

REV UP YOUR
PROCUREMENT
VALUE ENGINE

Increase Value For Money in Procurement



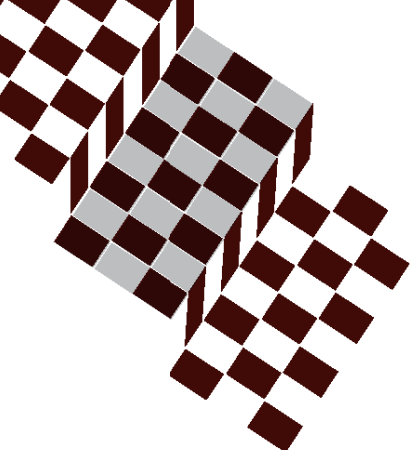


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1. Background

In our first paper we noted that the purpose of a modern procurement function was to identify and drive organizational value, not process the paperwork that allowed the manufacturing department to buy the parts it needed or the back office to continue the day-to-day accounting. However, as we also noted, the identification of organizational value is not always straightforward. Every procurement function is different in both focus and level of maturity. This complicates the identification of value as there is thus no one-size-fits-all roadmap that an organization can follow to identify the greatest value it can contribute.

However, regardless of the level of maturity, we can say that the *raison d'être* of a Procurement function is to reinforce a company's Unique Selling Points (USPs) or Unique Value Propositions (UVPs) and competitive advantage by managing spend with the appropriate strategies. And in our first paper we defined a process, centered around the Procurement Value Engine, that could be used to define and execute the right strategy for each Procurement event.

1.1. The Procurement Value Engine

We defined the Procurement Value Engine (PVE) as an engine that continuously delivers value (sustainable) to organizational stakeholders (effective) with minimal effort (or energy) on behalf of Procurement (efficient). We also took the time to define effectiveness and efficiency, and the productivity plateau, noting that companies that are only efficient fail slowly while those that are only effective barely survive. A mastery, and balancing, of both is required for a company to excel, and the practices it uses must be sustainable for that company to excel over time.



Lacking an assessment process and a transformation roadmap, it can take a long time to achieve successful transformation of your procurement activities (direct or indirect spend). In fact, without a roadmap and the associated business case, the goal is probably not achievable in any reasonable amount of time.



Robert Rudzki,
[Procurement and Supply Chain Transformation: How Fast?](#)

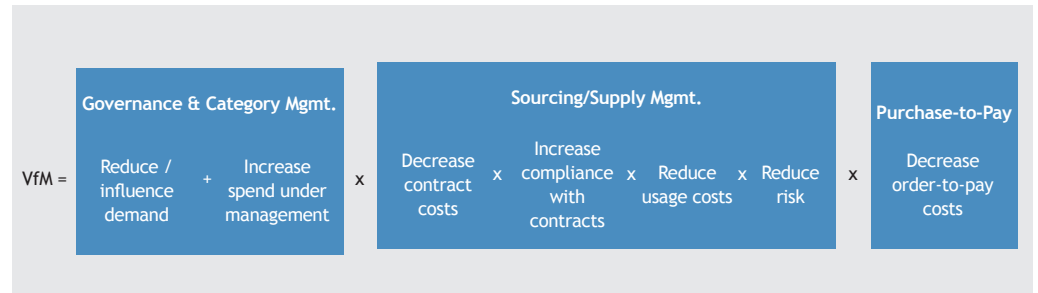
1.2. Value for Money

An effective Procurement Value Engine, implemented to support an organization's USPs (UVPs), ultimately delivers value for money. The value for money of Procurement can be defined as "a utility derived from every purchase or every sum of money spent that measures not just the minimum purchase price (or the economy of the purchase) but the maximum efficiency and effectiveness of the purchase". Thus, value for money applied to Procurement is about using the PVE to maximize the value from each dollar invested in talent, transformation (of process), and technology.

At a high level, value for money can thus be described by the following equation:

$$VfM = \text{Reduce Input} + \text{Increase Output} + \text{Reduce Energy}$$

Which allows us to derive the following from a Procurement point of view:



In our first paper, we defined each lever at a high level and gave some generic examples of how the levers would increase value. It was a good overview, but it wasn't a detailed action plan that an organization could run with. In this paper, we are going to tackle each lever individually, define key capabilities that enable the lever, actions that pull the lever, and the types of value delivered when the lever is pulled. Where relevant, we will also detail specific platform capabilities that can maximize the impact of a PVE should the organization have a platform with those capabilities at their disposal.

»» *The digital ecosystem - and I mean this in its widest sense whether that's buying and selling online or B2B interactions like e-procurement and e-invoicing - only really works when its implemented in a fully integrated way.* ««

Pete Loughlin,
We are now arriving in the digital economy - turn your watch back 40 years

We'll start with each of the seven levers above and define specific capabilities and actions that can be used to increase effectiveness. Then we will discuss how to make the overall process more efficient. Finally, we'll discuss Procurement organization maturity and how the levers, in conjunction with the PVE, will advance an organization in Procurement maturity.



2. Effective Procurement Increases Value for Money



Efficiency just tells us how slick we are at getting the outputs. Effectiveness, on the other hand, forces us to consider what we really want in the first place.



Sigi Osagie, Procurement Mojo

Effective Procurement uses each of the value for money levers to deliver greater value to the organization, regardless of the organizational strategy. (However, as discussed in our prior paper, the value is maximized when Procurement is aligned with the overall organizational strategy, and not just the desires of individual stakeholders.) In this section, we will discuss capabilities that can be used to impact each of the levers and actions that can be taken to increase overall effectiveness and deliver value to the organization as well as platforms that will enable the actions to be implemented faster and better. We will take each lever one by one and end with a discussion of potential impact, using statistics and metrics from the most reputable sources there are - the leading consultancies and analyst firms.

The savings from improved effectiveness are impossible to beat. Hackett has been telling us for years that improvements targeting effectiveness have 12 to 14 times higher savings potential than efficiency improvements [06], [13]. In other words, pulling the right effectiveness lever can easily generate an ROI that is 10 times more than pulling the right efficiency lever.

2.1. Demand Influence and Reduction

| Capability | Actions | Value | Platform |
|--------------------------|--|--|--|
| Better Demand Visibility | <ol style="list-style-type: none"> 1) Improved Inventory Management 2) VMI (Vendor Managed Inventory) or JIT (Just in Time) to minimize on-hand 3) Performance Incentives | <ol style="list-style-type: none"> 1) Better insight into actual versus perceived need 2) Lower MRO and overhead costs 3) Less effort by organizational users to better manage demand and inventory | <ul style="list-style-type: none"> Inventory management capability VMI capability Inventory / warehouse cost tracking |
| Demand Shaping | <ol style="list-style-type: none"> 1) Identify substitutes or alternatives 2) Challenge need and/or specifications | <ol style="list-style-type: none"> 1) Lower costs, higher quality, value add, and other value-for-money improvements 2) Lower need, cost, and waste | <ul style="list-style-type: none"> Supplier product and services catalog Supplier network capability or integration |

Reducing or influencing demand, especially at negotiating time, can increase cost reductions by as much as 50% [26]. And when category management is included, cost reductions can even triple [33].

2.2. Increase Spend Under Management (SUM)

| Capability | Actions | Value | Platform |
|-------------------------------|---|--|--|
| Master Transaction Data Store | 1) All transactions through a platform | 1) Full spend visibility that allows for decreased spend, demand influence, reduced usage cost, and compliance initiatives through complete analysis | <ul style="list-style-type: none"> ■ Transaction store ■ Master data management ■ Integration with P-card systems |
| More Contracts | 1) Increase Strategic Sourcing Activities 2) More tail spend out to tender | 1) More SUM and more cost control 2) Less overspend and more SUM | <ul style="list-style-type: none"> ■ Contract and contract meta data management ■ RFX, auctions, and catalogs |

An increase in spend under management will result in an increase in savings, and the more spend that is put under management, the more savings that can be obtained. Recent Aberdeen studies have found that an increase in spend under management by 30% can result in an increase in savings by 13% [05], [25]. This savings metric can be increased if that spend is tail spend. Savings of up to 20% are not uncommon [11], [18].

2.3. Decrease Contract Costs

| Capability | Actions | Value | Platform |
|-----------------------------|---|---|--|
| Improved Spend Visibility | 1) Category Aggregation/ Bundling 2) Overall Supplier Spend Leverage 3) Standardization 4) Component and Raw Material Buys on Behalf of Tier 1 | 1) Spend Leverage during category events through increased volume 2) Spend Leverage during negotiations due to total supplier spend 3) Additional volume leverage through utilization of one component, versus many similar components 4) Additional savings through bulk purchases on behalf of your Tier 2 suppliers | <ul style="list-style-type: none"> ■ Master data management ■ Complete transaction store ■ Bill of materials ■ Support for drill down bill of materials and cost models from suppliers |
| Increased Cost Transparency | 1) Primary Cost Driver Identification 2) Cost Benchmarks | 1) Identification of key costs: materials, labor, energy, overhead, or currency exchange 2) Identification of average costs and trends over time | <ul style="list-style-type: none"> ■ Detailed cost models ■ Analytics that compute average costs and trends |
| Market Informed Sourcing | 1) Standard Prices and Trends 2) Early Indication of Trend Changes 3) (Projected) Currency Exchanges, Raw material prices, Labor costs... | 1) Identification of average market prices and trends for key materials, labor, and energy 2) Allows sourcing to lock in mid-term and long-term contracts before rapid price increases or hold off before rapid price decreases 3) Allows sourcing to choose the right currency for bids and purchases | <ul style="list-style-type: none"> ■ Market feed integration ■ Predictive analytics |

Better spend analysis and spend visibility, one of the two cornerstones of advanced sourcing, can typically generate savings in the 10% to 12% range. Last decade, Aberdeen [37] found that advanced sourcing techniques, mainly spend analysis and decision optimization, typically delivered savings of 12%. A few years later, in 2010, AT Kearney did an Indirect Procurement Study

[38] where they found good spend analysis and visibility delivered an average savings of 11%. Strategic Sourcing Decision Optimization, which some term Market Informed Sourcing (MIS), delivers savings in a similar range.

2.4. Increase Compliance with Contracts

| Capability | Actions | Value | Platform |
|---|--|--|--|
| Increased compliance with existing contracts | 1) Manage all spend against contracts on a transaction basis | 1) Negotiated Savings become realized savings 2) Less maverick spend | <ul style="list-style-type: none"> ■ Contract, purchase order, goods receipt, and invoice management ■ M-way match capability |
| Increased compliance with preferred suppliers | 1) Manage all spend against preferred suppliers on a transaction basis | 1) Overbillings, duplicate billings, and fraudulent billings are immediately identified and not paid | <ul style="list-style-type: none"> ■ Supplier-centric views into contracts, purchase orders, goods receipts, invoices, and performance ■ M-way match and payment capture |

Increasing compliance with contracts can deliver a substantial amount of savings. It’s a fairly well known statistic that without good contract and procurement management processes, 30 to 40 cents of every dollar of negotiated savings fail to materialize as a result of maverick and off-contract spend. Insuring that the vast majority of spend is on contract can have a substantial effect on savings. For example, a recent Hackett report [32] found that increasing compliance by as little as 20% can increase savings up to 8% and a recent Aberdeen [25] report found that compliance can often be increased as much as 55% with an appropriate procurement (process) transformation.

2.5. Reduce Usage Costs

| Capability | Actions | Value | Platform |
|---|--|--|---|
| End to End Purchase to Pay (P2P) Platform | 1) Track “usage” costs such as warehousing, recycling, etc. | 1) Identify large ancillary costs and allow them to be attacked | <ul style="list-style-type: none"> ■ Lifecycle cost models and cost component tracking ■ Asset management |
| Lifecycle Cost Models | 1) Use analytics to determine the most prominent costs 2) Use the right parties to manage each step of the lifecycle to minimize cost and waste | 1) Identify the largest hidden lifecycle costs and allow them to be attacked 2) Lowest cost party, be it company, vendor, or third party can take over management when they can do it more cost effectively | <ul style="list-style-type: none"> ■ Cost component analytics ■ Predictive and prescriptive analytics |

It’s a generally accepted statistic that inventory and warehouse overhead costs average 25% or more of the cost of the product being stored. Thus, any reduction in demand or overstock will reduce associated inventory costs. But this is just one area where costs can be reduced. In some organizations, poor return and repair processes cost the organization more than the original cost of the product. And the savings are really dependent on where the organization is being efficient and how much improvement can be made.

A great way to reduce lifecycle costs is to identify where lifecycle processes are unnecessarily long and then find ways to speed them up and make them lean. For example, in an average organization, the average cycle time to create, negotiate, and approve contracts is typically in the order of 3 months (92 days for followers, as per [34]). In a leading organization, this is in the order of one month (33 days). In other words, inefficiency can triple process cost, and this adds up.

Another area where many organizations waste too much time and energy is on operational intelligence. If we again refer to Aberdeen’s recent study on the Value of Supplier Data Management [34], the average follower organization has to request data need to make operational decisions an average of 4 days in advance (68 hours) whereas leaders can get the information they need in less than a day (16 hours). Good informatics can greatly increase efficiency and effectiveness.

2.6. Reduce Risks



No longer will it be sufficient to look at risk mitigation and devise business continuity plans for specific events; instead, the focus will shift towards proactive risk management, using market intelligence and supplier relationships to make strategic assessments around risk and reward, and balancing the need for security of supply with the merits of low-cost sourcing and remaining competitive.



Gerard Chick and Robert Handfield,
The Procurement Value Proposition: The Rise of Supply Management

| Capability | Actions | Value | Platform |
|--|---|--|---|
| Strategic Category / Product Risk Management | 1) Identify high profit/revenue categories and alternate sources 2) Identify raw materials / components with limited availability and lock up supply | 1) Prevent unexpected stock-outs of key products or at least minimize duration 2) Prevent unexpected stock outs of key components or materials that could bring down production lines | ■ Risk tracking ■ Risk indicator tracking ■ Alternate source tracking |
| Supplier / Geographic Risk Management | 1) Identify suppliers in high risk geographies and suppliers in alternate geographies | 1) Allow the organization to quickly switch suppliers if a supplier or geography becomes inaccessible | ■ Alternate supplier tracking |
| Corporate Social Responsibility (CSR) & sustainability | 1) Identify parts / components containing regulated materials 2) Identify suppliers (incl. Tier 2, etc) representing a risk: child labor, slavery, pollution, health & safety, etc | 1) Allow the organization to track / replace materials 2) Allow the organization to quickly switch suppliers if a supplier is identified as non-compliant | ■ Risk tracking ■ Risk indicator tracking ■ Alternate source tracking |

Recent publications by McKinsey [33] and Kurt Salmon [08] found that managing risks and volatility can reduce spend by 5% to 7%. This was echoed in a more recent Spend Matters [36] study that found that good risk management can prevent damages up to 7.5% of revenue. The reason for this is that when risk materializes as a supply chain disruption, it's not just revenue that is lost, it's performance across the board. PWC and MIT [20] found in their survey that 60% of surveyed companies reported that their performance indicators had dropped by 3% or more as a result of supply chain disruptions. Minimizing risk minimizes disruption, which minimizes impacts on cost and performance.

If these statistics are not enough to convince you about the value that good risk management can bring, consider the findings from the German consulting firm Eckseleer-Consult, quoted in Proactive Supply Chain Risk Management (SCRM) in an Uncertain World [36], which found that an organization with good SCRM could reduce their insurance rates by 50%, reduce their reaction time to an event by 1.5 days, prevent revenue shortfall up to 3%, and prevent price increases up to 16%.

2.7. Decrease Order to Pay Costs

| Capability | Actions | Value | Platform |
|--|---|---|--|
| Exploit Platform Capabilities | <ol style="list-style-type: none"> 1) Catalogs, basic reverse auctions, and simple RFQs/ RFPs for tail spend 2) Incident tracking and CAM (Corrective Action Management) for issues | <ol style="list-style-type: none"> 1) All spend can be under management in the platform and at least market pricing obtained in all cases 2) Buyers have a more complete supplier picture when inviting to events or placing orders | <ul style="list-style-type: none"> ■ Catalogs, auctions, RFX, and standard forms and templates ■ Benchmarks and trends over time ■ Issue, return, and credit tracking |
| Track and Manage all Transactions | <ol style="list-style-type: none"> 1) M-way match and automatic payment approval 2) Automatic rejection and return for error correction | <ol style="list-style-type: none"> 1) Frees up wasted transactional effort for more strategic activities | <ul style="list-style-type: none"> ■ M-way match ■ Automatic invoice acknowledgement, processing, and return ■ PO-flip |
| Use Supply-Chain Finance (SCF) where appropriate | <ol style="list-style-type: none"> 1) Factoring and Dynamic Discounting | <ol style="list-style-type: none"> 1) Reduces overhead when discount is less than the cost of borrowed capital for daily operations | <ul style="list-style-type: none"> ■ In-platform dynamic discount support ■ Integration with SCF platforms |
| Use Workflow and Process Templates | <ol style="list-style-type: none"> 1) Business process modeling 2) Supplier integration | <ol style="list-style-type: none"> 1) Focus on true exceptions only 2) Real-time flow of information | <ul style="list-style-type: none"> ■ Rich workflow engine ■ Supplier portal/network |

In many organizations, there is a lot of waste in processes. Lean process transformation can save a considerable amount in overhead cost. A recent Hackett report [32] found that process costs can often be decreased by 40% or more. In certain processes, automation can increase costs even more. e-Invoicing is one example. A recent whitepaper by Neopost [03] found that reductions of up to 71% are common place, and some vendors have quoted savings potential of up to 80%.

The savings from efficiency can be substantial. For example, a recent publication by Spend Matters [04] illustrates that while the average time for a top performing organization that has

invested in an e-Procurement/e-Sourcing to place a purchase order is a mere 2 hours, the average time for a bottom performing organization that has invested in technology is 38 hours (19 times slower) and the average time for a bottom performing organization that has not invested in technology is 53 hours (26 times slower!). In addition, these same leading organizations (which invested in modern e-Procurement/e-Sourcing platforms) are able to process almost 10 times as many purchase orders per FTE than their lagging counterparts (3,472 vs 380).



2. An Efficient, Effective and Sustainable PVE increases Procurement Maturity

Even though Procurement has been a hot topic for quite some time now, and even though early solutions have been on the market for over 15 years, the average Procurement organization, which, sadly, is not likely to have a Procurement platform, is not that mature. (Hence the exalted Hackett Group 8%. True leaders are few and far between. While organizations like Aberdeen might have you believe leaders are the top 20%, or 1 in 5, the truth is that less than 1 in 10 Procurement organizations have reached a high level of maturity.)

There are a number of reasons for this, not the least of which being that many Procurement organizations don't understand what Procurement leadership is, yet alone how to get there. Fortunately, pursuit of a good PVE will, by its very nature, increase the maturity of an average Procurement organization. How so?

Let's start by considering the 3-tier model first put forward by one of the co-authors in a classic paper on Taking the First Step on Your Next Level Supply Management Journey. In this paper, the author defined the three levels as:

3.1. Standardization & Complexity Reduction

This stage usually involves standardizing systems and processes and reducing complexity in core P2P (Procure-to-Pay) and O2C (Order-to-Cash) cycles.

3.2. Operational Excellence

In this phase, the organization moves from a focus on efficiency (faster, better) and cost (cheaper) to a focus on effectiveness and value. The focus will shift from process automation, incident response time, and optimizing Days Payable Outstanding (DPO) to optimizing settlement cost, minimizing the time to issue resolution, and optimizing working capital.

3.3. Strategic Business Enablement



Expect disruption to happen on the outside. The fast lane to innovation is with new startups. Technology innovation happens from the outside.



Lora Cecere, Are You Putting Lipstick on a Pig? Or Creating New Value?

In this phase, **the focus shifts from doing it better to doing it differently**. Whereas the last two phases focused on maximizing efficiency and effectiveness of processes, organizations at this level of maturity look for entirely new processes and ways of doing business in their quest to deliver greater value to the business. They are actively involved in NPDP (New Product Development), NME (New Market Entry), M&A (Merger & Acquisition), strategic partnerships, and GBS (Global Business Services).

In this classic paper, the author illuminates the typical state of affairs across nine activity groups at each level of the model, which defines a path of progress for a Procurement organization to follow in its efforts to someday be best in class. In order to help a Procurement organization understand how an effective PVE will help the organization increase in maturity, we are going to recast the model against the seven levers of the PVE.

| Lever | Standardization | Operational Excellence | Strategic Enablement |
|----------------------------------|---|--|---|
| Demand Influence | Working on getting visibility into demand vs actual | Part Standardization and JiT / VMI | Demand reduction, sustainable alternatives |
| Increased Spend Under Management | Working on centralizing transactions in a central store | More strategic sourcing and catalogs for tail spend | Category-based workflow management to ensure all spend is strategically sourced or sourced using tail spend methods |
| Decreased Spend | Spend visibility initiative | Category spend leverage | Supplier focused innovation & lean spend initiatives |
| Increased Compliance | Paper contracts, no tracking | Online contract archive in standalone Contract Management (CM) solution, no integration with P2P | Integrated CM solution in P2P with obligation tracking and m-way match capability |
| Reduced Usage Costs | Definition of basic usage costs for tracking | Receipt to Distribution cost model to track basic inventory, utilization, and disposal costs | Full lifecycle cost modeling and cost comparison across different management options (internal, vendor, 3rd party) |
| Reduced Risks | Definition of basic risks (sole source, delivery, quality, stock out) | Definition of refined risks (raw material risk at tier 2 supplier) and indicators | Indicator monitoring and consideration in strategic sourcing events |
| Decreased Order to Payment Costs | Definition of standard processes | Automation in P2P platforms | M-way match, automated payments and rejections, automated tail spend events, Supply-Chain Finance |

As you can see, when you master an appropriate PVE for your organization, you will increase organizational maturity and eventually reach strategic enablement, making you a leader and the next contender for the much-coveted Hackett Group 8%.

3.4. Savings Increase as Maturity Increases

This is something we've known for a long time, as Aberdeen and AMR (before their Gartner acquisition) reports have been telling us this for over a decade. For example, Aberdeen's 2010 and 2011 State of Strategic Sourcing Reports [27], [28] found that Best in Class companies (with up to 80% spend under management) could save 12% versus average companies (with approximately 62% spend under management) which typically saved 8% versus lagging companies (with only 22% spend under management) that saved a mere 2%.

These findings have been echoed in studies by other analyst firms, including Hackett, which published, among other reports, its Procurement Metrics that Matter [02] report in 2014. In this report, they noted that world-class procurement organizations influence 96% of spend (versus 69%), have documented strategies for 87% of spend (versus 55%), and source 85% of spend (versus 66%). Their total cost savings against total annual spend are 5.34% vs. 2.97% for all others (and this makes sense as an average organization will only strategically source 33% to 50% of spend each year, which gives a normalized savings range of 4% to 6% against total spend if the average savings per event is 12%). The ROI of the world-class procurement organization was 9 times vs 4 times for a non-world class organization in 2014 (as a world-class organization did more with one quarter less staff).



4. A Case Study around Compliance

As an illustration of how an end-to-end Purchase-to-Pay initiative centered around increasing compliance in a sustainable manner can increase organizational value and provide a starting blueprint for your Procurement Value Engine, consider the following mini-case study performed by an organization looking to build a business case for a modern procurement platform. Performing an extensive analysis of its Purchase-to-Pay processes to build a business case for the acquisition of a leading P2P platform that would interface with its existing ERPs (for PO and Good Receipt management), the organization looked at three scenarios:

Scenario 1: No compliance

No compliance = No segregation of duty + no internal controls + no application of "no PO / no Pay". Example: Anyone can call a supplier, "order" something, an invoice shows up and needs to be paid. Invoices are routed to a single point of contact for after-the-fact approval before being booked.

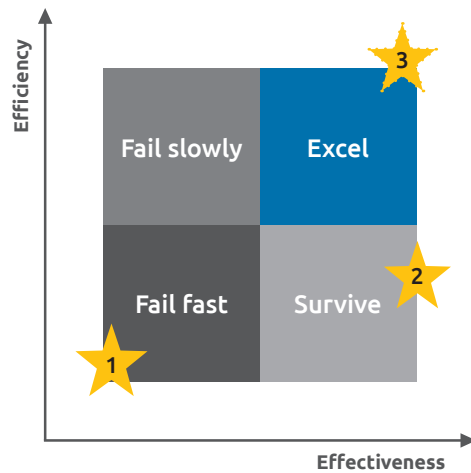
Scenario 2: Compliant situation → manual (paper) process

Compliance is achieved using a manual process. The employee puts together a request. All requests are submitted to Procurement and then to approval by managers. A PO is then manually created in the information system by Procurement. Goods receipt is seldom performed. Invoices are checked against the PO but fall under the invoice dispute process because there is no goods receipt. This usually covers just a part of the spend.

Scenario 3: Compliant situation → optimized and electronic P2P process

Compliance is achieved using e-Procurement, an end-to-end process. All requests are submitted to approval workflows. Only non-catalog requests are reviewed by Procurement. All requests are entered as a PO in the information system using an automated interface. Goods receipt is mandatory for all requests and is also integrated automatically in the information system. Invoices are processed using three-way match.

In terms of sustainability, the chart below shows how the three situations relate to being efficient and effective:



Based on a detailed analysis of the processes and the various spend categories the organization was interested in, the organization was able to map the impacts of the transformations.

Transformation 1 → 2 = becoming effective and compliant

| # | Description | Savings | | Process costs (mostly FTE) | | | | |
|---|--|-----------------|----------------|----------------------------|---------------------------|-----------------------|-------------------|--------------------|
| | | Price reduction | Cost avoidance | Approvers | Procurement (Demand Mgmt) | Procurement (PO Mgmt) | Accounts Payables | Information system |
| 1 | No compliance | * | | *** | | | *** | |
| 2 | Compliance with a local process (paper and/or electronic workflow) | ** | ** | * | *** | *** | ** | ** |

Key:
 Savings generated: * = Low / *** = High
 Resources needed: * = Low / *** = High
 PVE → Savings = *** & Resources = *

Changes:

■ Increased spend control

- Price reduction through involvement of Procurement in all needs (compliance with contract / preferred suppliers, more negotiations, optimization/consolidation, etc.) → 2% of the total spend managed every year (based on typical spend profile and mix of achievable savings)
- Cost avoidance through workflows → 1% of the spend managed (based on typical spend profile and mix of achievable savings). This happens in years 1 & 2 (ramp-up) following implementation as effect disappears over time

■ Process cost changes

- Approvers → Less time consuming, since approval is based on requests and not on invoices (after the fact)
- Procurement → More resources are required since all requests are now processed (remember, before, Procurement was not involved) & all requests are now put into POs manually (before there were no PO created)
- Accounts Payable → Less time-consuming since PO exists, but still no goods receipt so need to manage disputes
- Information System → Local system with run costs and need for administrators

Transformation 2 → 3 = becoming efficient

| # | Description | Savings | | Process costs (mostly FTE) | | | | |
|---|--|-----------------|----------------|----------------------------|---------------------------|-----------------------|-------------------|--------------------|
| | | Price reduction | Cost avoidance | Approvers | Procurement (Demand Mgmt) | Procurement (PO Mgmt) | Accounts Payables | Information system |
| 2 | Compliance with a local process (paper and/or electronic workflow) | ** | ** | * | *** | *** | ** | ** |
| 3 | Compliance with eProcurement | ** | ** | * | * | * | * | * |

Process cost changes:

- Procurement → Optimized resources since it is only focused on non-catalog requests (50% of all requests in e-Procurement) and because all requests are entered into POs automatically.
- Accounts Payable → Optimized resources because of three-way match (it is approx. 40% faster to process an invoice with PO and goods receipt than without)
- Information System → Optimized resources and cost due to a global solution (mutualization)

At the end of the day, and because nothing is black or white, the actual business case was a mix of both transformations (1 to 2 and 2 to 3). The overall results were:

- Effectiveness (incremental savings) = 2%
- Efficiency (Full-Time Equivalent, FTE, impact) = 50%

with a return on investment in less than 6 months.

Conclusion: results show that being compliant with e-Procurement (3) requires approximately the same amount of FTE as in a non-compliant situation (1) but generates savings that offset the cost of being compliant (as shown in 2). A typical example of fueling effectiveness with efficiency!



5. In Conclusion

In this paper, we have highlighted the key components of the Procurement Value Engine. Like any engine, it needs to be fine-tuned. This means that your Procurement talent, transformation management, and technology are tailored to your context and expectations. As we have seen, technology plays a special role as an enabler of several value-creation levers. This is just one piece of the whole puzzle: talent + transformation management + technology (T3).



The digital operations advantage is about more than great tools. It's a combination of people, processes, and technology connected in a unique way to help you outperform your competitors.



George Westerman, Didier Bonnet, Andrew McAfee, Leading Digital:
Turning Technology into Business Transformation

The secret of fine-tuning your Procurement organization is to adapt it to various use cases: not all spend is the same! The one-size-fits-all approach is the enemy of the Value Engine. Therefore, tailoring is critical.



E-procurement has largely been “generic” or “one-size-fits-all” to date in terms of how packages are sold and how they are used. Yet to say that all organizations should use e-procurement tools in the same way is to assume that purchasing activities, requirements and categories are largely similar between industries, or even subsectors within given vertical market.”

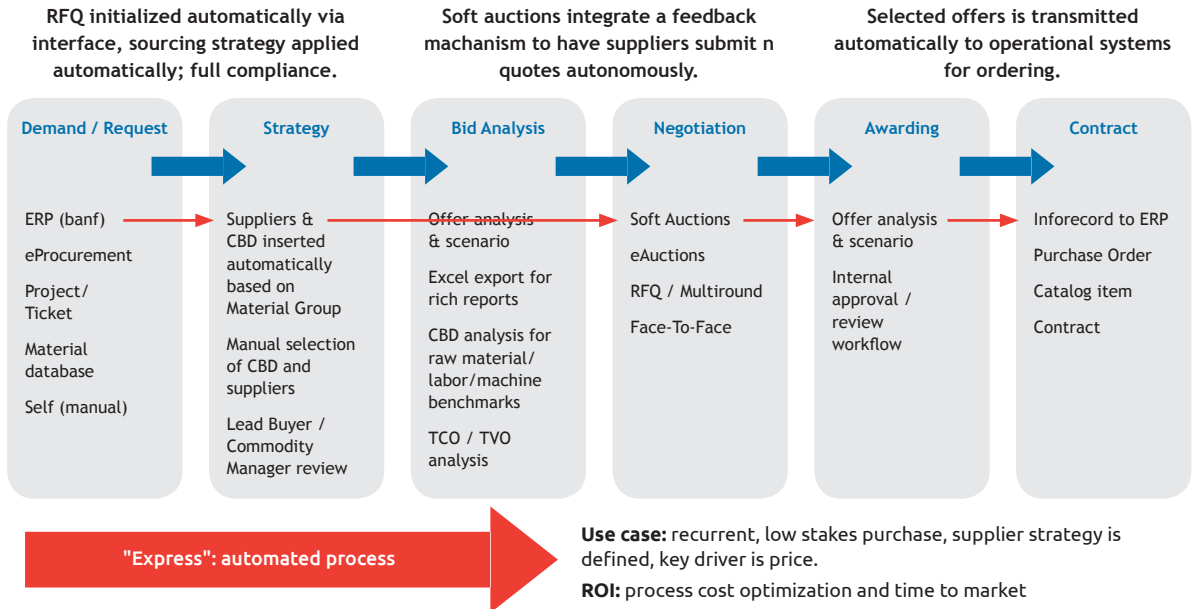


Jason Busch,
E-Procurement Market Outlook 2016-2018: 10 Technology and ‘Mega’ Trends (Part 1)

For example, the Sourcing Process, a core Procurement activity, has to be adapted to various types of spend (and [it goes beyond the Kraljic matrix](#) to [segment your spend and your approach](#)). A finely tuned Value Engine is the one that enables differentiated approaches:

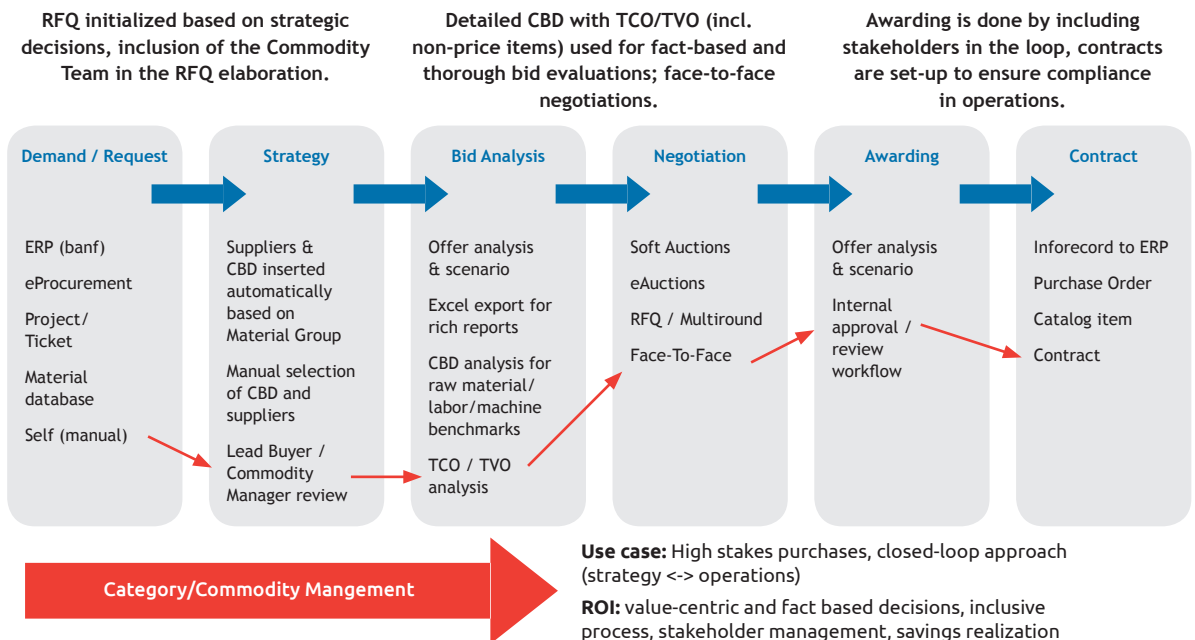
From a streamlined / fully automated one:

An example of automated process...



To a strategic one:

An example of "inclusive & extensive approach"





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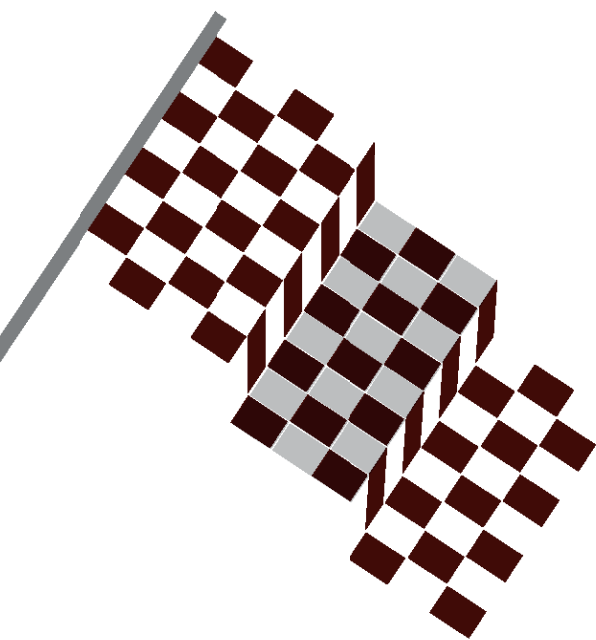
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