

American Express® & A.T. Kearney European Indirect Spend Management Study 2011

Insights and
opportunities to
improve control,
maximise visibility
and drive
efficiencies in
Indirect Spend

PRIMARY RESEARCH PARTNER



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The business world has changed dramatically since American Express last published an Expense Management Study, with today's new economic challenges forcing organisations to adapt their internal processes, and focus more than ever on cost control and compliance. Nowhere is this more apparent than in the Finance and Procurement environments, which are growing increasingly complex as organisations balance their goals of driving growth, achieving cost savings and meeting regulatory requirements.

SINCE LAUNCHING THE WORLD'S FIRST CORPORATE CARD IN 1966, American Express has built an unrivalled reputation for helping organisations gain greater visibility and control of their Travel and Entertainment (T&E) expenditure to drive savings. Over the years, we have partnered with organisations to make significant progress in increasing compliance; channelling more spend through fewer, preferred suppliers to leverage discounts, and improving end-to-end processes.

The management of Indirect Spend, such as Telecommunications, Marketing and Advertising, Professional Services, and Logistics, has now become the subject of renewed focus in today's new economic environment due to its scale – estimated to be €1,300 billion¹ across Europe – and the considerable potential saving opportunities. The challenges for Procurement and Finance remain consistent with managing T&E expenditure – maximising spend visibility, improving control and driving efficiencies, but in a far more complex mix of spend categories.

American Express remains committed to developing and delivering fresh insights, to help organisations manage and control their expenditure, and respond to ongoing business complexities. Following the 2003 and 2008 European Expense Management Studies, we have partnered with A.T. Kearney and collaborated with shedserviceslink.com to publish The European Indirect Spend Management Study 2011. We believe that this Study is the largest of its kind in Europe, in terms of size and scope – covering ten European countries and thirty industries. The 162 large and mid-sized organisations² that took part have a combined total of nearly one million employees, annual revenues of €247 billion and an annual spend of €127 billion (€45 billion of which is Indirect Spend).

The Study not only identifies the current trends, challenges and opportunities in Indirect Spend management, but also quantifies compliance and savings opportunities. The insights highlight that despite the apparent focus on Indirect Spend, this is still a challenging area for organisations and there remains considerable opportunity for improvement.

I would like to thank the organisations that participated in the Study for the time and effort they invested. The contribution of these organisations not only make this Study possible, but also makes The European Indirect Spend Management Study 2011 a key source of information to help organisations better understand, control and reduce the costs associated with their Indirect Spend.

We trust that the findings of this Study will serve as a valuable resource to identify opportunities for realising tangible benefits for your organisation. If you would like to learn more about these findings, please do not hesitate to contact your American Express representative.

Yours sincerely,



Brendan Walsh
Senior Vice President
EMEA Global Commercial Card - American Express



¹ European Indirect Spend Market Estimate: €1,300 billion (\$1.700 billion). This was calculated as the total GDP for Europe multiplied by 9% of total revenue (a figure taken from Purchasing and Supply Management - Fourth Edition by Robert M. Monczka, Robert B. Handfield, Larry Giunipero, and is based on Fortune 500 organisation research). ² Organisation Segment Classification: Large: Revenue >= €572 million, Employees >= 500, Mid-sized: Revenue >= €2.3 million and < €572 million, Employees < 500.

Note: Some statistics may have been converted using the following exchange rate: €1 = \$1.31202 or \$1 = €0.76218.

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Preface

Within organisations, Indirect Spend, defined as spend on materials and services that are not directly part of an end product, has often been viewed in management terms as a poor relation to Direct Spend.

OVER THE PAST DECADE much of this has been reversed, as Indirect Spend has become the object of considerable management focus, service offerings and media attention. In addition to this, the procurement environment has grown increasingly complex over the past few years and organisations are continually looking for fresh insights to help manage the estimated €1,300 billion³ of Indirect Spend in Europe, and respond to ongoing complexity in their businesses.

The new economic landscape is also forcing organisations to adapt their internal processes, as this Study confirms, with 84% of respondents' organisations becoming even more focused on cost-control since the economic downturn.

The purpose of the American Express European Indirect Spend Management Study was to investigate the extent to which this increased emphasis is being translated into effective and widespread management processes. It was also designed to identify and highlight best practices. The Study found that despite the apparent focus on Indirect Spend, this is still a challenging area and there remains scope for considerable improvement for many organisations. Opportunities exist particularly in the areas of compliance management, and achieving transparency of the granular data that is essential to enable effective procurement and supplier negotiation.

The findings are surprising given the significant investment in Enterprise Resource Planning (ERP) systems over the past five years – investment estimated to be over €10 billion within EMEA³. While

The new economic landscape is also forcing organisations to adapt their internal processes, as this Study confirms, with 84% of respondents' organisations becoming even more focused on cost-control since the economic downturn.

we recognise that this has not all been targeted at Indirect Spend management, improved compliance and data management often feature

within the business cases for these investments. This Study highlights that pure automation does not deliver the full benefits unless it is also accompanied by wider process improvement, behavioural and change management intervention.

American Express and A.T. Kearney, in conjunction with sharedserviceslink.com, conducted the Study, which is the largest of its kind in Europe. Organisations of various sizes, representing many European countries and a wide range of industries participated in the research.

³ Albert Pang, Worldwide ERP Applications 2009–2013 Forecast, October 2009.

Methodology

The Study was conducted between November 2010 and January 2011, and was performed by a joint team of consultants from American Express and A.T. Kearney, in partnership with sharedserviceslink.com.

WITHIN EUROPE, American Express and A.T. Kearney conducted primary research with procurement and finance contacts at 162 organisations via a 45-minute in-depth online survey. All respondents completed a web-based survey of over 40 quantitative and qualitative questions. A number of organisations were identified across the three key themes for in-depth 60-minute interviews. The interviews were carried out with these organisations to

understand their practices in more detail, and extracts from these discussions have been used throughout the study to illustrate best-practice examples, challenges and opportunities per theme. The online and telephone surveys were then supplemented by secondary research, including the A.T. Kearney 2008 Assessment of Excellence in Procurement, and in-depth conversations with American Express subject matter experts.

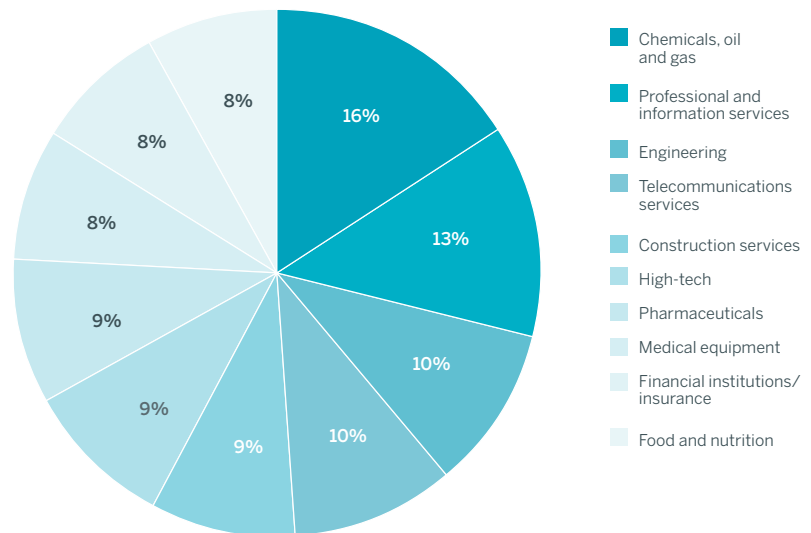
Study sample

The Study sample was comprised of 162 large and mid-sized organisations across ten European countries and thirty industries. The countries represented are Finland, France, Denmark, Germany, Italy, the Netherlands, Norway, Spain, Sweden, and the United Kingdom.

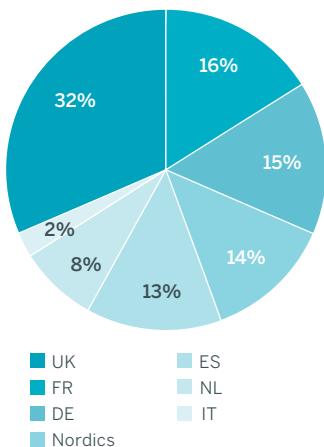
THE TOP TEN INDUSTRIES represented were chemicals, oil and gas, professional and information services, engineering, telecommunications services, medical equipment, financial institutions and insurance, food and nutrition, construction services, high-tech, and pharmaceuticals.

While the Study sample is predominantly made up of large organisations, experience suggests that the key findings are applicable across organisations of all sizes. The insights across all three key themes are designed to facilitate an organisation's assessment of Indirect Spend management, irrespective of its size.

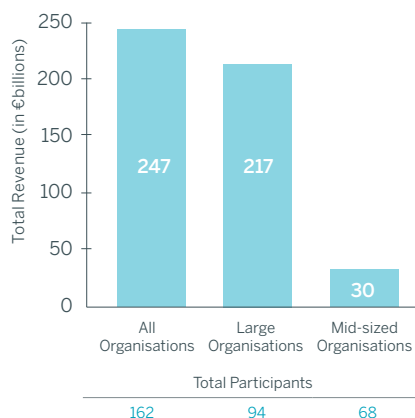
TOP TEN INDUSTRIES REPRESENTED



RESPONDENTS BY MARKET



TOTAL REVENUE OF STUDY PARTICIPANTS



RESPONDENTS BY ORGANISATION SIZE

58% | Large Organisations
42% | Mid-sized Organisations

THESE ORGANISATIONS REPRESENT A COMBINED TOTAL OF:

- Nearly one million employees
- Annual revenues of €247 billion
- Annual spend of €127 billion (€45 billion of Indirect Spend)

The study highlights

The Study focused on all areas of Indirect Spend management but opportunities were particularly striking in three key areas:

Key Themes	Key Insights	Key Opportunities
Improving Control Compliance is a major challenge for organisations	<ul style="list-style-type: none"> Organisations have invested heavily in implementing preferred supplier lists and contracted rates. However, these investments have not yielded full benefits since more than 50% of organisations do not have adequate controls to manage compliance. On average only two thirds of the respondents' total spend is currently known to be compliant with preferred supplier lists and purchased at contracted rates. 	<ul style="list-style-type: none"> An estimated €433 billion⁴ of all European organisations' Indirect Spend is not known to be compliant to preferred supplier lists and contracted rates. 'Money is left on the table' as there is a significant potential benefit from addressing the compliance issue, the scale of which is not known by respondents on a systematic basis.
Maximising Visibility Organisations have poor spend visibility and accuracy to support effective sourcing	<ul style="list-style-type: none"> Huge effort and investment has gone into implementing harmonised ERP systems, yet only one in three organisations captures the item level details on specifications and price that is required for effective procurement. 	<ul style="list-style-type: none"> The organisations that took part in this Study could save up to €900 million⁵ by moving to more effective procurement practices that yield up to 5% savings⁶ for addressed spend. The mid-sized organisations that took part in the Study could save up to €120 million⁵.
Driving Efficiencies There is very limited evidence that pure automation improves processing efficiency	<ul style="list-style-type: none"> There is limited correlation between the level of Procure-to-Pay (P2P) automation and internal processing efficiency, although the overall level of efficiency varies considerably between respondents. 	<ul style="list-style-type: none"> There is a major opportunity in many organisations for improving efficiency by better practices rather than purely driving automation.

THE TOP-PERFORMING ORGANISATIONS in the Study had a strong cultural disposition towards best practice, with well-embedded support processes. These organisations benefit from the ability to manage Indirect Spend effectively on an end-to-end basis.

Some of their key behaviours were:

- Strict adherence to preferred supplier lists and pre-negotiated rates, with effective controls in place to identify and restrict maverick spending behaviour.
- The capture of item level detail for all transactions so that spend can be accurately classified to support effective sourcing.

- Efficient management of invoices and payments, and close integration of process with technology.

⁴ Figure estimated by dividing the European Indirect Spend market estimate¹ by three as the Study shows that one-third of the total Indirect Spend is known to not be compliant. ⁵ The total Indirect Spend for organisations that participated in the Study was €45 billion (€6 billion for mid-sized organisations). The Study shows that 40% of the total Indirect Spend had poor item level spend visibility. A 5% savings estimate is applied to the Indirect Spend that is not visible at an item level detail. ⁶ A.T. Kearney, 2008 Assessment of Excellence in Procurement.

Improving control

Non-compliance to preferred supplier lists and contracted rates is a major cost – albeit an unknown cost for most organisations. This leakage of spend can be restricted if organisations are able to put more effective controls in place.

NINETY-FIVE PERCENT of organisations in the Study had preferred supplier lists in at least one Indirect Spend category, yet more than half felt they had inadequate controls in place to ensure that buyers used them. On average, there was only 66% compliance to preferred supplier lists and 64% compliance with contracted rates. This means that, although organisations have invested in negotiating preferred supplier lists and contracted rates, they fail to effectively address compliance to them.

Not surprisingly, large organisations were found to be more likely to have preferred supplier lists and contracted rates as compared to mid-sized businesses. However compliance to preferred supplier lists and contracted rates was equally poor across all organisation sizes.

The key to improving compliance is ensuring effective controls are in place to identify deviation from preferred supplier lists. Whether manual or

Whether manual or embedded in procurement systems, process gates are essential to flag maverick spend.

embedded in procurement systems, process gates are essential to flag maverick spend and re-channel it through preferred suppliers and contracted rates. Controls do not necessarily need to be bureaucratic, ‘before the event’ sign-offs for every transaction. Creating ‘after the event’ transparency to highlight non-compliance, and then feeding that back to users is very often the most effective approach.

JACQUES CHAMBRE, HEAD OF PURCHASING GENERAL EXPENSES, FRANCE, THALES

“We provide a great deal of support within our business on how to get the most from existing supplier agreements or take advantage of negotiated prices. We conduct regular audits to measure compliance and analyse those results to identify areas where we can do more to ensure our users go through the right channels.”

Figure 1: Usage and Compliance to Preferred Supplier Lists by Category

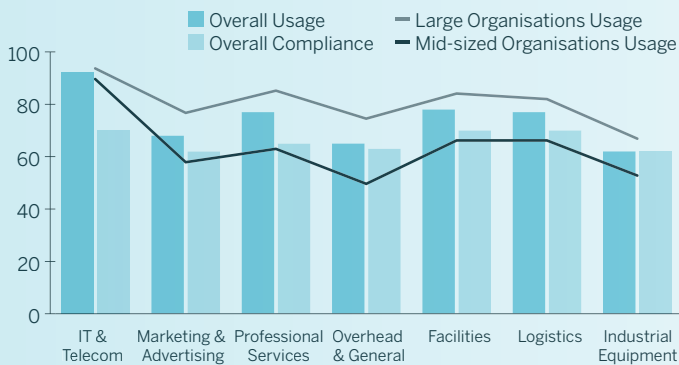
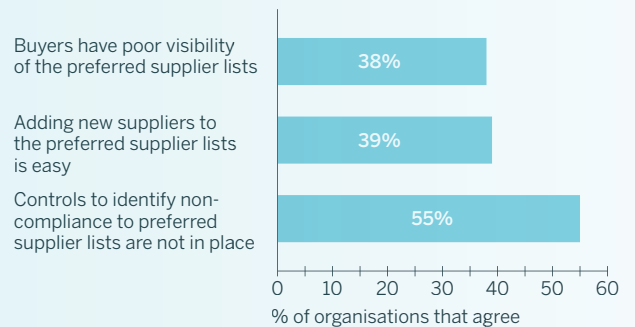


Figure 2: Reasons for Non-Compliance to Preferred Supplier Lists



Maximising visibility

Understanding how much money is spent on what products and services, and with which suppliers, is crucial for procurement teams. Item level spend visibility is an important input for an effective sourcing process to give information on specifications and prices. It is also a critical requirement for effective compliance management.

IT IS ESTIMATED that effective sourcing and robust demand management can typically deliver up to 5% cost savings⁶ on the addressable spend, generating potential estimated savings of up to €900 million among the Study group alone.

Almost 60% of Study respondents supported this and said that spend analysis was crucial for effective sourcing. In addition, more than 40% of organisations

As might be expected, large organisations have better spend visibility than mid-sized organisations.

did not consider that they have good item level spend visibility. And this was much worse for mid-sized organisations (51%)

when compared with large organisations (36%). In addition to this, of those organisations that did have high visibility, 33% did not trust the accuracy of their data.

The lack of visibility and accuracy is explained by the facts that just 42% of organisations captured all transactions on their procurement systems and only 34% captured the data at line item detail.

As might be expected, large organisations have better spend visibility than mid-sized organisations – typically due to their more sophisticated systems and processes. In addition to this, organisations that do not have easy access to this information are either relying on guesswork to negotiate their supplier rates or using ad hoc reporting.

It is important that spend data is captured at item level by organisations so that they can clearly understand their consumption patterns. Understanding line item detail is a critical supplement to this for both compliance management and effective sourcing.

MICHAEL FLUECK, ASSISTANT VICE PRESIDENT, ABB MANAGEMENT SERVICES LTD.

“Capturing line item data is becoming more and more important to us, as we recognise that this data helps us to better understand our future cost drivers.”

Figure 3: Spend Visibility and Accuracy by Category

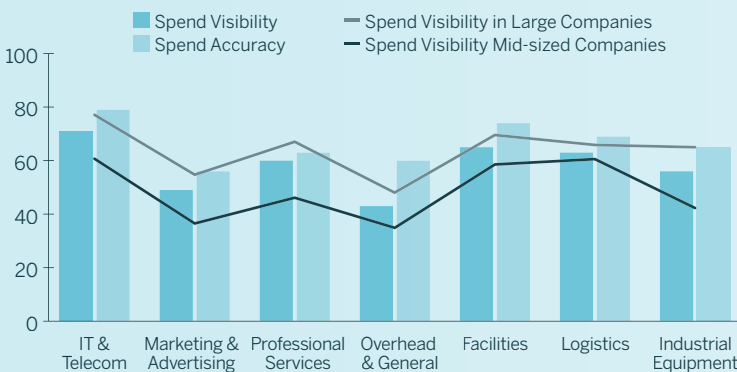
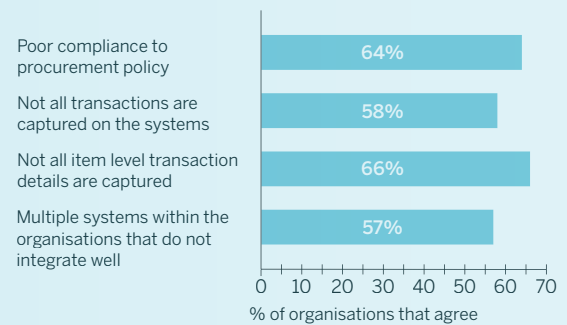


Figure 4: Reasons for Poor Spend Visibility and Accuracy



Driving efficiencies

Effective day-to-day processes – and not just automated systems – are vital to improving full time equivalent (FTE) efficiency and increasing the first time matching of invoices to purchase orders (POs).

THE WIDESPREAD ADOPTION of electronic purchasing systems is one of the most prominent P2P initiatives of the last few years. It does seem to have reduced processing times by 50%, but automation itself has not necessarily improved FTE efficiency or first time match rate.

Figure 6 demonstrates that there is little correlation between the proportion of electronic invoices that companies use, relative to overall invoices, with first time match rates and early payment discounts that are lost with suppliers.

So while the widespread adoption of electronic purchasing systems has been broadly successful, their internal process efficiency benefits are not yet necessarily being fully realised. Despite the large sums

of money invested, the anticipated economies have not always materialised. The main issue appears to be the requirement for manual matching of PO information to incoming invoices by internal company procedures, whether electronic or not, and the checking of details. There are therefore opportunities to achieve efficiencies by adopting systems and processes that filter incoming invoices more efficiently, or in advance, and prioritise and streamline payments.

JOHN DICKENS, UK SHARED SERVICE CENTRE MANAGER, NEC (EUROPE) LTD.

“We scan purchase orders and invoices directly into a centralised SAP system from offices around the world. Around 40 people have to oversee the correct entry of over 40,000 invoices every year, so we’re in the process of introducing technology to help improve the speed and accuracy of data capture. Everything except utilities has to have a PO allocated and it’s often necessary to manually intervene and locate them.”

Figure 5: Impact of Electronic Invoices on Cycle Times

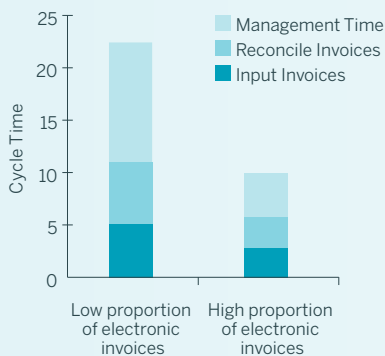
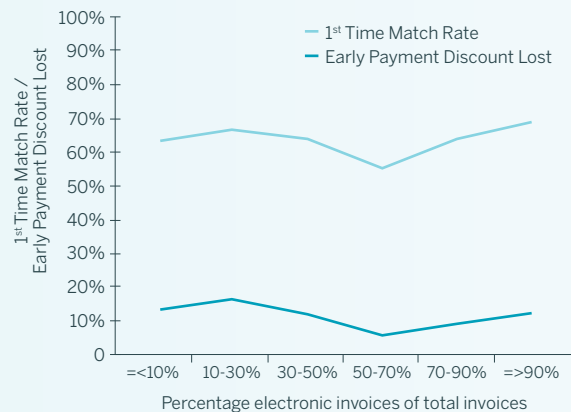


Figure 6: Impact of Electronic Invoices on First Time Match Rate and Early Payment Discount Lost



The way forward

This study highlights that there are significant opportunities for organisations of every size.

ORGANISATIONS THAT SEEK TO IMPROVE Indirect Spend performance should consider adopting the following approaches:

- 1** | Implementing controls to ensure that compliance with preferred supplier lists and contracted rates is managed.
- 2** | Creating a feedback loop through spend and item level transparency that will identify non-compliance, trigger corrective action and provide input to strategic sourcing.
- 3** | Enhancing efficiency by improving and simplifying the end-to-end processes rather than purely automating systems.

Controls, visibility, and organisational behavioural changes are crucial interlocking requirements and considerations.

THE OVERALL CONTROL ENVIRONMENT needs to strike the right balance between 'before the event' controls and 'after the event' feedback. While prevention of errant behaviour may be better than cure, there are trade-offs.

'Before the event' controls can become overly bureaucratic when applied to every transaction, and that can generate adverse user reaction which, in turn, can frustrate behavioural change.

'After the event' checks on actual expenditure and rates used will provide the visibility that is required for strategic sourcing, so creating a feedback loop. This does not necessarily need to be applied to every single item level transaction. In fact, systematic spot audits and sampling are options that can be used to avoid overloading administration. As a result, behavioural change will be engendered rather than frustrated – giving users visibility of the consequences of their behaviour and clarifying the correct approach.

A wide range of products and services creates complexities

Compliance to preferred supplier lists and contracted rates is a challenge for organisations.

INDIRECT CATEGORIES can be particularly hard to manage as they tend to include a wider range of products and services than direct categories. Moreover, because they are not integral to an end product and subject to relatively fewer regulatory or quality standards, organisations have not always taken the same care to establish strong controls in Indirect Spend categories.

JOHN DICKENS, UK SHARED SERVICE CENTRE MANAGER, NEC (EUROPE) LTD.

“We have a large procurement department that functions very much as a supply chain, with four to five core products that are completely driven by preferred supplier lists. Everything else, including most Indirect Spend, is ad hoc.”

This has meant greater challenges in managing Indirect category compliance and a less compelling business imperative. The relatively blunt instruments of budgetary spend caps have often been the extent of controls put in place.

However, over the last decade there has been an increased focus on managing Indirect Spend more efficiently. There have been moves towards strengthening relationships with Indirect suppliers and centralised management, with more widespread use of preferred supplier lists, and agreed rates and prices across categories.

Study respondents confirmed this and we can report that:

- Over 95% of organisations now have preferred supplier lists in at least one category.
- Over 98% of organisations now have contracted rates in at least one category.

Preferred supplier and contract rate compliance pressures have grown as organisations strive to leverage buying power and drive maximum value from suppliers, and there has been moderate success in these terms. According to

Over the last decade there has been an increased focus on managing Indirect Spend more efficiently.

A.T. Kearney's most recent AEP Study, leading organisations typically achieved average savings of up to 5%

during 2008 within indirect categories. This suggests that, although many organisations have invested in setting up preferred supplier lists and contracted rates, they are failing to effectively ensure compliance to them.

Savings opportunity

On average, participants in this Study revealed that compliance is a major challenge – there was only 66% compliance to preferred supplier lists and 64% compliance with contracted rates.

MOREOVER, over half of the organisations surveyed said they did not believe they had adequate controls in place to manage compliance. There are therefore significant opportunities for additional savings. Specifically, an estimated €433 billion of European organisations' Indirect Spend is not known to be compliant to preferred supplier lists and contracted rates. For mid-sized organisations who took part in this Study, it is estimated that €2 billion

of their Indirect Spend is not known to be compliant to preferred supplier lists and contracted rates. Organisations do not systematically know how much value is being lost by failing to address this, and the scale varies between category, geography and company size. Nonetheless, compliance with preferred suppliers and contracted rates is one of the most fundamental opportunities available to maximise value.

Preferred supplier lists

Overall, the use⁷ of preferred supplier lists is highest in regularly-purchased, functional services such as IT and Telecommunications (92%), while such lists are least used to purchase Marketing and Advertising (69%), Overhead and General (64%), and Industrial Equipment (61%).

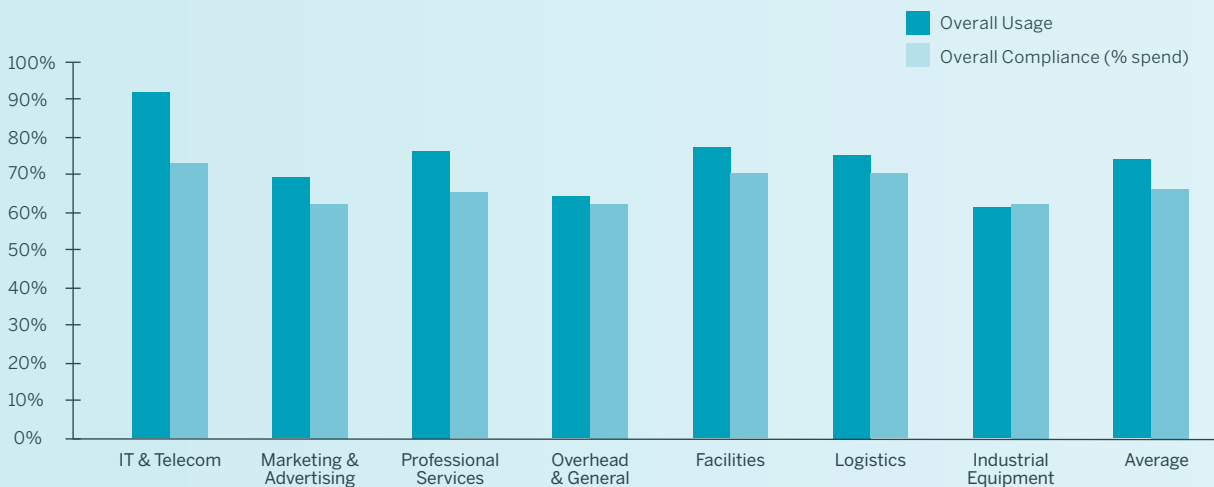
CONSIDERATIONS INCLUDE:

- IT and Telecommunications services often involve highly technical operations with specific user requirements that are managed through selected providers.
- Marketing and Advertising is often based on varied requirements from individual business units and a broad base of suppliers is desirable.
- Overhead and General covers a wide range of products and services – a select number of suppliers may not necessarily be able to meet those needs.
- Industrial Equipment purchases are typically linked to specific project requirements.

HEAD OF ACCOUNTS PAYABLE, GLOBAL ENGINEERING AND DESIGN FIRM

“Our use of preferred supplier lists is low and there is no pressure to use them, other than for centralised IT, telecommunications and contracted labour. We do have internal controls to ensure that we are buying at the correct contracted rates from these suppliers. Outside of these it is the responsibility of the person procuring to ensure the correct price is paid.”

Figure 7: Usage and Compliance to Preferred Supplier Lists



⁷ Use of preferred supplier lists means pre-selecting certain suppliers for products and services. However that doesn't necessarily mean that business users comply with this.

OF THE ORGANISATIONS that had preferred supplier lists, only two-thirds of total Indirect Spend actually went through those suppliers. And although compliance⁸ to preferred supplier lists is generally poor across categories, it is relatively better for IT and Telecommunications (71%), Facilities (70%), and Logistics (70%). In categories such as Marketing and Advertising, Overhead and General, and Industrial Equipment there was predictably lower compliance (all at 62%),

which is attributed to the highly-tailored nature of these offerings to meet diverse requirements.

Market analysis reveals that compliance to preferred supplier lists is particularly poor in Spain with only 55% of spend going through preferred suppliers. By contrast, French organisations are most compliant, with 76% of their spend going through preferred suppliers. For additional detail, please see the Appendix.

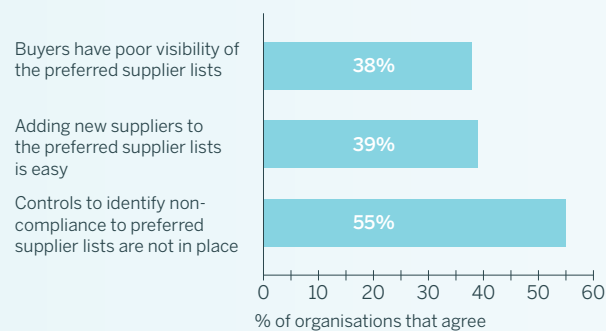
GLOBAL TELECOMMUNICATIONS COMPANY

“Sourcing managers maintain preferred supplier lists that are visible on our purchasing system. Compliance is therefore very good for centrally-managed categories, such as IT for example. Other categories that are less mature, or for more complex requirements, are harder to control.”

Improving compliance with preferred supplier lists

SIXTY-TWO PERCENT of organisations believe they offer good visibility of preferred supplier lists internally, which raises the question over why they are not always used. In fact, despite the investments made in setting up preferred supplier lists, only 45% of organisations actually have controls to pick-up non-compliance to preferred suppliers lists. This lack of adequate controls is one of the key reasons why there is poor compliance.

Figure 8: Reasons for Non-Compliance to Preferred Supplier Lists



⁸Compliance to preferred supplier lists means users buy from the stated suppliers in preferred supplier lists for those particular products and services.

Contracted rates

Just as with preferred supplier lists, the usage⁹ of contracted rates is highest in IT and Telecommunications (75%), Facilities (71%), and Logistics (70%), while they are least used in Marketing and Advertising (51%), Overhead and General (53%), and Industrial Equipment (54%).

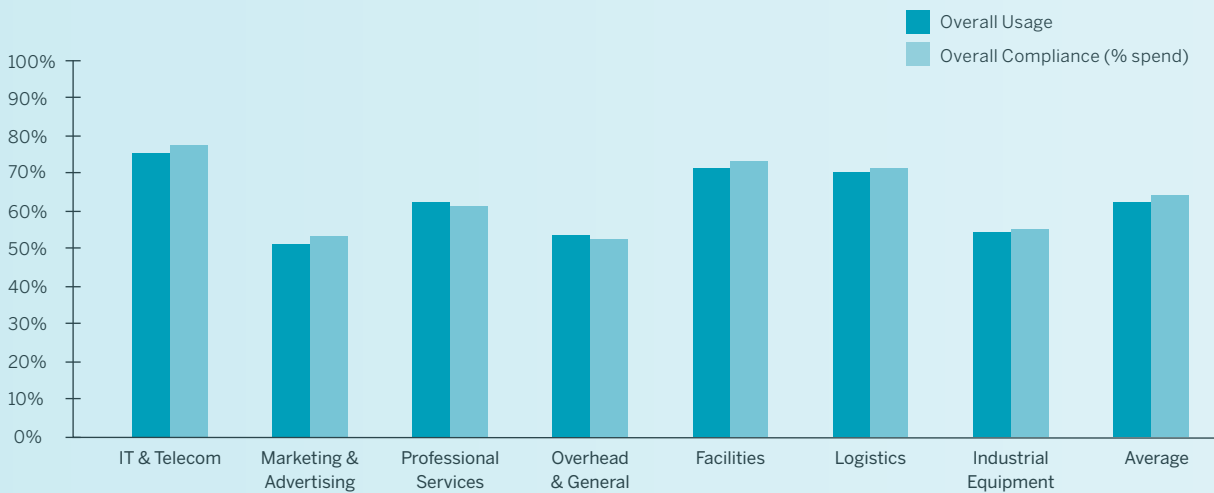
THE POTENTIAL RATIONALE for this might be:

- IT and Telecommunications, Facilities, and Logistics are typically procured and managed centrally, offering greater visibility of specifications, prices and suppliers.
- Marketing and Advertising spend is typically managed regionally, or even locally, depending on project requirements.
- Overhead and General as a category covers a wide range of products and services.
- Industrial Equipment is purchased to meet specific project requirements.

Although over 98% of organisations now have contracted rates in at least one category, overall compliance¹⁰ is relatively low at 64%, and that means more than one third of Indirect Spend still goes through non-contracted rates.

Compliance to contracted rates across categories mirrors usage rates. Although such compliance is generally poor, it is relatively better in IT and Telecommunications (78%) as compared to Marketing and Advertising (55%), Industrial Equipment (55%) or Overhead and General (54%), where it is poorest.

Figure 9: Usage and Compliance to Contracted Rates



⁹Usage of contracted rates means pre-agreeing prices and rates with suppliers for products and services. However this doesn't necessarily mean that these are complied with by the business users. ¹⁰Compliance to contracted rates means business users buy their products and services at pre-agreed contracted rates.

AGAIN, THIS CAN BE ATTRIBUTED to greater centralised visibility of specifications, prices and spend for sub-categories within IT and Telecommunications.

Market analysis reveals that compliance to contracted rates is particularly poor in The Netherlands with only 57% of the spend complying with contracted rates. By contrast, compliance to contracted rates is best in French organisations with 69% of the spend complying with contracted rates. For additional detail, please see the Appendix.

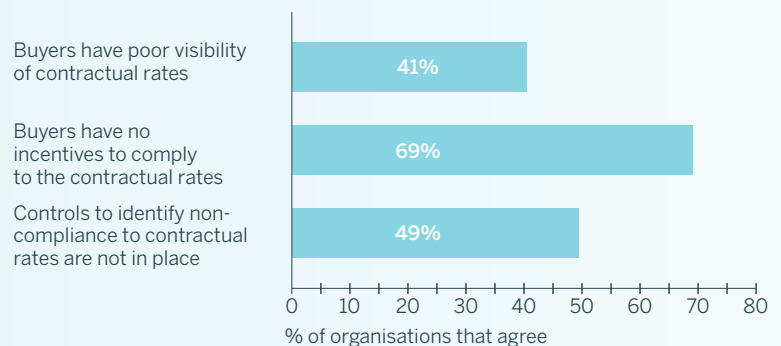
**JOSÉ LUIS SEBASTIAN FERNANDEZ,
PURCHASING MANAGER, CODERE SA**

“ Due to the limited number of providers in some Spanish markets, it’s easy to channel spend through a small number of preferred suppliers. However, these suppliers sometimes charge more than the negotiated prices and our buyers aren’t necessarily aware when this happens. Although there are no policies or penalties for errant suppliers, there is a team that regularly reviews invoices. ”

Improving compliance with contracted rates

SIXTY-NINE PERCENT of participating organisations agreed that the absence of incentives to comply with contractual rates is hindering compliance. Although investments have been made to negotiate rates with the suppliers and make them internally visible, organisations are underestimating what is required to embed behavioural change. Not having effective controls in place to ensure compliance with contracted rates is also a major issue, and almost half the organisations surveyed agreed with this.

Figure 10: Reasons for Non-Compliance to Contracted Rates



Large and mid-sized organisation highlights

Compliance to preferred supplier lists and contracted rates is virtually the same regardless of company size, with average compliance rates ranging from 61% to 69%.

HOWEVER, WHEN COMPARED with mid-sized businesses, large organisations make greater usage of preferred supplier lists and contracted rates across all categories. Faced with managing more fragmented Indirect Spend over a larger number of locations, they have been faster to establish preferred suppliers and negotiate pre-agreed rates than mid-sized organisations.

For large organisations, which have higher usage of preferred supplier lists and contracted rates, this means there is an opportunity to drive savings by improving compliance. With mid-sized organisations, there is further to go, and the potential

Large organisations make greater usage of preferred supplier lists and contracted rates across all categories.

for improvements starts with building preferred supplier lists and negotiating contracted rates, and focusing

efforts on compliance to further realise the benefits of those relationships. Mid-sized organisations have the opportunity to improve preferred supplier list usage in all categories outside of IT and Telecommunications, particularly within Marketing and Advertising, Professional Services and Overhead and General, where they lag considerably behind large organisations.

Contracted rate usage was 61% on average for mid-sized organisations across Indirect Spend categories, while it was 66% on average for large organisations. Mid-sized organisations not only have the opportunity to increase preferred supplier list usage, but to negotiate and improve their usage of contracted rates to offer savings opportunities.

PREFERRED SUPPLIER LISTS

64% | Compliance (as % of total Indirect Spend) in Large organisations

69% | Compliance (as % of total Indirect Spend) in Mid-sized organisations

CONTRACTED RATES

66% | Compliance (as % of total Indirect Spend) in Large organisations

61% | Compliance (as % of total Indirect Spend) in Mid-sized organisations

Spend and item level visibility challenges

Poor item level spend visibility leads to ineffective sourcing.

ACHIEVING GOOD item level spend visibility¹¹ – knowing exactly how much is spent on what items, and from which suppliers – is particularly challenging within Indirect categories. With such a wide variety of products and services, which are predominantly managed by end users, the capture of transaction details often lacks adequate rigour or consistency. Additionally, invoices and purchase orders for Indirect categories often do not have the necessary level of detail to enable effective classification of spend information.

In the absence of this it is difficult to establish a clear view of what products and services are being bought and their

specifications. This is crucial information to support negotiation efforts with suppliers. Lack of spend visibility at an item level detail therefore imposes real constraints on procurement teams' sourcing effectiveness, so only limited benefits can be achieved.

Organisations that participated in the Study confirmed that reliable item level spend information is an absolute necessity for effective sourcing.

- More than 40% of the organisations have poor item level spend visibility across Indirect categories.
- One in three organisations believe that their spend data is unreliable.

Opportunity

Understanding how much money is spent on what products and services, at what prices, and from which suppliers is crucial information for organisations.

Organisations have spent billions of Euros over the past five years on implementing and harmonising their ERP systems, and one of the key goals was achieving better spend visibility. Yet this Study shows that, despite these large investments, many organisations still do not fully understand their Indirect Spend at an item level.

Organisations need to focus on establishing robust end-to-end processes to collect, cleanse, classify and analyse expenditure data effectively. Improved item level spend visibility is essential to procurement professionals during supplier negotiations, in identifying savings opportunities from price differentials, and also challenging

internal requirements to rationalise specifications. Typically, these effective procurement practices yield up to 5%⁶ savings for the addressable spend. That equates to a potential saving of up to €900 million⁵ for the Study sample overall, with up to €120 million for mid-sized organisations alone.

ALDO RUBINI, PROCUREMENT & PURCHASING DIRECTOR, SAPIO GROUP

“We really want to implement a system that gives us full, on-line visibility of everything we buy so we can identify savings opportunities.”

¹¹ Item level spend visibility is defined as degree of understanding of how much money is spent on what products and services from which suppliers.

Item level spend visibility

Overall, more than 40% of survey respondents said they did not have adequate visibility of item level spend within their organisations across Indirect categories. This is typically because insufficient levels of transaction details are captured, making cleansing, classification and analysis challenging.

ALTHOUGH ITEM LEVEL SPEND

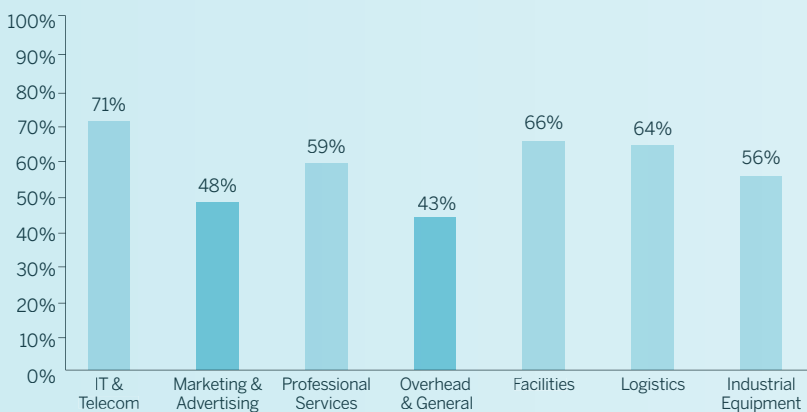
visibility is poor across all indirect categories, it is relatively better in IT and Telecommunications (71%). Item level visibility is worst in Marketing and Advertising (48%) and Overhead and General (43%):

- IT and Telecommunications is typically procured and managed centrally, offering greater visibility of specifications, prices and suppliers.
- Marketing and Advertising spend is typically fragmented across different business units with diverse requirements, and is therefore more difficult to report on centrally.
- Overhead and General comprises a large number and wide range of products and services, from many suppliers, delivered across the business. The value of recording all item data may not be apparent to the person placing the order.

Item level spend visibility is worse for mid-sized than for large organisations. Overall, only 49% of mid-sized organisations believed they had good item level spend visibility as compared with 64% of large businesses. It seems likely that this is because large organisations made the investment in improved systems and processes earlier. With potentially bigger sums of money to spend and also facing greater challenges in the consistency of data capture itself, such as operations across multiple geographies, they have probably simply been faster to act.

The analysis also revealed that item level spend visibility is particularly poor in the Nordics, with only 41% of organisations having good visibility, and highest in the UK, with 67% of organisations having good visibility. For additional detail on market analyses, please see the Appendix.

Figure 11: Percentage of Organisations that have Good Item Level Spend Visibility



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“We look forward to analysing our expenditure by supplier. We don't currently have spend visibility since the data is only captured at invoice level and not at an item level.”

Item level spend accuracy

Not all organisations who said they had good item level spend visibility believed that the data was accurate and could be relied upon for analysis and decision-making processes. Of the organisations who did believe they had good visibility of spend, on average one-third believed that their spend information was unreliable.

THIS IS TYPICALLY because spend is classified using whatever information is available, rather than item level detail for all transactions, which can lead to inaccuracies. For example, many organisations classify spend based on supplier name alone. While that might provide a basic understanding and give an idea of potential category, it fails when spend from more than one category is placed with the same supplier.

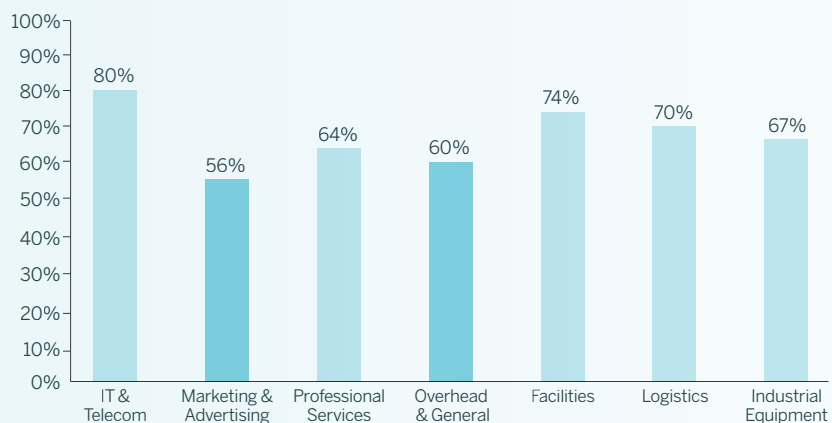
The Study reveals that, although item level spend accuracy is poor across all Indirect categories, it is relatively better in IT and Telecommunications (80%) as compared to Overhead and General (60%) and Marketing and Advertising (56%):

- IT and Telecommunications services tend to have more clearly defined specifications, making it relatively easier to capture item level details for transactions.
- Overhead and General covers a wide range of products and services and it's therefore often difficult to capture all item level details.
- Marketing and Advertising services often comprise a diverse assortment of potential line items, some of which are hard to define, and systematically recording all the necessary details can be highly challenging.

Although item level spend accuracy was poor across the board, it was relatively worse in mid-sized organisations as compared with large organisations. The potential reason for this, as for item level visibility, is that mid-sized organisations have not so far invested as much as large organisations on systems to capture item level information.

Market analysis revealed that item level spend accuracy was poorest among organisations from the Nordics (51%) as compared with those in Germany (81%), where it was highest. For additional detail on market analyses, please see the Appendix.

Figure 12: Percentage of Organisations that had Good Item Level Spend Accuracy (Of the Organisations who Believed they had good Visibility of Spend)



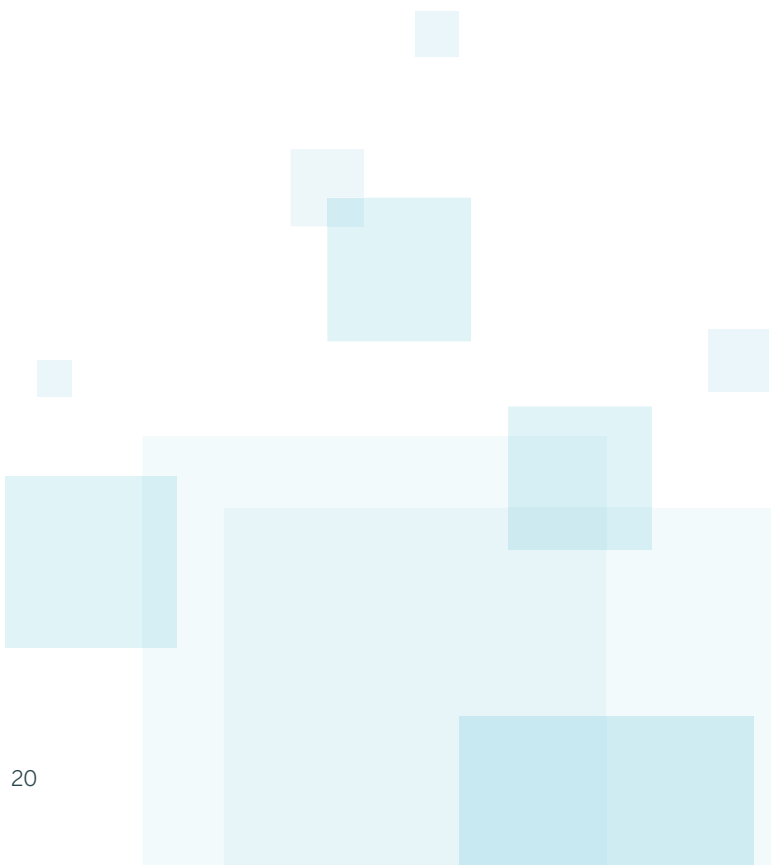
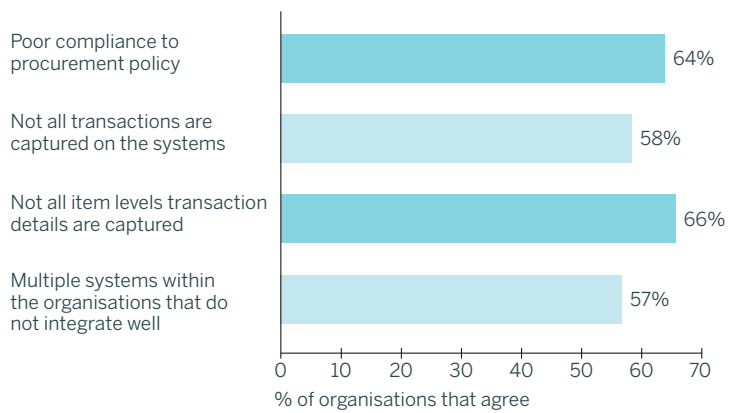
Reasons for poor item level spend visibility and accuracy

There were a number of key findings when organisations were asked about the reasons for poor item level spend visibility and accuracy within their organisations.

THE MAJORITY OF ORGANISATIONS said that a lack of internal systems integration makes spend analysis difficult. Spend information is often captured on different systems and it can be difficult to integrate their data to get a single, overall spend profile across Indirect categories.

Fifty-eight per cent of organisations acknowledged that all transactions were not captured on their systems and 66% of the organisations agreed that item details were not captured. Indeed, in some cases organisations have to rely on their suppliers to source this information. Without the details on type of product or service bought, supplier, and price paid, it is difficult to classify spend usefully.

Figure 13: Reasons for Poor Item Level Spend Visibility and Accuracy



Challenges within procure to pay

Pure automation does not improve processing efficiency.

THE PROCURE TO PAY (P2P) process has traditionally been a highly resource-intensive area within organisations. It involves diverse operations that cover the full range of activities, from initiating a requirement, through to ordering, and making a payment to suppliers. The key cost drivers have traditionally been associated with transaction volume, supplier fragmentation and the complexity of internal processes.

There have been considerable efforts over the past few decades to improve the end-to-end efficiency of the P2P process. In particular there has been considerable investment made in implementing automated systems with the objective of reducing manual intervention, improving accuracy and ultimately decreasing the resources required. While much of this work has been successful, this Study highlights that overall increases in the level of automation, in terms of electronic purchase order and supplier invoice processing, are not correlated to overall internal process efficiency.

Opportunity

The specific points revealed by this Study are:

- 1 Although on average 51% of total Purchase Orders are electronic¹², there is lower adoption (26%) of electronic invoices.
- 2 Organisations that have implemented a high proportion of electronic invoices do have shorter receipt to approval cycle times.
- 3 Organisations with a high proportion of electronic invoices do not necessarily obtain process efficiency benefits from an increased first time match rate or a reduced number of occasions when early payment discount is lost with suppliers. Furthermore, they do not achieve higher levels of resource efficiency.

MULTINATIONAL TELECOMMUNICATIONS COMPANY

“We raise purchase orders automatically when the business requests a product or service. But we have to manually scan any invoices that aren't supplied electronically, and then physically match them against the original purchase orders. This is time-consuming and sometimes leads to mistakes and extra work.”

The implication of this is that improving and simplifying core processes is just as important as pure automation to realise maximum efficiency benefits. For example, organisations still rely on manual matching of invoice details with purchase orders. This not only requires large amounts of resources, but can lead to higher error rates.

¹² Electronic means non-paper based.

Usage of electronic purchase orders and electronic invoices

UNSURPRISINGLY, organisations tend to have a higher usage of electronic purchase orders as compared to electronic invoices. For the organisations in the survey, on average 51% of the total purchase orders were electronic as compared to only 26% of invoices.

Organisations are able to implement usage of electronic purchase orders relatively easily since this predominantly requires them to address internal systems and processes. On the other hand, implementing electronic invoices is more challenging because it requires greater co-operation from suppliers.

JOSÉ LUIS SEBASTIAN FERNANDEZ, PURCHASING MANAGER, CODERE SA

“Most invoices from large suppliers are electronic, enabling them to be easily processed. For small suppliers who provide their invoices on paper, we often find it difficult to assign costs to projects accurately, which means it can take up to four weeks to settle them.”

ALDO RUBINI, PROCUREMENT & PURCHASING DIRECTOR, SAPIO GROUP

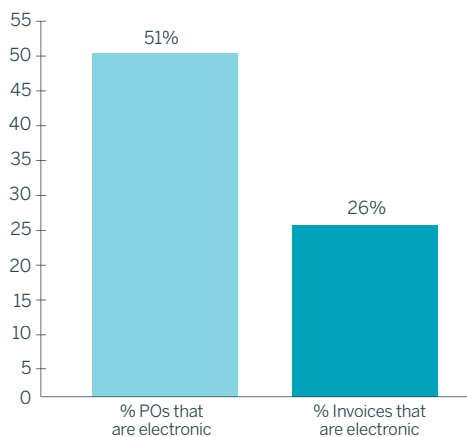
“Although we’ve implemented a web-based purchasing process, we still rely on paper purchase orders and invoices. This is partly because many of our suppliers are small organisations that use word processors to raise invoices. It usually takes us around 60 days to manually process the invoices.”

ORGANISATIONS REQUIRE a large number of resources to manually scan paper-based invoices into systems and reconcile them to purchase orders before approval. To improve efficiency, some organisations have implemented intelligent word recognition systems that are capable of reading the scanned invoices and inputting the information in the purchasing systems. However, even with this, there can be accuracy limitations, and still a strong need for additional resources to verify the information.

HEAD OF ACCOUNTS PAYABLE, GLOBAL ENGINEERING AND DESIGN FIRM

“An OCR system scans incoming paper invoices with 60-70% accuracy. There are resources required to validate the information that OCR feeds to the system.”

Figure 14: Usage of Electronic Purchase Orders and Electronic Invoices

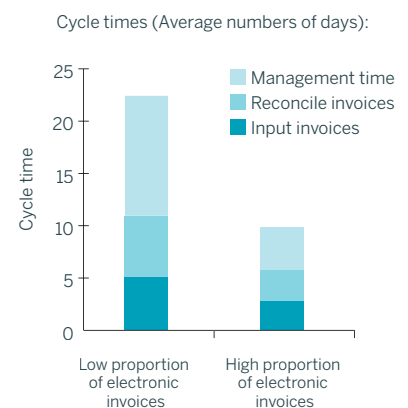


Impact of using electronic invoices on cycle times

The Study reveals that organisations that have implemented a high proportion of electronic invoices have reduced receipt to approval cycle times, but have still only realised limited efficiency benefits.

THE TOTAL CYCLE TIME from invoice receipt to approval is less than half for organisations that use a high percentage of electronic invoices, as compared with those that use a low percentage of electronic invoices. For these purposes, 'high' is defined as achieving a proportion of 60% of electronic invoices and 'Low' is defined as having a proportion of less than 60% electronic invoices. The difference in cycle times is rationalised as being due to quicker input and processing of the transaction details in the purchasing system. Figure 15 shows the full comparison.

Figure 15: Cycle Times in Organisations that Use a High or Low Percentage of Electronic Invoices



Impact of using electronic invoices on efficiency

Although the Study revealed that organisations had reduced cycle times if they increased the percentage usage of electronic invoices, this has so far led to only very limited internal efficiency improvements.

COUNTER-INTUITIVELY, OUR ANALYSIS SHOWS that increased usage of electronic invoices has only a limited correlation with each of the following:

- Full time equivalents used for the process.
- First time match rates.
- Number of occasions when early payment discount is lost with suppliers.

As shown in figures 16 and 17, the Study shows that for both large and mid-sized organisations, there is limited correlation between automation and resource requirements.

- As the percentage of electronic invoices rises, there is not a consistent reduction in the number of FTEs¹³ involved in processing invoices.
- Similarly, as the percentage of electronic purchase orders increases, there is not a consistent reduction in the number of FTEs involved in raising purchase orders.

¹³ FTE stands for 'Full Time Equivalent'. An FTE of 1.0 means that the person is equivalent to a full-time worker.

Impact of using electronic invoices on efficiency

THE APPARENT RATIONALE for this limited correlation between the percentage use of electronic purchase orders and invoices and FTE efficiency is that, although organisations have invested in systems to drive higher usage of electronic purchase orders and invoices, they have not fully aligned their internal processes accordingly to achieve full benefits. For example, one company stated that more than 95% of

their purchase orders were electronic. However, each of those purchase orders is manually reviewed to ensure compliance to procurement policy before being issued to suppliers. This necessitates the deployment of internal resources and means that limited processing efficiency benefits are realised from the use of electronic purchase orders.

As shown in figure 18, the Study also reveals that a higher usage of electronic invoices does not increase the first time match rates or reduce the number of occasions when early payment discount is lost from suppliers. The potential reason for this might be that, although organisations have high usage of electronic invoices, they still rely on a manual review of information, and that can lead to errors.

Figure 16: Large Organisations: Impact of Usage of Electronic Invoices on FTEs Involved in the Process

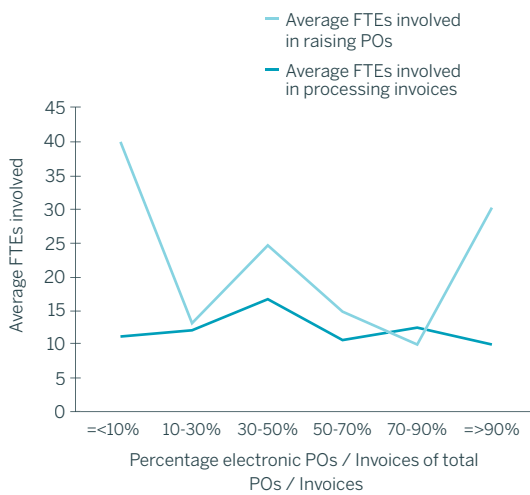


Figure 17: Mid-Sized Organisations: Impact of Usage of Electronic Invoices on FTEs Involved in the Process

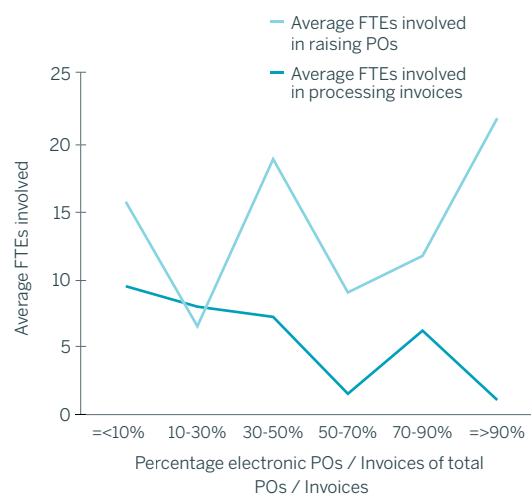
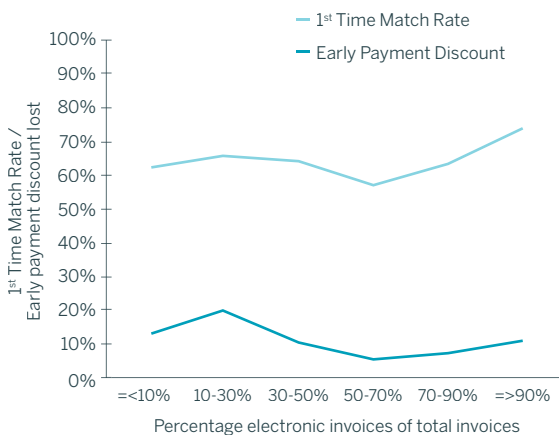


Figure 18: Impact of Usage of Electronic Invoices on First Time Match Rate and Early Payment Discount Lost



Unlock value through processes and control to complement investments

Unlock value through processes and control to complement investments. Organisations are adapting their internal processes, and focusing more than ever on cost control and compliance in today's Finance and Procurement environments.

NOWHERE IS THIS MORE APPARENT than in Indirect Spend, which represent a complex range of spend categories. Despite this increased focus, and investment, to manage Indirect Spend, it is a challenging area and there remains room for considerable improvement for many organisations.

To summarise, the European Indirect Spend Management Study reveals the following key overall insights:

1. More than 50% of the organisations fail to have adequate controls in place to manage compliance to preferred supplier lists and contracted rates.
2. More than 40% surveyed of the organisations do not believe that they have good item level spend visibility.

3. Organisations that have implemented a high proportion of electronic invoices do have shorter receipt to approval cycle times, but do not necessarily achieve process efficiency benefits.

There are significant opportunities still to be realised within Indirect Spend. To unlock this value, organisations need not only to invest in tools and technology, but also to establish robust processes and controls that complement those investments. In addition, it is also crucial that there is a consistent focus on driving behavioural change within the organisation to support these business efforts.

Top performing organisations focus their efforts on various key areas to ensure compliance to procurement policy, item level spend visibility and process efficiency.

These organisations have struck the right balance between three key requirements that are closely interlinked with each other:

1. Deploying effective controls
2. Creating feedback loops
3. Enhancing efficiency

Deploying effective controls

A HIGH PROPORTION of the organisations surveyed face major challenges in establishing controls that effectively highlight usage of non-approved suppliers or agreed rates. In addition, it is very difficult for them to ensure that full product details, specifications and prices are consistently accessible within the organisation.

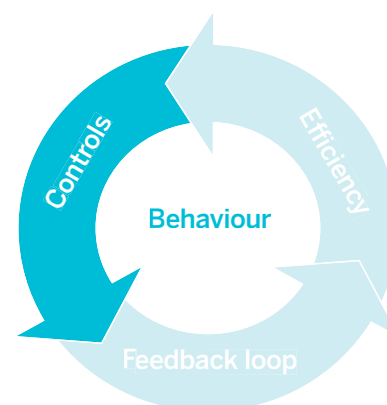
To deploy effective controls the following is recommended:

- Set up 'before the event' control checks which actively scan and flag these deviations on a real-time basis using

suitable thresholds. It is crucial that this is not an overly bureaucratic process and there is the right balance between 'before the event' checks and 'after the event' feedback.

- Carry out spot audits or checks on appropriate samples to monitor non-compliance. This tends to be a more efficient approach in some cases rather than checking all transactions.
- Obtain transparency from supplier sourced data rather than investing in internal resources to capture data on transaction compliance.

Figure 19: Interlocking Requirements



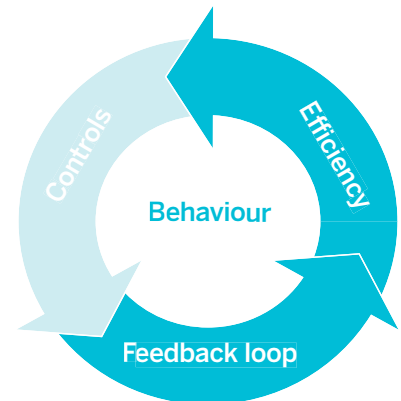
Creating feedback loops

It is important to consider materiality and criticality when monitoring compliance.

TAKING ACTION on all deviations from the norm, irrespective of materiality, during 'before the event' control would soon frustrate users. Therefore a more effective approach is often to create transparency of non-compliance by setting up an 'after the event' feedback loop. This makes any non-compliance visible to the respective users and highlights the related costs to the business.

Visibility of non-compliance highlights issues to the users and triggers constructive thinking on how this behaviour can be avoided in the future. This typically leads to behavioural changes since the users are fully informed about the impact of their non-compliance to the business.

Figure 20: Interlocking Requirements



Enhancing efficiency

Top performing organisations have also been able to follow a top down, risk-based approach to drive internal efficiencies. This requires a comprehensive review of existing processes and practices so that necessary revisions can be made to maximise process optimisation. There are a number of key questions that need to be addressed, which align with the above points:

- Do all transactions (purchase orders and invoices) need to be manually checked for compliance?
- Can transactions be prioritised so that only those with a high impact on the business are closely monitored?
- Instead of using organisation resources, can suppliers help monitor these transactions where possible, and provide regular updates on any non-compliance?

Shift behaviours

Changing peoples' behaviour is very difficult, but is essential for success. Yet many organisations underestimate this. Leading companies invest time and resources to understand the challenges in achieving a behavioural shift, so that they can address them to facilitate a behavioural change. It is important to create the right environment that facilitates this behavioural change. Some of the key considerations are:

- Align performance management so that it rewards users for compliance.
- Provide transparency of any non-compliance and its impact on the business so there is good visibility of performance measures.
- Implement training and generate awareness of the importance of compliance to the business.
- Encourage behavioural change within the organisation, with sponsorship and support from senior management.

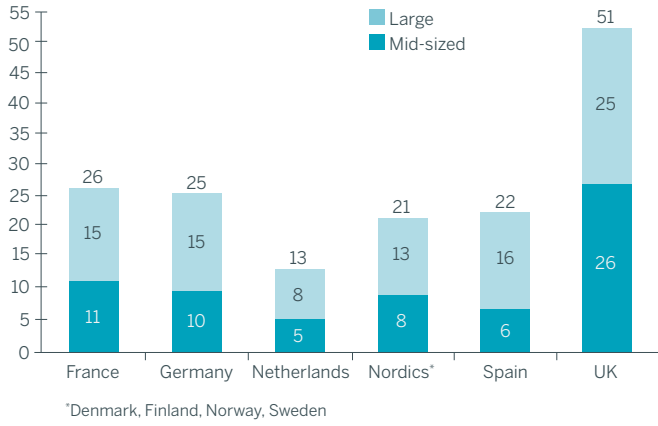
These three key requirements – effective controls, feedback loops and enhanced efficiencies – are all interlinked with each other. It is therefore essential that they are addressed collectively for successful Indirect Spend management. This is crucial to create the right environment for a behavioural shift that embeds positive change within the organisation, unlocking significant future benefits.

Appendix

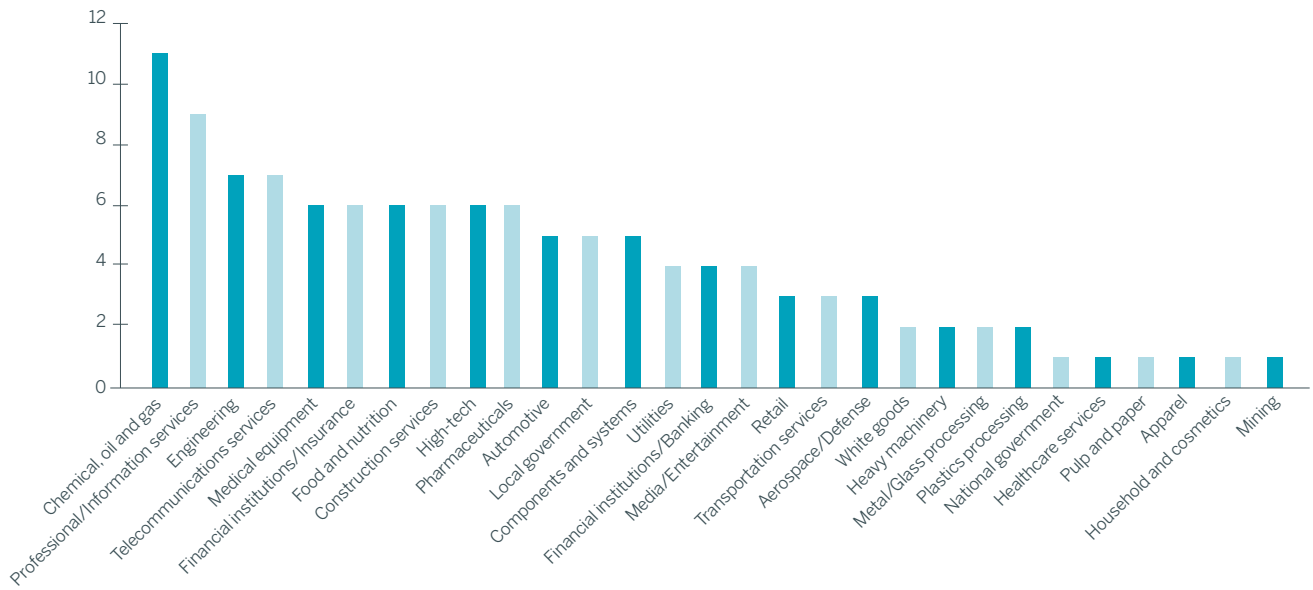
1. STUDY RESPONDENTS	28
2. PRIORITIES	29
3. CONTROL AND COMPLIANCE	29
3.1 Preferred supplier lists	29
3.2 Contracted rates	31
4. SOURCING	33
5. PROCESS EFFICIENCY	37

1. STUDY RESPONDENTS

1.1 Markets split by organisation size



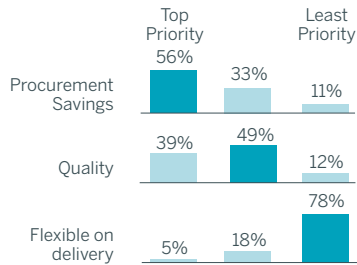
1.2 Industry representation



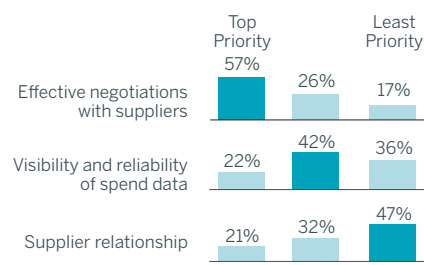
2. PRIORITIES

2011 Priorities within Indirect Spend Categories

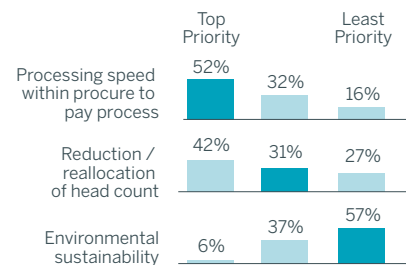
2.1 Control and compliance



2.2 Sourcing



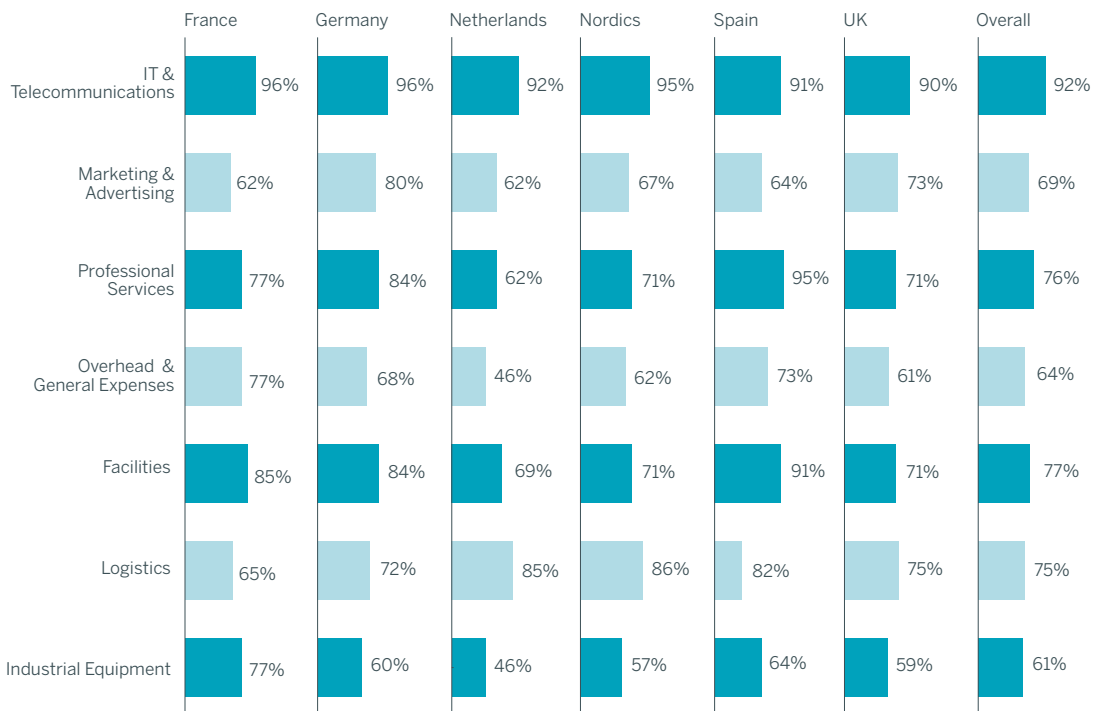
2.3 Process efficiency



3. CONTROL & COMPLIANCE

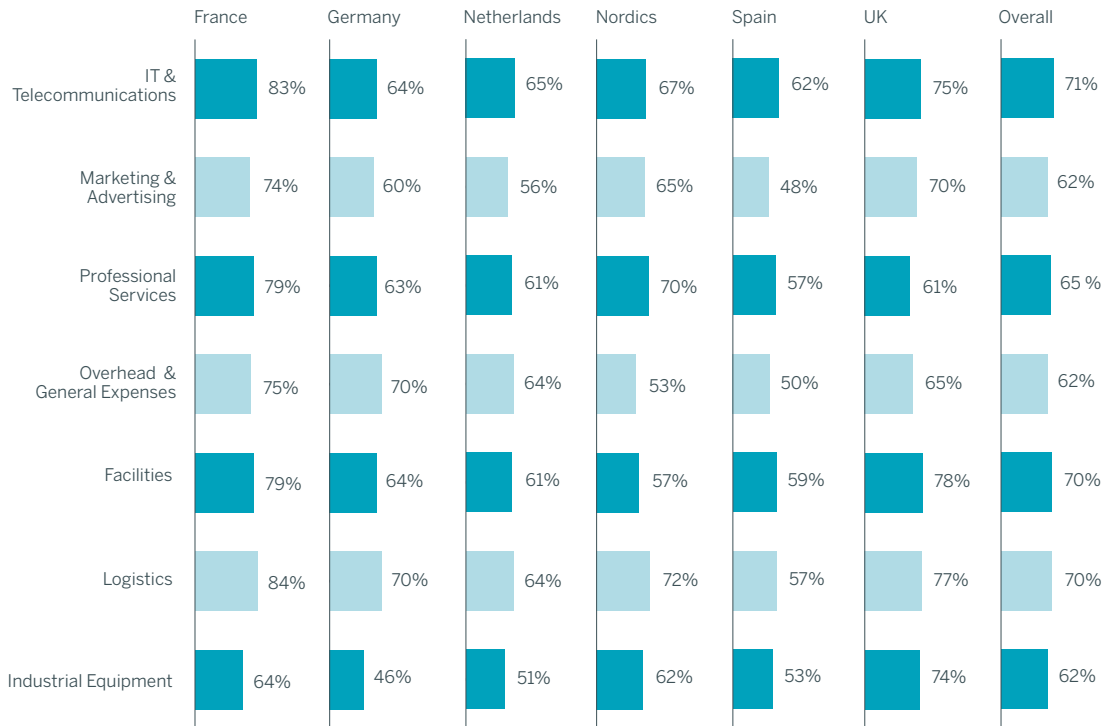
3.1 Preferred Supplier Lists

3.1.1 Usage of preferred supplier lists by country and category

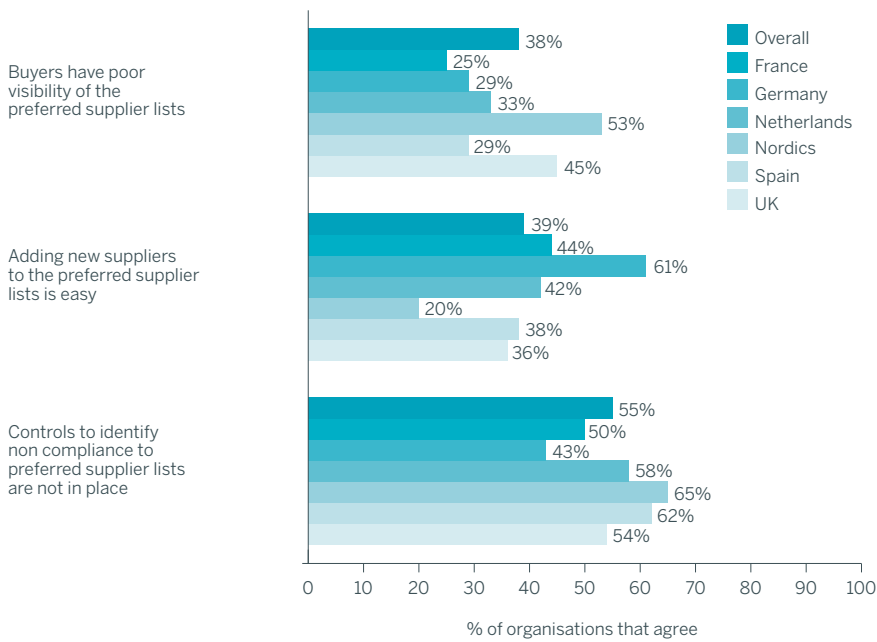


3.1 Preferred Supplier Lists

3.1.2 Percentage of spend that complies to preferred supplier lists by country and category

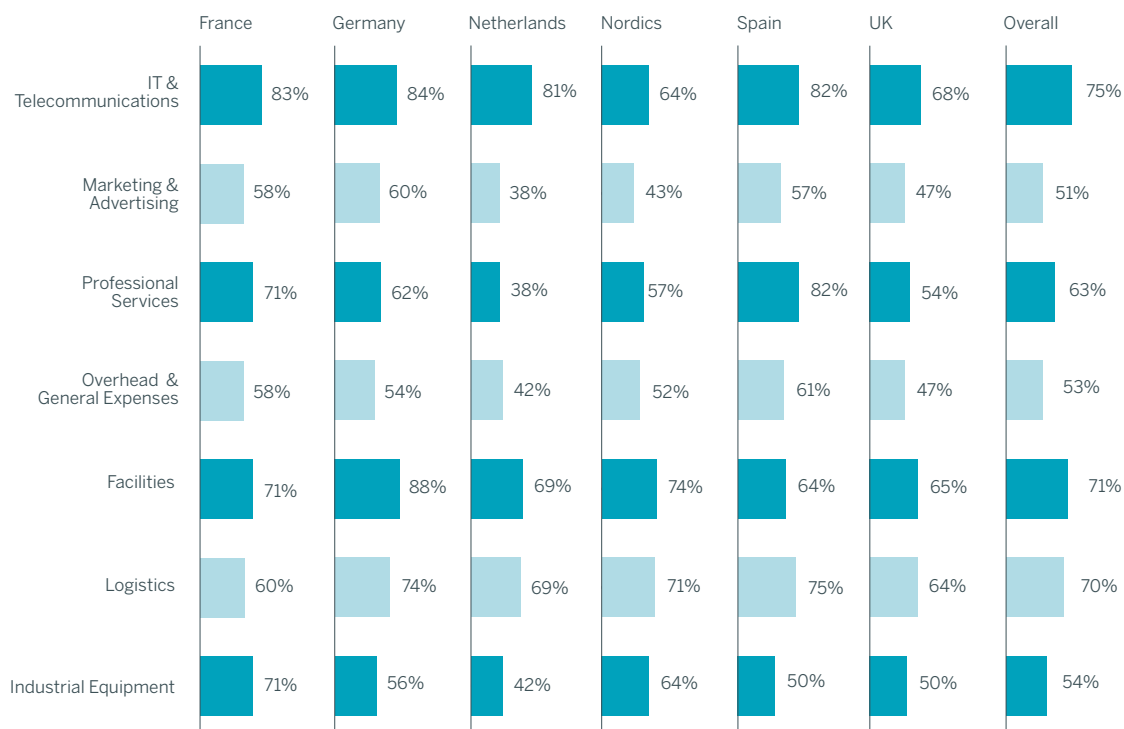


3.1.3 Reasons for non-compliance to preferred supplier lists by country



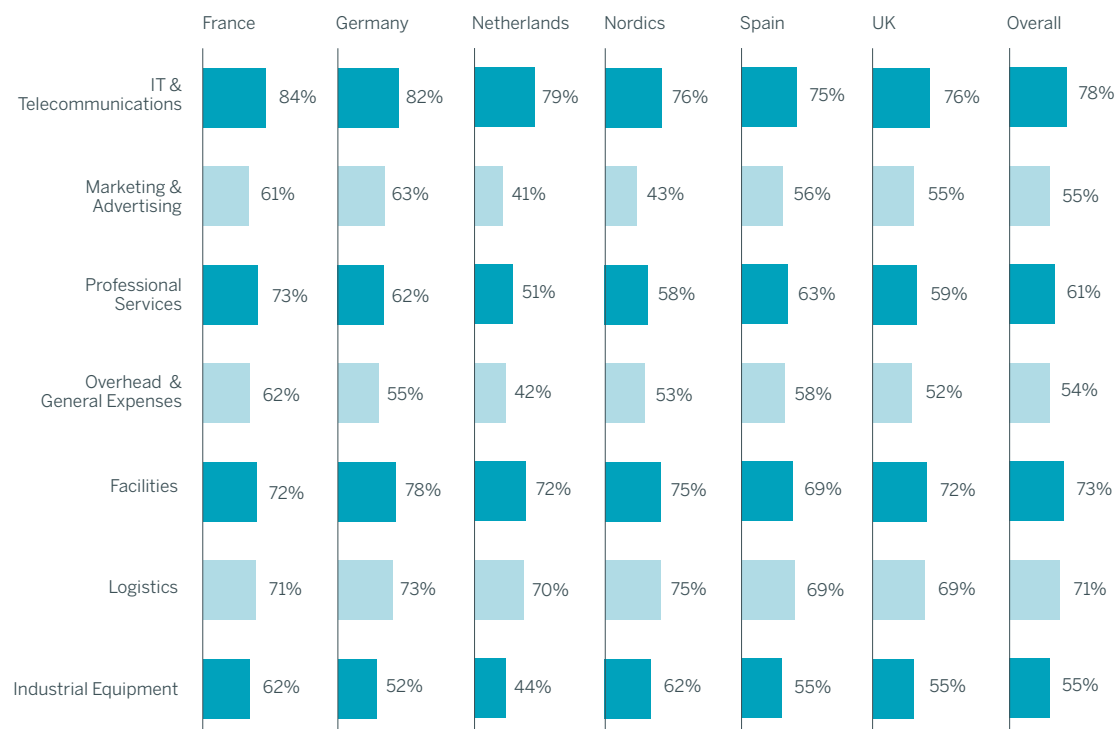
3.2 Contracted Rates

3.2.1 Usage of contracted rates by country and category



These figures include 50% of those responding that they had 'Some' contracted rates within a category

3.2.2 Percentage of spend that complies to contracted rates by country and category



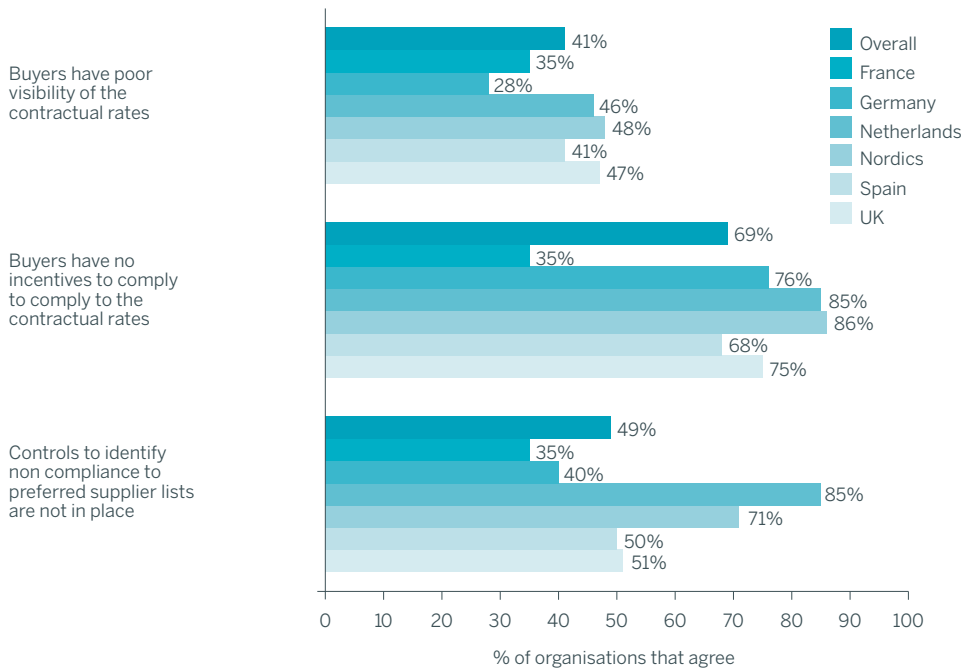
3.2 Contracted Rates

3.2.3 Usage of contracted rates by organisation size and category



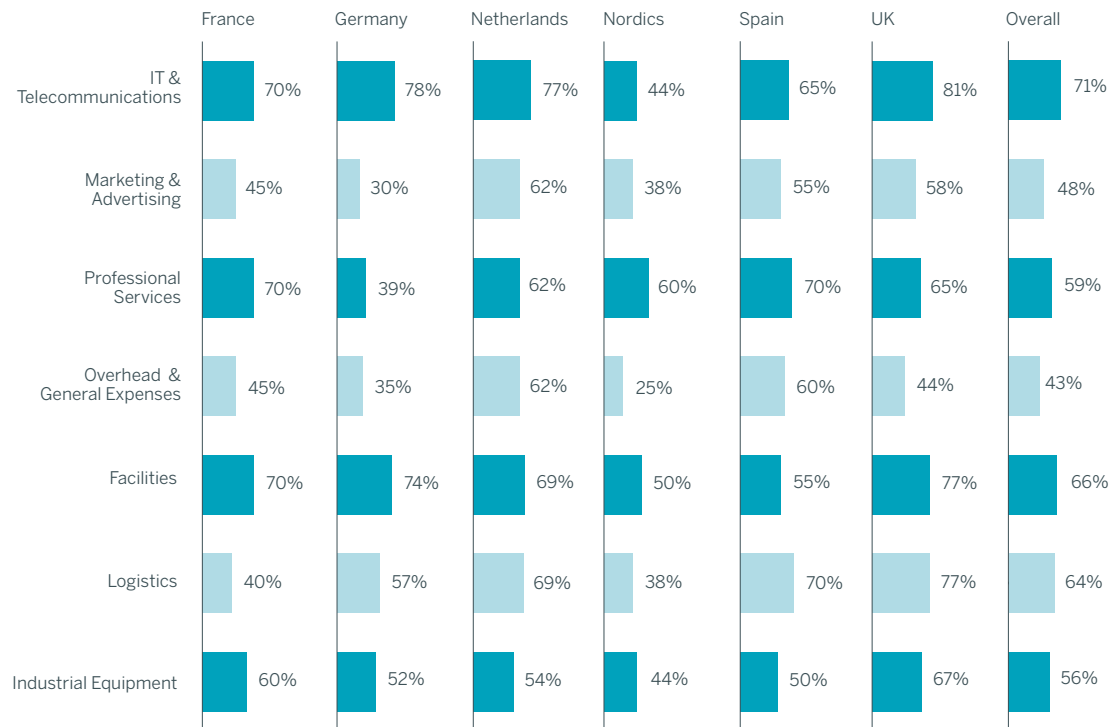
These figures include 50% of those responding that they had 'Some' contracted rates within a category

3.2.4 Reasons for non-compliance to contractual rates by country

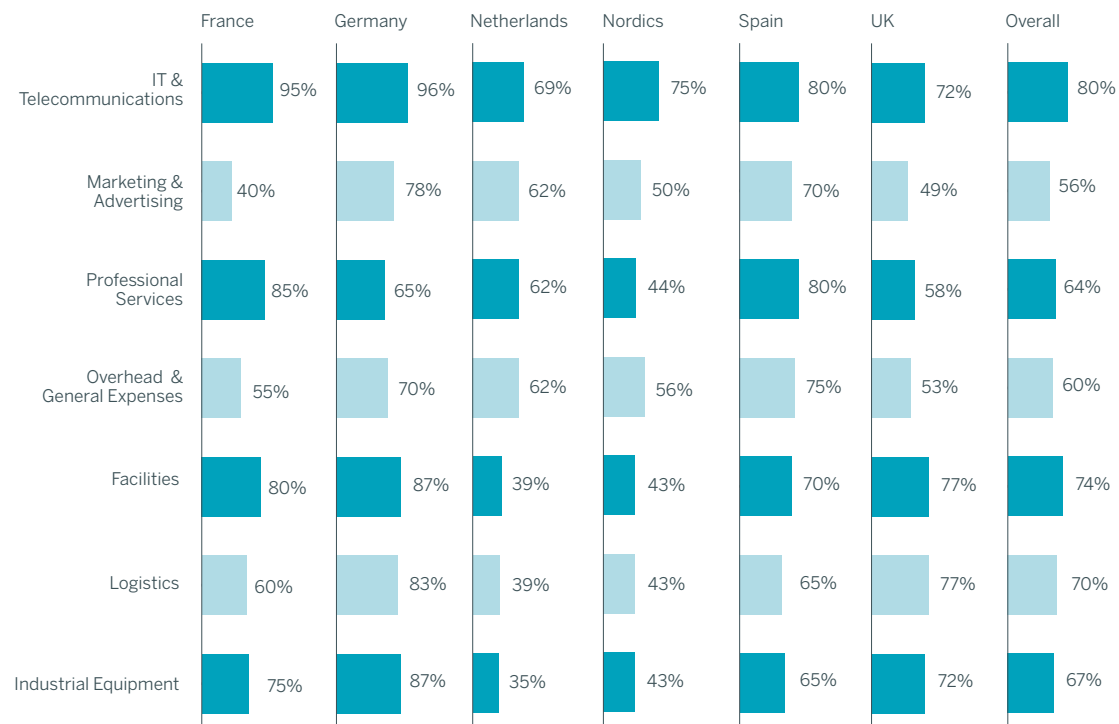


4. SOURCING

4.1 Percentage of organisations with high item level spend visibility by country and category



4.2 Percentage of organisations that agreed spend accuracy was good by country and category

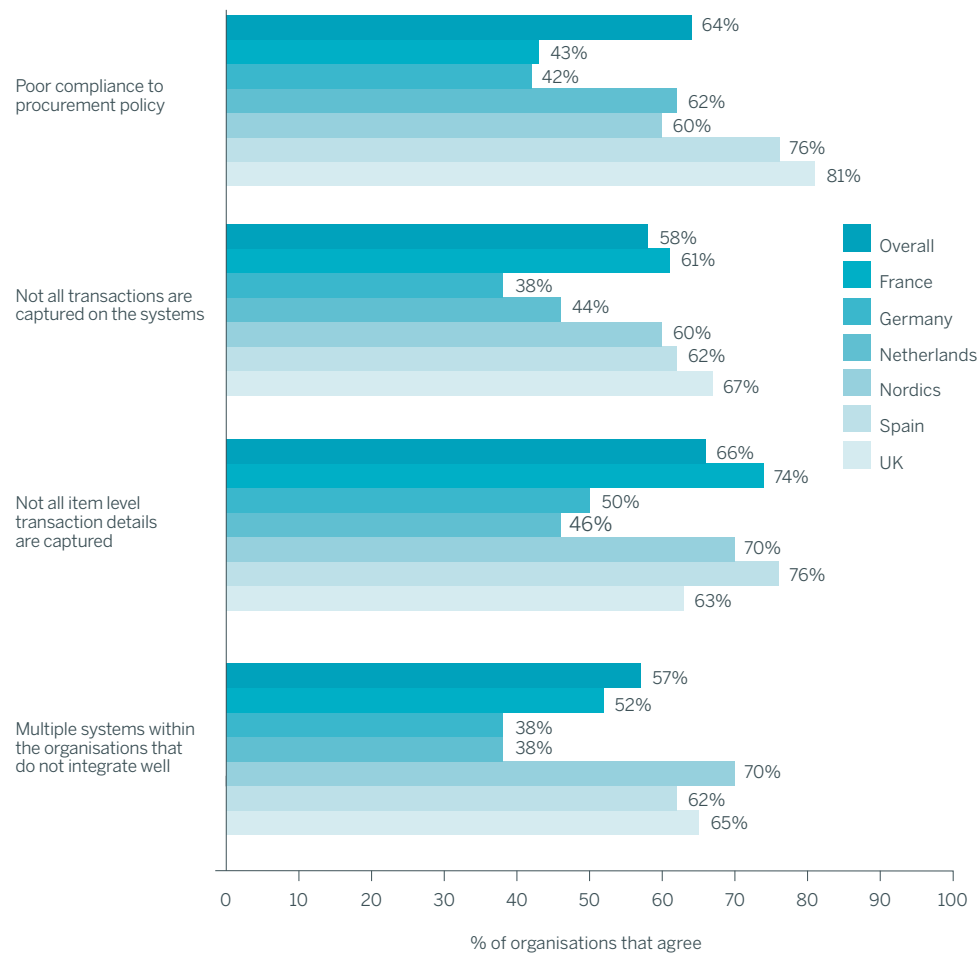


4. SOURCING

4.3 Percentage of organisations with high item level spend visibility by category and organisation size



4.4 Reasons for poor spend visibility by country

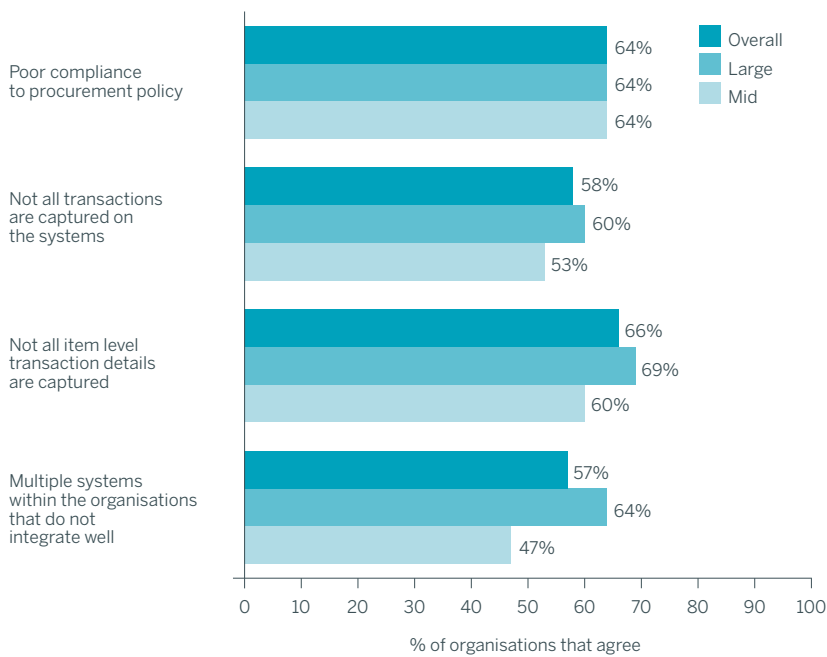


4. SOURCING

4.5 Percentage of organisations that agreed spend accuracy was good by category and organisation size

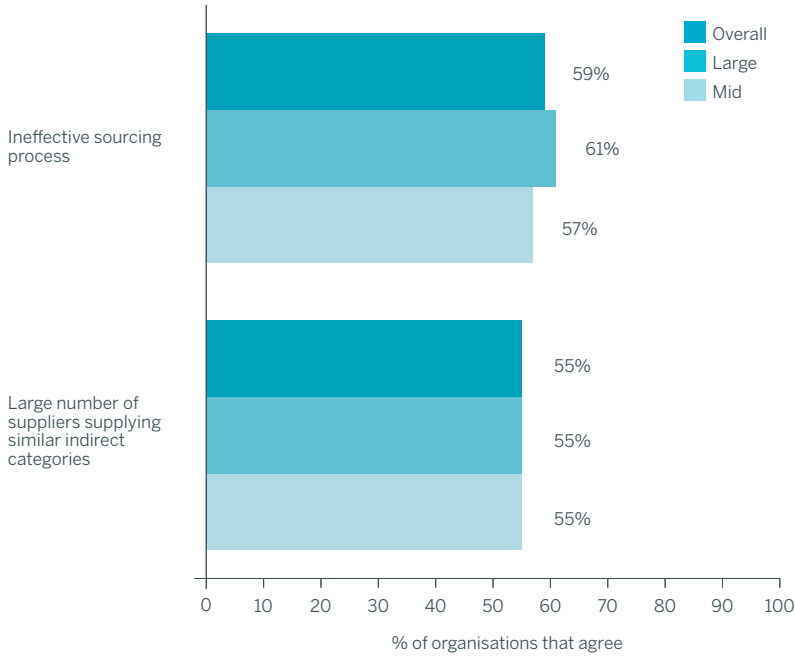


4.6 Reasons for poor spend visibility by organisation size

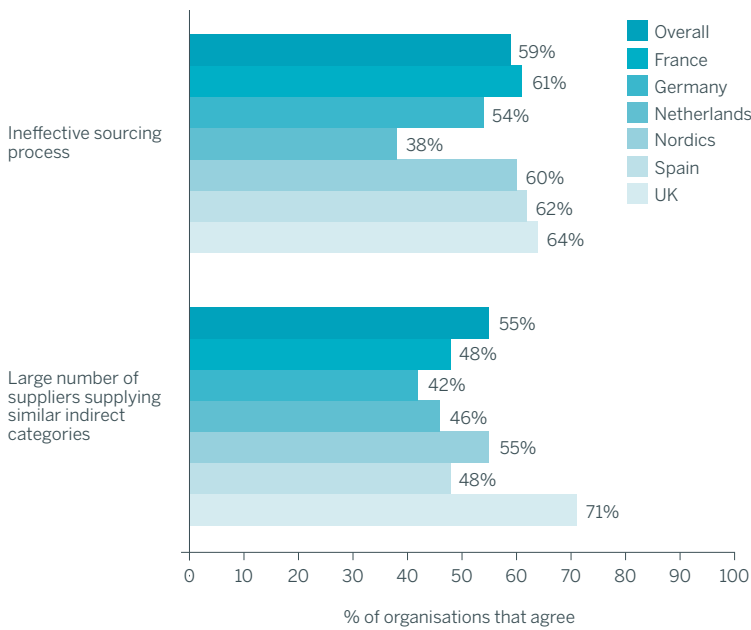


4. SOURCING

4.7 Consequences of poor spend visibility by organisation size



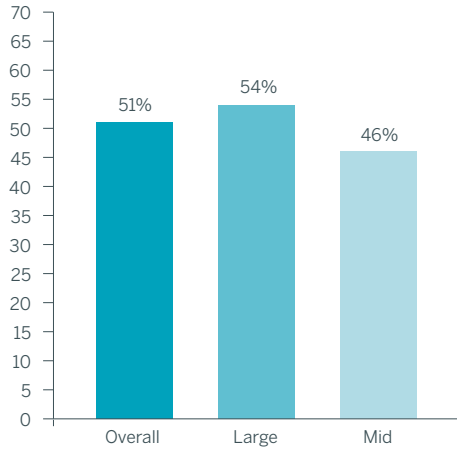
4.8 Consequences of poor spend visibility by country



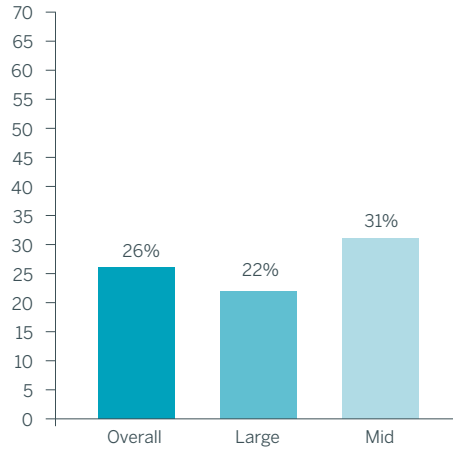
5. PROCESS EFFICIENCY

Usage of electronic purchase orders and electronic invoices by organisation size

5.1 Average Percentage of Electronic Purchase Orders



5.2 Average Percentage of Electronic Invoices



MORE INFORMATION

If you would like to learn more about these findings, please contact your American Express representative.

Use your QR reader to register for future insights and download this Study, or go to americanexpress.co.uk/visibility



American Express partnered with A.T. Kearney to conduct field research, analyse survey response data and develop the Study between November 2010 and January 2011.

American Express partnered with sharedserviceslink.com to extend the survey to additional organisations across Europe. Sharedserviceslink.com advised in select areas of Study development.

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