

Learning From Global World-Class eProcurement Practices

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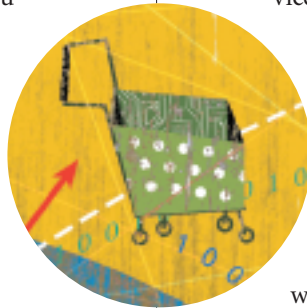
Given today's recession concerns, procurement—a perennial priority—is moving front and center. Now more than ever it's important for organizations of all types and sizes to understand where they are spending their money and uncover opportunities for cost savings and efficiencies. Best-in-class practices are emerging globally that take advantage of third-generation eProcurement solutions and deliver a whole new level of savings, control, and continuous improvement. Companies can apply these practices to design and implement highly effective eProcurement strategies that will enable them to realize key value in their own organizations.

While previous generations of eProcurement laid the groundwork for the new technologies available today, they lacked the flexibility and functionality to provide the true benefits that companies require. The first-generation solutions were targeted strictly at procurement professionals and provided limited workflow automation of purchasing processes. These tools were built just to manage predetermined transactions, making them extremely inflexible and difficult to use, even for procurement professionals. The second-generation eProcurement solutions, which leveraged

Web-based technology, aimed to extend their reach to end users, but they still lacked the flexibility and ease of use needed to attract broad usage.

By comparison, third-generation eProcurement technology being implemented today delivers the ease and flexibility to stimulate use on every desktop throughout an organization. With pervasive deployment, organizations can capture more of their spend, increase control, and maximize cost savings and efficiencies. For example, businesses can truly understand how their actual spending being invoiced compares to their procurement plan. With this information, spend analysis can be part of daily operations and govern organizational accountability, ensuring that a company is fiscally prudent and spending according to its values.

A key characteristic of third-generation solutions is visibility. While the first and second generations of eProcurement systems offered separate solutions for different business functions, such as procurement and finance, the new generation is focused on building a value-based supply chain where all relevant information feeds into one system, driving efficiency. Third-generation technology is business-rules driven based on the policies and priorities of the organization. Business rules might include buying from vendors who maintain certain criteria, such as green and other corporate responsibility values; compliance with bookkeeping standards, legislation, contracts, and best practices; or real-time monitoring of spending compared to budget based on the procurement plan.



GLOBAL CASE STUDIES

Advanced eProcurement strategies are delivering benefits to organizations around the globe. For example, in the private sector, companies such as Novartis and firms such as Ernst & Young are thought leaders in their approach to understanding big-picture issues and practices in eProcurement. These firms and others like them are focusing on the value a supplier provides, e.g., reliability and quality, rather than just price alone. They also are taking a holistic approach to financial operations—tying purchasing in with payment and other operations—and ensuring they are aligned with business goals and values.

In the public sector, the city of Helsinki illustrates a world-class implementation of eProcurement. The city purchases approximately US\$2.5 billion annually from more than 10,000 suppliers. Realizing there was an oppor-

tunity to manage its spending more strategically, improve processes, and save money, the city established a Financial Shared Service Center (SSC) with centralized purchasing. Using a third-generation eProcurement solution, Helsinki has undertaken a massive effort to conduct all orders electronically. Users can buy contract-based items that are maintained in easy-to-use electronic product catalogs or select flexible free-text purchases, allowing them to type items ad-hoc and locate them using the system.

The city has been able to realize a very high degree of automation and a matching rate greater than 80% using business-rules and contract-based matching. Additionally, Helsinki uses the eProcurement system to promote its values, such as favoring smaller vendors and relying on suppliers who provide the highest-quality goods and ser-

services rather than just considering the lowest price. Since all purchase orders are created electronically, purchases are already approved at the order stage, and the system automatically inputs all necessary basic data such as cost centers and accounts. Now employees only need to address exceptions, which the system directs them to when business rules are violated.

Also, because the solution is delivered by Software-as-a-Service (SaaS), the city doesn't have to handle system maintenance or tie up IT resources. Under the SaaS model, a software vendor hosts the application on its own site and handles system maintenance and upgrades. The company pays a monthly licensing fee to use the software, which is available to users through a Web browser.

With the automation in place, purchasing and financial professionals for the city are addressing savings opportunities, negotiating discounts, and, most importantly, focusing on strategic issues. For example, they are determining spending priorities and choosing vendors based on the key value they provide to the organization.

The new eProcurement system also provides tremendous visibility, enabling the city to easily answer key questions, such as:

- ◆ How much are we purchasing and from whom?
- ◆ What are we purchasing?
- ◆ How are we purchasing it?
- ◆ Where do we have opportunities for efficiencies and cost savings?
- ◆ Where are the process bottlenecks and other opportunities for improvement?

Armed with this information, made possible from its

Facts about the City of Helsinki

- ◆ The city of Helsinki purchases approximately US\$2.5B annually from more than 10,000 suppliers.
- ◆ The city has 30 divisions (e.g., Health, Education), each with different buying requirements.
- ◆ The new system has already incorporated more than 100 catalogs.
- ◆ About 5,000 people are creating requisitions.
- ◆ About 7,000 users are purchasing items using the eProcurement system and 50 professional buyers.
- ◆ The system handles hundreds of thousands of purchase-related transactions annually.

newly efficient procurement processes, the city of Helsinki now benefits from volume purchases and ongoing spend analysis and is able to realize significant savings by capturing discount codes for all items purchased and recognizing ways to consolidate purchases with fewer vendors. What was previously a manual process, categorized by few controls and heavy maverick buying, has now become a highly automated process. Purchasing professionals are becoming accountable for providing not only savings but also true value that helps advance the city's objectives and values. In the future, the city plans to create a separate financial business unit that will be accountable to the needs of each of the 30 divisions, which will be tracked through service-level agreements (SLAs) and key performance indicators (KPIs). The city also plans to use its eProcurement system to conduct competitive bidding to further optimize savings.

Another example of advanced eProcurement is the Pan-European Public Procurement On-Line (PEPPOL) initiative, a major eProcurement undertaking currently in the planning stages that's managed by a consortium of 14 participants and several subcontractors from nine European Union nations. This collaborative program will build an integrated electronic platform to facilitate an easy, reliable, and secure channel for Pan-European exchange of business documents for selling and buying goods and services among private companies and public sector institutions. It will enable process integration between buyer and seller and the electronic documentation of all relevant documents, such as invoices, catalogs, purchase orders, goods received, shipping documents, etc. The platform is based on UBL 2.0 (Universal Business Language) because it maps well to UN eDocs (United

Nations electronic documents) and is affordable for businesses of all sizes. Given that invoices represent the greatest quantity of legally required documents in a company and that for every invoice there are typically two to 10 times the number of documents supporting it, the environmental and process savings that this implementation will provide are tremendous.

IMPLEMENTATION STRATEGIES

Advanced global eProcurement practices have been highly successful at world-class organizations. Here are some strategies for effectively implementing these practices in your organization:

Focus on your processes first. Taking a process-oriented approach is key to establishing a successful eProcurement practice. Effective processes are flexible, customizable, and easy to implement. Work on improving your processes, and look for ways to streamline them by measuring your baseline performance, setting goals and using KPIs to measure how you are doing. Select tools that provide the ability to drill down in a particular process so you can see the root cause of an issue and be able to improve it.

Create a successful user experience. How can you adequately capture spending or know what your organization is truly doing if most people are engaging in maverick spending and not following established purchasing rules? From the outset, consider the end-user experience in all systems and practices you implement. Increase flexibility by offering users opportunities to purchase using catalog and nuncatalog tools such as Yellow Pages, free text, and purchase plans that allow users to combine any purchasing method and have visibility over their purchases to reach project and budget goals. Achieving a high level of adoption depends on getting buy-in from end users early on and throughout your implementation. Involve users in the design stage, and encourage ongoing feedback so your eProcurement solution can accurately reflect their needs.

Automate to the max. The ultimate goal of automation is to make the user experience as effortless as possible, removing complexity and the need for users to understand esoteric bookkeeping standards and general ledger rules. Choose solutions that provide a high degree of automation of business rules and policies. This will make it easy to use, encourage participation, and help ensure that you are capturing the information you need.

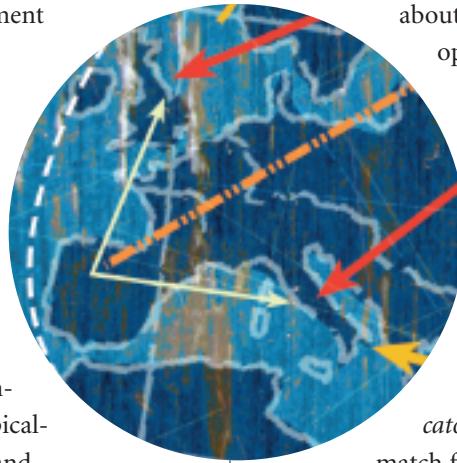
Continuous improvement should be your mantra. Focus on continually learning about how you can

enhance your processes. As you implement advanced eProcurement practices, you will start gathering and processing quality data and gain insights into your spending habits as well as potential problems. For example, an organization might find that it has too many suppliers for one item, so, by consolidating them to a few choice suppliers, it can gain savings from volume discounts. Or it may identify a trend in which employees are typically requesting the same free-text items and recognize that it should find suppliers who can provide these items through catalogs. As you learn, you'll determine how you can save money and how you can improve your processes going forward—how you can implement new innovations and truly transform procurement practices. Here are five approaches for bringing continuous improvement into your organization:

- *Know where you are today.* Understand your current practices and processes. Visibility is key to knowing where and how you are spending your money. According to studies conducted by industry analyst firms and public sector institutions, exception rates between planned spending and reality can be as high as 20%-60%, both in process exceptions and actual spending compared to plans. By understanding the conflicts and exceptions in detail, you can truly understand what happened and why. For example, if the costs for heating, water, and electricity have suddenly skyrocketed in one month, this may point to a problem in the HVAC system. Or if purchases are made against a misspelled vendor name, this may indicate fraudulent activity. Knowing where you are today will also serve as a baseline for any future improvements you undertake.

- *Determine where you want to be, and set your organization's purchasing strategy.* Decide, for example, whether you want to establish a centralized or decentralized approach. A centralized approach is useful when dealing with products or services that must comply with safety requirements and industry regulations. A decentralized approach is best when purchasers have key knowledge about what they need. In most instances, a combination will be most effective.

- *Build your solution today with "next practices" in mind since the best practices of today will soon be the old practices of yesterday.* These next practices aren't just about making processes more efficient—they are also



about making transformations in business operations, usually on a global scale.

When it comes to next practices, set your sights on where you want to go in the future, and make sure your system is flexible enough to get you there. As hockey great Wayne Gretzky noted, "I skate to where the puck is going to be, not to where it has been."

- *Identify top key performance indicators.* Select a few KPIs that are a good match for your organization, and start implementing against them. It's important that the KPIs are based on areas you can improve.

- *Look for ways to innovate.* Once you've reached your KPIs, raise your targets on existing goals or select new ones.

Think big, start small. A common mistake many companies make is attempting to change all procurement practices at once, which often leads to long and expensive eProcurement projects that fail. A much more effective approach is to think big but start small. Create a major blueprint of a grand plan, but implement incremental improvements. The new policies and practices you establish will deliver quick wins that can be measured by clearly defined KPIs. Additionally, as your company realizes immediate improvements, it will learn more about itself and its needs, which can be incorporated back into the cycle of continuous improvement.

These incremental changes add up to valuable big-picture results. For example, as employees start to use the system you'll capture more spend and be able to conduct an accurate spend analysis. After you identify the biggest savings opportunities, you can renegotiate agreements with vendors and put SLAs in place to benefit from cost savings and added value. You also might find that many purchasing exceptions are coming from one warehouse. After conducting a root cause analysis, you might see that this warehouse doesn't have a proper process for validating the goods received. This will enable your company to put the measures in place to improve processes at that location.

Take a holistic approach. Aim to streamline both procurement and invoicing operations into an intertwined business flow that automates the entire process from identification of a need, to planning and budgeting, to procurement and payment. By doing this your company will gain efficiency, visibility, and added value throughout

the financial supply chain. Consider the problems that occur when there's a disconnect between the procurement and payment processes. Imagine, for example, a company that wants to cultivate its top suppliers through a favorable contract but damages these relationships when accounts payable is notoriously 60 days late paying their invoices. Implementing a holistic approach will likely also require a change in organizational culture and change management initiatives.

Consider implementing new models of operations, such as Shared Service Centers or partly distributed or partly outsourced processes. A word about outsourcing: Before you can determine if outsourcing is the right approach for your organization, you must fix your processes. If you outsource broken processes, you are only passing along the same problems to a new location.

Create strong executive sponsorship. Establish cross-functional teams that are committed to implementing these changes. Involve finance, procurement, business units, and IT. The more involved they are, the more likely your eProcurement processes will reflect their needs and the more likely you will get buy-in.

BENEFITS

Advanced eProcurement practices provide additional benefits beyond cost savings and control. They enable companies to more effectively manage and benefit from their procurement practices in ways that they may have not even considered, including:

A new level of supplier selection. Companies should think beyond Sarbanes-Oxley Act (SOX) compliance when it comes to suppliers and require compliance in other areas that are important to the organization. For example, companies can choose vendors based on compliance with green initiatives and social responsibility. According to Gartner "Going green' is no longer just a phrase. Future suppliers will need to be certified green just to remain on shortlists for enterprise consideration. The green movement will pick up steam in 2008 and change the way businesses approach environmental conservation. Strategic Planning Assumption: By 2011, suppliers to global enterprises will need to prove their green credentials via an audited process to retain preferred supplier status."*

Supplier performance management. The traditional approach of squeezing the biggest discounts out of your suppliers is outmoded. There are other criteria beyond cost that are probably more valuable to your organization, such as reliability and quality of service. Advanced

eProcurement solutions will enable you to identify and manage the quality and performance of your suppliers to optimize their value to your company.

Value networks. A strong supplier is a valued partner for your organization. Of what use is a supplier who's forced to reduce quality in order to compensate for low prices? Instead, consider ways that you can help make your suppliers stronger and more fiscally sound. One such approach is creating a network where related vendors can collaborate, not just to provide benefits for your company, but also to grow their businesses and become stronger. For example, your advertising agency, search engine optimization firm, Web designer, and printer might benefit from pursuing new business opportunities together.

Fraud protection. Because advanced eProcurement solutions have a high degree of visibility and control, they help protect an organization against fraud. Built-in approval and business rules processes serve as preventive tools. For example, matching purchases against business rules gives organizations additional real-time control before they make a payment. The analytics that advanced eProcurement solutions provide enable real-time monitoring and auditing of details. And if something seems amiss, there's a complete audit trail of who did what, when, and why.

DELIVERING VALUE

In an increasingly global economy, organizations can't ignore the myriad benefits that world-class procurement practices offer. Increased control, cost savings, efficiencies, supporting green initiatives, and good corporate citizenship are just a few. By identifying and applying next practices and learning from other organizations around the globe, companies will be well on their way to creating their own world-class eProcurement operations that deliver value throughout their organizations. It's a wise strategy for coming out ahead in a recession or any economic climate. ■

*Gartner, Inc. "Gartner's Top Predictions for IT Organizations and Users, 2008 and Beyond: Going Green and Self Healing," by Daryl C. Plummer, Charles Smulders, Leslie Fiering, Yefim V. Natis, Simon Mingay, Mark Driver, Jackie Fenn, Laura McLellan, Debbie Wilson, January 8, 2008.

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