

Northwest Procurement Solutions
(NW-PS)

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The Indirect Procurement Transformation HANDBOOK

How CFOs Can Reduce Cost, Complexity & Risk Without Operational Disruption



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A NOTE FROM THE FOUNDER



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After more than three decades working in procurement leadership roles at Amazon Business, Kroger, and Office Depot, one truth became clear:

Most mid-sized manufacturers struggle to prioritize indirect procurement.

"It's not worth the time. Our small team needs to focus on direct procurement needs."

Over the years I have watched several CFO's shocked discovery that their company consistently spent double (triple) their estimated annual amount on indirect goods costing them hundreds of thousands of dollars on overpriced, unapproved items.

Once they understood the opportunity, I witnessed countless savings initiatives fall short — not because negotiations failed, but because software implementation was never built for real-world adoption.

I hope that some of the lessons I have learned in this handbook help you achieve your goals.

-Ryan



PRIORITIZE INDIRECT SPEND?

Indirect procurement is the process of sourcing the goods and services that keep a business operating day to day but are not directly used in the production of the final product. This includes categories such as office supplies, janitorial and sanitation, maintenance and repair (MRO), shipping and packaging, IT peripherals, and breakroom supplies. While indirect procurement sits outside of direct production, it plays a critical role in operational continuity, cost control, and efficiency. Indirect spend impacts operating expenses (not cost of goods sold), yet it influences nearly every function across the organization.

Indirect spend is critically important due to its impact upon operational efficiencies, risks, and profitability—especially profitability. For example, if a company's net profit is 5%, for each dollar misspent, it takes \$20 in additional gross revenue to recoup the loss. Likewise, increasing operational control of indirect spend can raise net profit percentage by several basis points, as indirect spend savings affect profitability at a one-to-one ratio.

For most organizations, indirect spend typically represents 6–11% of total revenue. That makes it one of the largest controllable cost categories on the income statement — and one that should be actively monitored, managed, and strategically controlled

The math is straightforward

Annual manufacturing revenue = \$800M

If total indirect is 6% of revenue = \$48M

If even a savings of 10% can be secured = \$4.8M to the bottom line (or put toward expanded staffing/growth)



SO? WHAT TO DO?

PHASE 1: CREATE USABLE DATA

Transform fragmented purchasing data into strategic insight. Chances are that some data is already available with your suppliers or invoices in a file cabinet and that is a great place to begin. There are several companies online that can do the following:

- Normalize transaction and supplier data
- Enrich product detail and descriptions
- Build standardized procurement taxonomy
- Conduct detailed spend analysis across categories
- Compare incumbent pricing against alternative supplier catalogs
- Develop category strategy roadmaps

WHY?

You can't make a positive change to something you don't clearly understand

Outputs:

- Clean spend visibility
- Accurate savings projections
- Category prioritization models
- Accurate forecasting



PHASE 2: OPTIMIZE & STANDARDIZE

Utilize your new aggregated and categorized data to gain insights into simplifying the complex. Look at the details, but don't get lost in the tail of rogue spend.

- Focus spend analysis on 80% of purchasing volume (for a company that procures 10K items a year, 80% of spend typically resides in the top 1K items)
- Consolidate overlapping suppliers. Typically 1 is enough, but 2 works well when the priority supplier is out of stock
- Rationalize SKU assortments. Pick your standard cleaning supplies and don't make any other cleaning product suppliers available
- Negotiate line-item pricing on the highest volume items with the largest price delta between suppliers
- Improve service standards (get your shipping fees waived for any purchase greater than \$100) and increase payment terms (even by a week)

WHY?

The fewer the suppliers, the smaller the sku count, the more negotiating leverage. Also...complexity is the enemy of procurement compliance.

Outputs:

- Standardized assortments
- Reduced SKU Counts
- Less suppliers = More meaningful suppliers
- Stronger negotiating hand
- Enforceable pricing models



PHASE 3: ENABLE BUYING THROUGH TECHNOLOGY

Utilize a technology that brings all optimized suppliers into a unified procurement platform. And don't overpay. Anything beyond an annual 5-digit (\$99,999) solution for the following is too much:

- Single sign-on ordering
- All negotiated supplier catalogs in one customized portal (product details that rival Amazon without the crazy amount of choices should be your expectation)
- AI-driven purchasing and policy guidance
- Automated approval workflows
- ERP integration (when required)
- Facility-level procurement policy controls
- Real-time spend reporting

If you do this right, the money you save with supplier consolidation will more than make up for any technology upgrade costs

WHY?

The easiest buying experience always wins. Unless the new solution provides value to the end user, they will resist change and stick with what they are most familiar with.

Outputs:

- Improved compliance
- Reduced "maverick" spend
- Faster ordering cycles
- Increased compliance
- Improved safety standards (by limiting purchases to approved safety products only)



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PHASE 4: CHANGE MANAGEMENT & ADOPTION

Starting with super users, ensure all users enjoy the new experience. You want them advocating for your new user interface, the price paid, product quality, delivery timing, availability, and support staff friendliness. To do this, you will want to execute the following:

- Internal webinars and onboarding sessions
- On-site training for authorized buyers
- Provide continuous feedback loops and provide real answers to questions posed
- Provide active troubleshooting support
- Publish and analyze usage reporting
- Conduct on-site check-ins
- Don't forget physical implementation (change management is needed for physical changes too. E.G. Who is changing out the paper towel holders for the new supplier?)

WHY?

People don't normally resist technology — but they will certainly resist confusion. It's human nature to lean on what you are most familiar with. When they are more comfortable with your new system, new suppliers, and products, that is what they will buy. And you will save money.

Outputs:

- Accelerated adoption
- Higher utilization rates
- Sustained long-term savings



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RESULTS YOU SHOULD EXPECT

WHILE OUTCOMES VARY BASED ON SPEND PROFILE AND OPERATIONAL SCOPE:

Typical Client Performance:

- >10% realized savings on indirect goods
- >20% SKU reductions
- >15% supplier consolidation
- >50% improvement in purchasing compliance
- >30% reduction in ordering time



CARE TO TALK?

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