessing all of their trusted vendors in one place. Shop, purchase, manage invoicing, and track spend data and compliance through a robust business intelligence dashboard.

Through the marketplaces, companies improve contract compliance, boost financial control and drive profitability.

Because the marketplace is customized to your company's requirements, you can implement controls to present curated content to your buyers, such as limiting a category to a specific brand, requiring a certain percentage of purchases be “green” and so on. Another benefit of the marketplace is the ease of transacting with global suppliers through cryptocurrency stablecoin, freezing the currency at the moment of trade and making it easier, faster and safer to purchase in minutes, not days, when multiple currencies are involved.



## Efficiency Savings



**\$98,056**

annual savings on  
order processing



**\$17,251**

annual savings on  
order errors



**\$96,724**

annual savings on  
payment reconciliation  
errors



**\$212,031**

total efficiency cost  
savings achieved

*\*Based on a \$400M Manufacturing Company with a typical spend profile of \$4 million of indirect spend and 9,000 purchase transactions.*

## How to Clear the Hurdles

Most procurement organizations see **400%+ ROI**. So, where should you start?

- Supply Tigers will quickly and efficiently review AP and AR reports to provide projected savings and efficiencies for your organization
- MaaS™ is easy to deploy, and use – with ecommerce-like buying power.
- The initial deployment usually takes around three months.

Start saving immediately.

**To learn more, reach out:**

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