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You're right to demand an indirect forecast!



The American author and public speaker in the area of futures studies, John Naisbitt, once said “The most reliable way to forecast the future is to try and understand the present”. In today’s world of global procurement and direct spend categories, never has this quote been more apt.

Most global organisations know exactly what they have allocated across their various direct categories of spend. As a result, there are targets in place based on increasingly accurate forecasting capabilities. The technology is there, and it is reasonably straightforward to work out the numbers – so the controls are in place. In most large organisations the procurement departments, and the in-house functions they are tasked to manage, tend to keep within their budgets on direct spend. The reason is simple: What gets measured gets done!

But, have you ever asked yourself why direct categories of spend are more efficiently controlled than indirect categories?

Doesn't indirect spend matter to anyone?

In many cases, companies are now spending more on indirect than on direct expenditure – so why don't they even try to measure it? Surely the areas where a company spends the most would be the areas it would be most interested in controlling the costs. More than that, though, being able to forecast that spend would enable a procurement department to supercharge that control.

When Mr Naisbitt made his comments, back in the 1980s, direct spend categories were the only category of spend that could be forecasted with any degree of accuracy. As recently as ten years ago, it would have been very difficult, nigh on impossible, to forecast indirect spend as accurately. But not anymore!

People simply don't know what is possible with demand forecasting!

Indirect procurement tends to cover the more complex purchases that a company makes: marketing, consultants, software and hardware, furniture, catering and fleet management. These areas are subject to many variables, localised conditions, and delivery issues so they become more difficult to control, measure and maintain. But, what if they could be brought under the management of one central procurement system? Surely an eCatalogue that could be easily and securely accessed from anywhere in the world and make complex purchasing simple would solve the problem? And if you know what you spend now you have a great opportunity to start planning for what you are going to need to spend in the future.

Most simple, direct spend in the world today is facilitated through electronic catalogues. It is controlled, managed, targeted and (in the

smarter companies) the future demand is forecasted. The technology is available, so why wouldn't you measure that half of your spend? But the other half can now be managed the same way!

Some organisations (the very smartest and most forward-thinking ones) have investigated if the technology is available to do the very same thing with all of their indirect spend categories. Their proactive approach is paying dividends, and they have complete control over both today's costs in their business and a pretty accurate picture of what next years will be too. So, with the technology available today, you can have a complete understanding of the present in order to accurately forecast the future. The question is why aren't more organisations doing it?