



MANAGING SPENDS IN APAC THE TACTICAL SOURCING IMPERATIVE

Abstract

The procurement function in Asia Pacific (APAC) is uniquely positioned compared to standard and structured markets in other regions. One of the reasons for this is its fragmented supplier base. This article presents a spend management perspective of APAC that will help global, regional, and local procurement leaders adopt the right sourcing strategy for the region.

Key sourcing strategy imperatives in APAC

The fundamental spend management priorities for all global companies are to efficiently manage cost, compliance, and control. The present COVID-19 pandemic certainly heightens the urgency. However, for global companies in the APAC region, these priorities are better met through a tactical sourcing approach as opposed to a strategic sourcing approach, which works best in large, homogenous supply markets.

Tactical sourcing, which is synonymous with spot buy or operational sourcing, is a competitive bidding process that involves making purchase decisions based on supplier credentials as well as pricing and value. In the following sections, we will explore three reasons that explain why this sourcing strategy matches the spend management imperative in APAC.



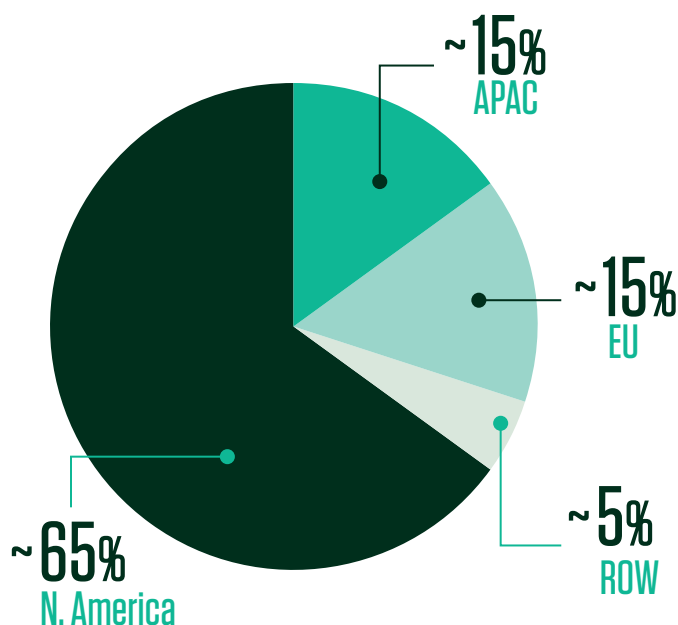
Fragmented spending across regions

Unlike North America's large homogeneous supply market, APAC consists of 11 small countries grouped into North and Southeast Asia. North Asia comprises China, Taiwan, Hong Kong (also known as Greater China), Japan, and South

Korea while Southeast Asia includes Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Vietnam. The indirect spend in APAC for most global companies roughly accounts for 15% of their global spend. North Asia accounts for a large

share of the spending distribution led by China and Japan while Singapore and Malaysia lead the regional spending in Southeast Asia.

Indirect Spend Distribution
(% of Annual Global Spend)



Typical Spend Distribution by Market

- Tier 1 or top spend APAC markets, each typically accounting for 10%-20% of spend, comprising:
 - Greater China (China, Taiwan, Hong Kong)
 - Japan
 - Singapore
 - Australia/New Zealand
- Tier 2 or mid spend APAC markets, each typically accounting for 5%-10% of spend, comprising:
 - India
 - Indonesia
 - Malaysia
 - South Korea
- Tier 3 or small APAC spend markets, each typically accounting for <5% of spend, comprising:
 - The Philippines
 - Thailand
 - Vietnam
 - Myanmar/others (e.g. Malawi, Nepal)



Another major challenge in APAC is that each of the countries follows different languages, regulatory, and legal requirements that drive local commercial practices. For example, under North Asia, China and Taiwan use Mandarin, Hong Kong uses Cantonese and English as official languages, and Japan and South Korea use Japanese and Korean respectively. Under Southeast Asia, Indonesia and Malaysia subscribe to a standardized and mutually intelligible version of Malay; Thailand and Vietnam have their own languages, while Singapore and the Philippines use English as their official language. Further, North Asia has comparatively fewer English language speakers than Southeast Asia, requiring companies to be proficient in local languages in order to effectively communicate with local suppliers.

Local supplier base with a few regional level suppliers

The supplier base in each APAC country is local and highly fragmented with limited opportunities for spend aggregation and vendor consolidation. Companies typically have a pool of 300 to 1400 suppliers per country that are predominantly small, local distributors and service providers with specialized product coverage and service offerings as well as limited delivery footprint, e-commerce, and fulfillment capabilities.

The few existing APAC-level regional suppliers are limited to media buying and IT hardware and services categories. A few European suppliers have recently expanded their APAC footprint to cover China, Indonesia, Korea, Japan, Malaysia, and Thailand for industrial maintenance, repair, and operations (MRO) through an MRO integrator solution. This integrator solution provides savings as well as a holistic approach of integrating supply, service (repair and replacement), and maintenance of spare parts.

The fragmented local supplier base combined with a lack of regional suppliers make it challenging for buyers in APAC to concentrate their spending on a few suppliers which would have helped them benefit from supplier base rationalization. This is an important reason why strategic sourcing is not highly favored in APAC. Besides, most APAC buyers associate strategic sourcing with purchases that go above a certain spend threshold.



member companies. The eMRO goes beyond pipe, valves, fittings, hand tools, mechanical, and electrical consumables to encompass spend categories such as office supplies, equipment, and furniture, printed materials, computers, laptops, and computer peripherals.

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- A man and a woman in business attire are sitting at a desk, looking at a laptop screen. The man is on the left, wearing a grey suit and tie, and the woman is on the right, wearing a white blazer. They are both smiling and appear to be in a collaborative work environment.

Under-managed spending across APAC

A well-managed spend with the involvement of a procurement resource in engaging the supplier base, testing the market, and renegotiating contracts with suppliers helps increase the buyer's leverage, lowers purchasing costs, increases process efficiency, lowers business risks, and improves supplier performance. However, in APAC, spending is largely under-managed leaving organizations exposed to issues related to spending effectiveness, efficiency, compliance, and control. Our client experience indicates that less than 30% of APAC's spending is actively managed by procurement which is significantly below the 80% global, cross-industry average reported by CAPS Research.

The reasons behind this phenomenon can be narrowed down to three key reasons. In

most companies, procurement resources are usually based out of select locations, such as China and Japan in North Asia and Singapore and Malaysia in Southeast Asia. For other locations, procurement is handled by local resources who might not possess the requisite procurement training and competency to perform spend analysis, cost analysis, bid analysis, supplier negotiation and contracting.

Moreover, 70% of a procurement resource's time is occupied in handling local operational or tactical procurement activities such as tactical sourcing, purchase requisition to purchase order conversion, master data management, invoicing or payment authorization, and reporting. The enormity of their tasks leaves them with very little bandwidth to support other locations within the

region they handle. The remotely-based procurement resource is also expected to have the requisite category experience, local market knowledge, and language skills to perform high-value, strategic procurement activities such as category management, process improvement, supplier performance management, and supplier risk assessment for other locations.

Additionally, in companies that have disparate legacy systems, local processes, and lack a common spend taxonomy, the procurement resource has to deal with a lack of crucial central spend visibility. Platforms such as Ariba, Coupa, and Jaggaer have only recently rolled out in APAC, helping improve spend visibility, process harmonization, control, and compliance management.



Centralized tactical sourcing as an optimal model

In light of the challenges mentioned above, leading procurement organizations in APAC have started opting for a centralized tactical sourcing strategy. As per this centralized model, services are delivered through harmonized and standardized sourcing processes and systems. It includes

dedicated sourcing resources from hub locations that have both language and sourcing talents in-house in the form of shared services or involves the use of third-party business process management (BPM) service providers.

China is the preferred centralized location in North Asia due to the availability of resources with Japanese and/or Korean language proficiencies. Malaysia is increasingly the choice in Southeast Asia due to its English and Bahasa language capability.

Tangible benefits of a centralized tactical sourcing strategy

Based on the author's experience, organizations with centralized tactical sourcing capabilities have realized significant financial and operating benefits ranging from 3% to 5%. For outsourced or third-party BPM models, depending on the portfolio spend and country mix, the tangible benefits include bringing 95% of spending under management within 12 months and an annualized cost savings of

8% to 10%. The benefits also include a 30% reduction in active supplier base within 18 to 24 months and a 95% end-user satisfaction (CSAT) rating within six to nine months.

Clients can also expect to achieve a top-quartile return on investment in the range of six to ten times across the portfolio with a three-year contract term from leading service providers like Infosys. Infosys

has demonstrated a 20% productivity gain within 12 to 18 months of applying continuous process improvement levers. With artificial intelligence solutions such as intelligent item description, bidder pre-qualification, and fair market value assessment added to the mix, clients have experienced productivity gains as high as 60% within the same period.

Thinking beyond structured markets

The supplier markets in APAC operate differently from those in the United States and Europe giving rise to challenges that are unique to the region. Rather than using a sourcing strategy that works in structured markets, global companies can benefit significantly through the use of a tactical sourcing strategy that counters the challenges in each APAC region. For procurement leaders, the ultimate goal of implementing a sourcing strategy should be to meet the spend management priorities in a way that leads to higher end-user satisfaction.



About Author



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Tim joined Infosys BPM in March 2012 to lead the Sourcing & Procurement practice for Asia, Pacific and Japan, and is based out of Singapore. Tim has over 25 years of demonstrated leadership driving spend efficiency initiatives for global companies and spend management cultures. He was formerly with A.T. Kearney where he worked with leading companies in the airlines, oil & gas, banking, retail and high tech industries to drive sourcing and procurement transformation initiatives. For leading specialty retailer and online media companies, Tim led strategic sourcing, international procurement, procurement operations and outsourcing/offshoring for leading specialty retailer and online media companies.

Tim received both his BS in Mechanical Engineering and an MBA from the University of California, Berkeley, USA.

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