

Consider the paper clip, the pencil or the yellow legal pad arrayed on your desk. Now consider how those items and a multitude of other business and administrative objects and equipment got there.

For companies dealing with a stagnating economy, soaring fuel prices and revenue pressures, cutting the costs of buying and delivering those and other non-core goods and support services might be one way to help hang on to a decent bottom line.

There is evidence that companies increasingly are turning to procurement outsourcing, a relatively new element of business process outsourcing, said Anil Kothari, senior vice president of sales and business development for ICG Commerce, which specializes in procurement outsourcing.

It's a way to cut costs, bolster profit margin and help companies determine what is core and non-core in their operations. "Procurement service providers are able to deliver significant cost savings through in-depth market knowledge and purchase volume aggregation across multiple clients," said Flavien Kulawik, chief executive of K-Buy, a procurement-outsourcing firm based in France.

Cost reductions on purchased goods and services often average 10 to 25 percent, and can exceed 30 percent in some cases by using a procurement outsourcer, he said.

Over the past seven months, ICG Commerce said it has established or extended multiyear, multimillion-dollar relationships with seven companies, including Goodyear and Chiquita. "Procurement outsourcing can produce five times the savings of other functional outsourcing endeavors as a result of its focus on spend reduction," ICG said, citing a recent study by Everest Research Group.

Goodyear, an ICG customer since 2005, re-signed with ICG this month. "Extending our contract with ICG attests to the success of the relationship," said Ted Augustine, Goodyear's director of purchasing, North

Spend thrift

Outsourcing procurement for non-core goods and services can translate into big cost savings

BY BILL DIBENEDETTO

American tire. Since 2005, he said, the Goodyear-ICG relationship "delivered on aggressive targets." It fits into Goodyear's equally aggressive cost-cutting program.

Goodyear reported record third-quarter revenue of \$5.1 billion, up 3 percent from a year earlier. It said the modest increase reflected lower volume but was offset by higher prices for its products — and a major cost-saving campaign. The company plans to achieve about \$2 billion in gross cost savings by the end of 2009.

Chiquita is a new ICG customer. It also increased third-quarter sales by 3 percent but posted a net loss of \$28 million. This month, it launched a business restructuring designed to improve profitability by consolidating operations and simplifying its organizational structure.

Chiquita decided on procurement outsourcing to help drive cost savings while allowing us to concentrate on delivering higher-margin products to our customers and consumers," said Onye Uzoukwu, Chiquita's vice president of global procurement.

A recent report from Aberdeen Group found that companies that outsource procurement work are "lowering costs and easing the workload in the procurement organization," said Rick Saia, a research analyst and lead author of the report. "That's a key benefit companies receive from outsourcing. But what's more important is that procurement organizations have a strong handle on most, if not all, of corporate spend."

The benefits of procurement outsourcing are clear, according to UPS Supply Chain Solutions. These include lower spending on indirect goods and services, and improved procurement effectiveness.

Technology and software advances have taken procurement outsourcing to a new level, making on-demand procurement and e-procurement options, for example, more widespread and affordable.

But there's room for improvement. E-procurement brings benefits through process automation and a reduction of "maverick buys" that occur outside contract purchases, a UPS white paper said. But e-procurement "only provides access to suppliers that are e-enabled, possibly limiting the breadth and depth across the spend categories needed. As a result, maverick buys can persist alongside e-procurement implementations," UPS said.

Indirect spending can make up 30 to 60 percent of an average company's spending. "Through indirect procurement outsourcing, the corporate world can finally achieve substantial cost reductions while turning low performing assets into a competitive advantage," it said. ♦

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