

**‘A Roadmap to High Performance
Non-Materiel Defence Procurement’
Accenture’s submission to the First
Principles Review of Defence**

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Defence spends around \$8b annually in non-material or indirect procurement. Currently, the management of this spend is undertaken within Defence Support & Reform Group (DSRG) using mostly internal resources, technology and business processes.

Our experienceⁱ shows that even the best organisations professionally manage only half of their indirect spend and most are well below that level. Indirect spend is difficult to manage as it is fragmented across hundreds of unique subcategories, each with unique characteristics and numerous buyers spread across the organisation.

Researchⁱⁱ has identified three key barriers to achieving high performance when organisations attempt to manage their in-direct procurement spend in-house:

- **Limited reach:** a 'one size fits all' approach to procuring a broad range of unique categories, results in 50%–60% of spend being off-limits, reducing the savings opportunity in half.
- **Lack of information:** from within the organisation and about its suppliers, often results in the buyer receiving less than favourable procurement outcomes, which results in 3%-5% of potential savings purchase price savings on the table.
- **Lack of follow-through:** fragmented procurement processes and lack of compliance, leads to negotiated savings leaking between the point of negotiation and spending, resulting in 30% of negotiated saving not being realised.

Through a properly constructed, value-based agreement with a service provider, with expertise in procurement of every indirect spend category, organisations can transfer the operational burden and financial risk while increasing returns and improving performance across the business.

VALUE PROPOSITION

Defence should be able to realise gross savings of 8 - 13% pa of their addressableⁱⁱⁱ, non-material spend each year. For example, non-material spend of ~\$8B pa (assuming 60% addressability), would deliver savings of \$400m to \$600m per year, once the full savings program is rolled-out. With the right commercial agreement, this initiative could even be self-funding.

In addition, Defence will benefit from:

- An improved commercialised business model. This enables greater focus on core business activities, delivering a leaner structure that improves the 'teeth to tail'^{iv} ratio.
- More efficient and uniform end-to-end procurement process across Defence. This improves DSRG's ability to deliver the optimal procurement outcomes for Defence.
- Improved spend visibility and reporting at all levels (Department, CFO, Defence leadership and Ministerial). This enhances personnel accountability and culture.

OUR RECOMMENDATION

Accenture recommends Defence consider exploring options for an externally provided Procurement Services Model for achieving High Performance in Non-Materiel Defence Procurement.

ⁱ Experience gained from providing procurement advice and services to global clients and managing \$76 billion in annual procurement spend.

ⁱⁱ Everest Research, Get More From Your Non-Core Spend: Realising Value from Procurement Outsourcing, 2010.

ⁱⁱⁱ Addressable Spend is proportion of the Indirect or Non-Material spend that can be influenced and reduced through sourcing and procurement activities. All Procurement spend may not be addressable due to number of reasons such as being out of scope and long term contracts or volume commitments.

^{iv} Refers to the ratio of Defence APS (Civilian, Public Service) to ADF (Defence Force) personnel.