



**The Procurement Marketplace  
and  
The Power of Compliance**

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## Introduction

A recent 2013 CPO survey from Deloitte reported that only 61% of organizations are somewhat effective at delivering value for stakeholders. There are a number of explanations for this, but the most prevalent reason stated was a lack of business alignment.

In addition, 79% of CPOs consider cost reduction to be their primary goal. There are various reasons for this as well, but a common reason, cited in multiple studies, is a lack of focus around demand management.

Not only did Aberdeen echo this focus on cost in their recent publication on the *Top Three Supply Chain Execution Priorities for 2014*, but they also indicated that the most critical strategic action for Procurement was to improve internal cross-departmental systems, process collaboration and integration and to align the Procurement strategy with organizational goals.

If you put all of this together, it tells a story. The organization is still seeking cost savings because potential savings opportunities are not captured. There is a lack of compliance with contracts and purchasing policies. The potential cost savings are not captured because demand is not properly managed, despite best efforts. Users are not buying the right product, not buying from the right supplier, not buying at the right price, and/or not buying at the right time (and incurring extra costs by way of expedited shipping). There is a lack of visibility into true demand. This lack of demand management is partially due to the lack of an aligned Procurement strategy consistent with organizational goals -- and the lack of alignment is largely due to a lack of actionable intelligence.

In other words, many Procurement organizations, including those with (relatively) modern eProcurement or eSourcing software solutions are blinded by a lack of visibility, hindered by the absence of a platform that supports actionable intelligence, and still challenged with achieving basic contract compliance.

A key part of the solution is missing. In this paper, we will describe a modern eProcurement solution and how it provides users with visibility into Procurement policies and contracts and enforces compliance with preferred items or suppliers when required. Furthermore, we will discuss how the system not only provides the Procurement and Finance teams with the actionable intelligence required to select the right products and services to ensure that cost savings targets are met, but also provides the actionable intelligence required to identify new opportunities for value generation.

## The Situation

Before one can delve into what the required solution is, one needs to convey an understanding of what the challenges are that are still plaguing Procurement. Any proper solution will need to address, and solve, these challenges.

### The Compliance Challenge is Not New

In 2008, AT Kearney conducted a study that was summarized in their 2010 publication *Closing Procurement Loopholes*. [03] The publication reported that none of the companies that were studied reached best-in-class in their compliance efforts. They surveyed CPOs and CFOs as to why they were still having problems securing compliance to processes and strategies which could generate significant bottom-line savings in hopes of finding out why.

Based upon the responses AT Kearney received, they concluded that the point-based compliance initiatives being utilized in the surveyed companies were not effective. They determined that compliance must be holistic and address, at a minimum, sourcing, buying, preferred suppliers, contracts, and contract pricing. Unless each stage of the sourcing, Procurement, delivery, invoicing, and payment process is compliant, opportunities for value generation will be missed, negotiated savings will leak, and maverick buying will remain rampant.

AT Kearney is not alone in their conclusion. A research paper published by the Supply Chain Resource Cooperative on best practices in Procure to Pay (P2P) found that one of the common root causes of the poor efficiency of the P2P cycle was a lack of executive support driving compliance to process. [02]

Case studies by Everest Global (in conjunction with ICG Commerce) and Wipro draw the same conclusions. The Everest Global study on how to *Get More From Your Non-Core Spend* found that key reasons behind savings leakage were maverick spending and lack of vendor compliance. [08] The Wipro paper on *Ensuring Procurement Compliance in the Infrastructure Maintenance Business* found that "lack of Procurement compliance is one of the major causes of a serious revenue leakage for companies". [19]

### A Lack of Visibility Hampers Your Procurement Initiatives

In 2009, an AMR research study found that 40% of sourcing organizations are giving away ***30 cents for every dollar*** of spend because their business strategies are misaligned. [20] What is the reason for this misalignment? According to AMR, 10% was due to organizational reasons, 40% was due to reactionary disparate business processes and 50% was due to a lack of enabling technology.

In other words, 90% of misalignment was due to a lack of process or technology enablement. While this enablement could potentially take a number of different forms, each potential form starts with standardization, communication, and organization-wide visibility into the proper process, technology and the data that supports it.

The proof that a lack of visibility is hampering an organization's Procurement initiatives is in the eSourcing mix. Numerous studies by major analyst firms and consultancies have found that two technologies in particular can deliver year-over-year savings in excess of 10%. These advanced-sourcing technologies, known as spend analysis and decision optimization, work because, without these technologies, the average organization does not have a good grip on its spend or on the total cost of ownership of its supply network. This is primarily due to the fact that, in an average organization, spend data is scattered throughout different systems and the organization cannot, in (near) real time, know who is buying what from whom, when, where, and at what price.

As a result, due to this data scattering and a lack of analytics, the Procurement organization is unable to identify the suppliers or categories not under contract that should be targeted, the categories where the most maverick purchases are being made, and the departments that are the biggest offenders when it comes to maverick spend. In addition, the organization's lack of ability to capture or analyze detailed total cost of ownership models with decision optimization when analyzing RFX data, results in sub-optimal purchasing decisions. Once the organization acquires a solution that provides new visibility into spend and cost, significant savings are identified.

If the organization has mechanisms and systems in place to ensure that the identified savings are captured, then the majority of the identified savings can be realized. This is because the right mechanisms and systems will ensure that the right products are bought from the right suppliers at the right price and, if necessary, ordered from the right location at the right time.

Since the majority of savings leakage in an average organization is due to maverick purchases and over/duplicate payments and expedited shipments, these losses will be greatly minimized by a system that guides a user to on-contract products at on-contract prices that don't need expedited shipping. Furthermore, while one can debate which mechanisms and systems are best, one cannot debate that such systems must provide visibility into contracts, preferred suppliers and products, approved prices and organizational policies for recommended order and lead times. All of this information is needed to buy the right product from the right supplier at the right price from the right location at the right time.

## The Absence of Actionable Intelligence is Hindering Your Growth

Why are most organizations not in the Gartner Top 25, the Aberdeen Best-In-Class, the Hackett Group top 8%, or at the top rung of Procurement organization maturity? Simply put, those organizations have not done what it takes to climb the maturity ladder. Why have those organizations not climbed the ladder? As per AMR's research, they are misaligned. Why are they misaligned? In addition to the reasons provided in the previous section, they are askew because, while they typically have an idea of all of the things they need to do, they do not know what they need to do next.

The reason for this is because they do not have the actionable intelligence they need to make the right decisions at any given time. Consider, for example, the actions needed by a Procurement organization that is still reacting to organizational needs instead of anticipating them, as outlined in AMR's classic series on reaching sourcing excellence. [20] In order to progress, this organization needs to manage its categories and commodities globally, measure its savings, compute its cost differentials, identify and cooperate with the right suppliers, and get involved in the design phase instead of the delivery phase.

In order to achieve these goals, the organization needs to:

1. identify the commodities it is buying and the right categories for those commodities
2. determine the expected volumes,
3. identify which products and suppliers are capable of meeting organizational category needs,
4. negotiate appropriate agreements for the high-volume and critical commodities and/or categories,
5. track forecasted versus actual spend,
6. determine where cost targets are being met and not being met,
7. zero in on the categories and commodities where cost targets are not being met, identify the primary reason (supplier overcharges, expedited delivery costs, maverick buying, etc.) and then, if maverick buying is the primary reason,
8. determine whether or not the buying department's needs have changed and if it needs to (re)negotiate new contracts for products or services.

The Procurement department needs actionable intelligence in order to determine which products and suppliers are capable of meeting organizational category needs and to define expected volumes, determine the primary reason(s) that cost targets are not being met and what actions the organization should take to rectify the situation. The actionable intelligence can only be derived if the organization has the ability to capture the data it needs to make these decisions and process it into information that it can use to make the proper choices.

## The Solution

### The Answer is Technology.

One key to visibility, actionable intelligence, and ultimately compliance lies in modern eProcurement technology—but not just any eProcurement technology. Consider the root causes identified by Rob Handfield et. al in the SCRC article *Best Practices in Procure to Pay*. [02] Specifically, the lack of a forecast and planning process; the proliferation of catalog items, suppliers and line items; and the lack of a standard single input point into the ERP. If a technology platform is going to overcome these problems, it has to centralize purchase data so that historical and trend analyses can be performed. If the proliferation of catalog items, suppliers, and line items is to be prevented, catalogs – or at least access points – have to be centralized so that data is not duplicated. Furthermore, if there is to be a standard single input point, it has to support all users that require access, in both the buying and supplying organization.

This requires a technology platform with a number of capabilities. As per *Sourcing Innovation's* classic white-papers on B2B 3.0, the platform has to be based on the "virtual network" where "connectivity is simple, open and free to all. Content only needs to be managed once in a non-redundant fashion by the content owner, and the community will come together". [21] [22] [23] This will allow purchases to be made over a single network and purchase data to be centralized, catalogs to be accessed at the source, and buyers and suppliers to manage data from a single input point.

Additionally, as outlined in the Everest Group case study, in order to achieve Procurement compliance, a solution must increase transparency and visibility, consolidate suppliers and spend, drive continuous improvement year over year, and expand category scope moving forward. [08] This requires a solution that informs buyers of preferred products and contracted prices; that centralizes access to preferred suppliers and captures spend; that tracks year-over-year spend and calculates savings; and that allows a Procurement professional to see where demand is increasing and where analyses and efforts need to be focused.

According to Simplifying-IT's white-paper, *Usability and Compliance: The Carrots and Sticks that Drive eProcurement Success*, every order needs to be compliant in order to achieve true eProcurement compliance. [16] Ensuring the large orders are compliant is not enough, as the smaller orders add up quickly.

Getting to the point where every order is compliant is much easier said than done, because all of the following needs to occur:

- off-catalog requisitions are only made in emergency situations
- users select the right product when ordering
- catalog pricing reflects current contracted rates
- requisitions are correctly categorized and coded
- users are fully aware of, and adhere to, corporate buying policies
- Procurement has visibility to in-process purchase requisitions

This mandates a technology that has the following capabilities:

- full, centralized access to all products and services available to the organization
- ranking of contracted and/or preferred products and services before non-contracted/non-preferred products and services
- immediate notification if a price is above a contracted price
- immediate notification if a price is above a tolerance based on historical rates
- the ability to track data needed for proper classification and coding, including data on whether or not the spend supports organizational goals for diversity
- the ability to store complete Procurement policies for each category and commodity
- real-time auditing and reporting on user purchases and buying behavior

Furthermore, as per the B2B 3.0 series, this solution will need to be based on an open Procurement marketplace powered by a virtual network.

## Technology Changes the Game

Not only does the proper platform provide the capabilities for an organization to achieve eProcurement compliance, but it also provides the organization with the tools required to use its newfound visibility into organizational Procurement to extract actionable intelligence. The Procurement organization will go from struggling to determine who bought what, to having the ability to see who is buying what in real time and even predict who is likely to buy what in the future. It goes from being among the majority of organizations that can only do retroactive analysis to the minority of organizations that can do predictive analysis. According to Deloitte's recent CPO survey, 75% of organizations are (still) doing retroactive analysis and only 22% have advanced to predictive analysis. [05] The reason for this is because it is nearly impossible for an organization to advance to predictive analysis until it has the tools for real-time analysis, which only one third of organizations possess.



These tools enable the enterprise to advance toward being a world class Procurement organization which, according to the Hackett Group, requires a mastery of borderless geography, process and information. This means that the proper platform has an open Procurement marketplace powered by a virtual network, is available globally, has a uniform process and is consistent across all organizational units. Additionally, the information must always be available for review, analysis and the generation of insights needed for actionable intelligence.

With the right platform, a world class organization is not only able to perform real-time analysis, but also take immediate corrective actions when a buyer requests, or attempts to purchase, an item that is off-contract or above a contracted price. For example, if a user attempts to buy an item that is off-contract, either because it's not with a vendor under contract or the item is a substitute for one that is under contract, the system can be programmed to alert the user of this fact and present the buyer with the appropriate item(s) to requisition or buy.

In addition, the user can be informed of the Procurement policy that states explicit managerial approval is required to requisition the off-contract item, and that such approval will generally only be made in an emergency situation. If the product is on-contract, but not offered at the contracted price, the user can be alerted that she can requisition the product, but the purchase will be delayed until Procurement sorts out the pricing error with the vendor. The system can then immediately alert the appropriate Procurement administrator that there is a price issue that needs to be dealt with.

Furthermore, the Procurement organization will have the ability to run audit reports by category, commodity and supplier, and proactively identify pricing discrepancies. Procurement professionals will also have the flexibility to configure the system to automatically notify the suppliers that they need to correct such discrepancies before any more orders will be made and / or payments delivered. The solution, when properly implemented, will not only integrate with all of the organization's contracts, but also support real-time retrieval and search of all vendor catalogues. This will prevent non-compliant purchases and automatically detect and archive non-compliant quotes for audit and compliance purposes.

## **Procurement Marketplaces Redefine Organizational Procurement**

Organizations that use a modern Procurement marketplace can increase visibility, gain actionable intelligence, and enforce compliance because today's modern Procurement marketplaces are simple, flexible, and open.

An open Procurement marketplace, based on virtual networks, that supports (vendor managed) catalogues, EDI, XML, punch-out and agent-based intelligent parallel search technology, allows a company to provide centralized access to all products (and services) that its users need. This means that the organization can maximize external spend under management, as products can be requisitioned and purchased seamlessly through the system. This is the power of openness.

Since the Procurement marketplace is flexible, the organization can choose which categories of addressable spend are pulled into the virtual network that powers the Procurement marketplace and how the network is searched, sorted, and displayed to the user. Preferred products, or products from preferred suppliers (if there are no preferred products), can be pushed to the top of the search results, and in the event there are no preferred products (from preferred suppliers), the lowest cost items that meet the user's search criteria can be pushed to the top of the list. Since the organization can integrate its contract metadata and store purchase price history, the user also can be alerted if a product is currently over-priced (and that the requisition will not be approved until the issue is corrected by the supplier), and Procurement can be alerted that there are price issues with the supplier. Real time ranking, price verification, and non-compliance alerts – this is the power of flexibility.

Furthermore, when a user is presented with a consistent interface, regardless of where the product or service is coming from, the platform is simple to use. The user does not need to learn how to navigate multiple punch-outs, fill out different requisition forms for different service providers, or how to check if the product need can be fulfilled from organizational inventory – as that "catalog" can be integrated as well. Plus, the user will not worry about violating Procurement policies as they can be immediately accessed inside the marketplace.

Finally, there will be less denied requisitions after the fact and the buyer will be immediately notified if a product is not preferred or is out of the contracted price range. Furthermore, since the user will only be required to learn one system that will guide her to the right product (or service), she will want to use the system. Adoption and utilization will be high. This is the power of simplicity.

## The Success Story

As much as 40% of negotiated savings are walking out the door, according to the *2010 Guide to Driving Savings and Procurement Performance* by Aberdeen. [24] For an average company that identifies a year-over-year savings of 5.4% against annual spend, that can amount to an overspend of 2.2 cents for every dollar or \$22,000 on every million dollars of spend!

There are many reasons for this, but they are ultimately all the result of:

- maverick / off-contract spending
- supplier over-charges
- multiple Procurement options
- AP overpayments
- unnecessary expedited shipping
- fraud

A Procurement marketplace that enforces Procurement compliance can minimize all of these losses on the spend that goes through the marketplace because:

- the user can be directed to compliant products and suppliers and purchases of non-compliant products and services can be prevented until approval is given
- prices can be compared to contracted and historical prices and requisitions
- AP has full visibility into the requisition, purchase order, contract price, and invoice and can m-way match to make sure invalid and duplicate invoices are not paid
- the requisition can be configured to require managerial or Procurement approval for expedited shipping
- since all suppliers, products, services, and prices can be verified in real-time by the marketplace, there is no need to worry about orders to, and invoices from, fraudulent suppliers for non-existent products or services

A good Procurement marketplace will not only track all suppliers, products, contracts, requisitions, purchases and searches, but also store a complete audit trail of system activity. At any time, Procurement should have the ability to run an audit report by supplier, category, commodity, user, contract, or date (range) and determine which requisitions and (allowed) purchases were compliant, which weren't, if any users or suppliers tried to bypass the system, and if any corrective actions need to be taken.

When all is said and done, more than 90% of the typical savings leakage can be prevented, delivering on average another 3 cents per dollar of spend to your bottom line. This does not even address the additional opportunities for savings that a good Procurement platform will help your sourcing team identify.

## Summary

Despite the need for Procurement to generate organizational value beyond cost savings, four in five organizations are still focused on cost reduction. Despite attempts to get cost under control with strategic sourcing, eProcurement, and P2P solutions, these organizations still lack a solution that enforces compliant Procurement. Without a solution that enforces compliance, a buyer has the ability to buy off contract, accept pricing above contracted levels, expedite shipping and order from non-vetted suppliers when a purchase is made. In each of these scenarios, even invoice automation with three-way matching that matches the invoice to the goods receipt to the purchase order, cannot address the unapproved overcharges, off-contract purchases, unnecessary expedited shipping charges, or the non-warranted, poor-quality items ordered from unapproved suppliers.

In order for a Procurement department to get cost-savings under control, so that it may shift its focus to value generation, it has to increase spend under management. The quickest way to achieve spend under management is to implement a user-friendly eProcurement system that everyone in the organization likes to use.

A properly implemented Procurement marketplace that integrates the best features of consumer marketplaces (such as Amazon.com) is the type of Procurement system that will greatly increase user adoption. In a Procurement marketplace that supports intelligent parallel search, users can examine all products and inventory available to them, be confident that any contracted or preferred products will show up at the top of their search, quickly identify the best price for products, and one-click requisition. Since it will be easier to use the system than to bypass it, users will adopt and use the system to ensure spends will be under management.

Once spend under management approaches 100%, the problems of compliance, visibility, and actionable intelligence will be solved. Since the Procurement marketplace can not only be populated with contracts and preferred suppliers, but also programmed to adhere to the contracts, requisition limits, approval hierarchies, and Procurement rules of the organization, all spend that flows through the system will be compliant spend. Since the majority of spend will be through the Procurement marketplace, the organization will, for the first time, have visibility into spend. Once the organization has visibility into all of its spend, it can use (predictive) analytics to generate actionable intelligence that it can use to not only determine the true market prices of commodities and raw materials it is buying, but when contracts should be locked in.

In other words, the organization is spending compliantly, and tracking whatever data it needs to adhere to regulatory acts that govern the spend in question, tracking its spend, and generating insight for successful sourcing and Procurement in the future. A true Procurement marketplace changes the savings game significantly.

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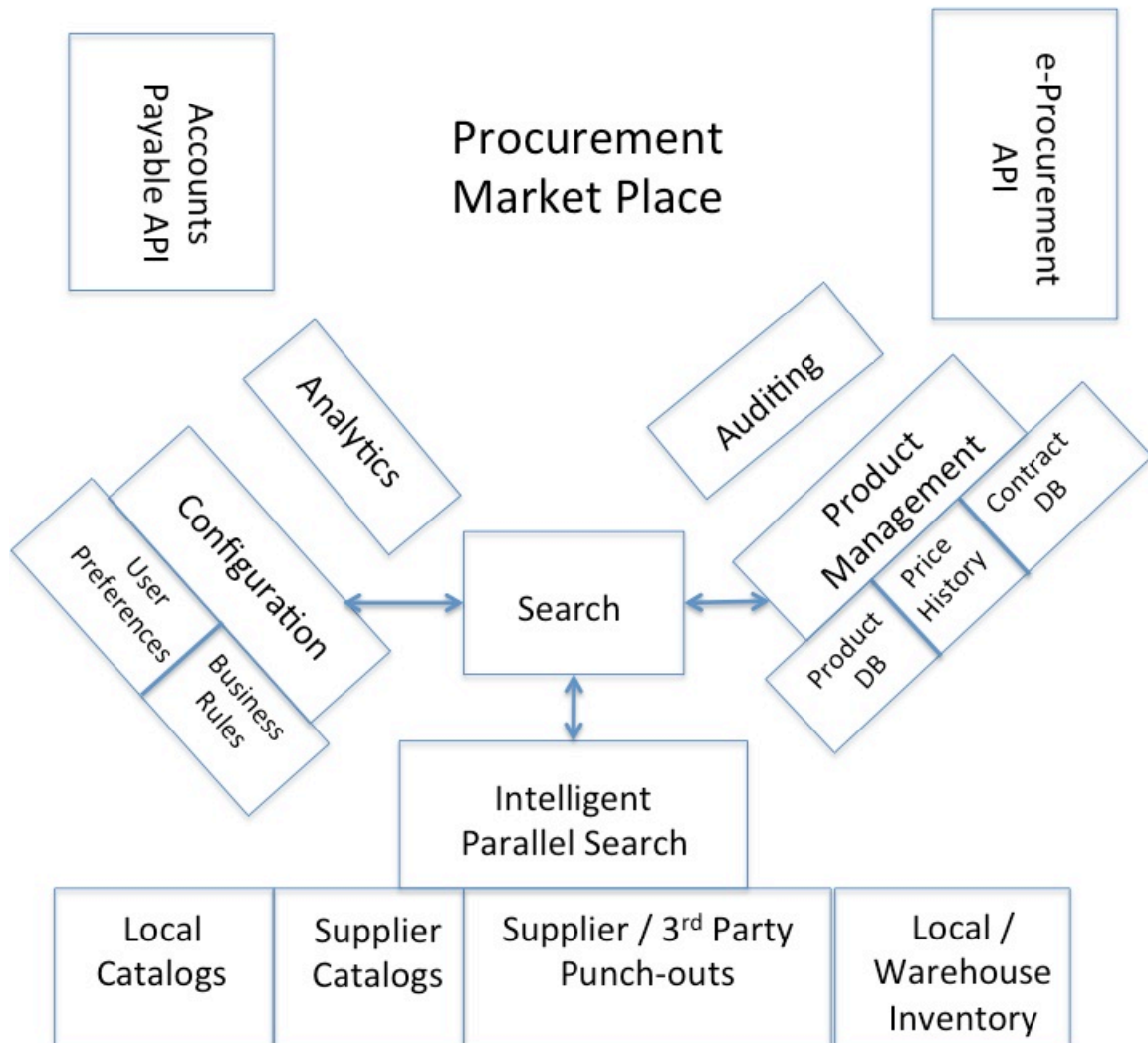
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## Appendix A: The Anatomy of a Proper Procurement Marketplace



## **7 Key Features to an Effective eProcurement Marketplace**

While there are a number of advanced capabilities that will be offered by a modern Procurement marketplace, there are seven key capabilities that are absolutely essential to success.

### **Intelligent Parallel Search**

The ability to seamlessly search hosted catalogs, supplier catalogs, punch-outs, and available inventory through one search mechanism is key because today's user, accustomed to easy one-stop-shopping portals like Amazon and eBay, is not going to perform, or wait for, multiple searches to find the product she needs or the best price.

### **Product Management w/ Price History**

The ability to store all information associated with a product, including UNSPSC codes, barcodes, vendor numbers, catalog numbers, etc. so that compatible products from multiple vendors can be identified and included in the search results is key.

### **Rules-Based Configuration**

The ability to configure the platform to support the business rules -- where products in inventory appear first, followed by contracted products or suppliers and preferred products or suppliers that appear next, with the remaining products ordered by price / landed cost -- is essential to ensuring that the Procurement policies are followed and maverick spend is kept to a minimum. In addition, the user needs to be able to configure his or her interface with language and look and feel preferences, save default searches, define default billing and shipping information and simulate, to the greatest extent possible, the one-click shopping interface of Amazon.com. When it is much easier to use the system than to try and bypass it, adoption soars and true spend under management is achieved.

### **Real-Time Auditing**

The system needs to not only be able to compare the price of each product returned in a search (through the catalog, punch-out etc.) to the contracted price to make sure the organization will not be overcharged (and that discounts are honored), but also to maintain the price history to make sure that if the organization has "best price" contracts, the prices are not rising or more than the prices available on consumer sites for the same product or service. In addition, even if a product is not under contract, in certain categories (such as electronics, which tend to depreciate 2% or more per month), prices should never rise and the user should be alerted that the price for the product is above what was negotiated.



## Real-Time Analytics

At any time, Procurement and Accounts Payable personnel should be able to see:

- how much spend is flowing through the system,
- how much of that is on contract,
- what percentage of off-contract spend is maverick that should be on contract,
- who the biggest culprits are on a departmental and user level,
- what is being searched for the most,
- how far the user has to scroll down to get to the right product, and so on.

A good Procurement marketplace is relevant, and a relevant marketplace is continually being tuned to meet the needs of the users. It is vital to definitively and measurably find out if the marketplace is meeting the users' needs by producing actionable intelligence and real-time utilization analytics.

## eProcurement API

In order for organizational spend analysis efforts to succeed, the organization needs to not only get its spend under management but get all of its spend (related) data in one central location. The best place for this is typically the eProcurement system that the Procurement marketplace is attached to. A critical requirement for minimizing tactical work in Procurement is to get end-to-end order and invoice automation in place, and this requires that all orders and invoices flow through the eProcurement system. Thus, the marketplace needs to integrate error-free with the Procurement system.

## Accounts Payable API

All payment authorizations (and payments) that flow through the Procurement marketplace need to get into the accounts payable (AP) system along with the invoices to which they correspond. Thus, integration into the AP system, or at least the AP database, is also important.



## About Vinimaya

Vinimaya vMarketPlace combines patented intelligent parallel search capabilities, dynamic web content access, catalog management tools, a familiar B2C-like shopping experience and actionable intelligence to help our clients deploy a comprehensive “private virtual marketplace” that employees will adopt and use. vMarketPlace provides a flexible, intuitive environment that is accessible from within the controls and workflow of organizational eProcurement systems. The eProcurement marketplace eliminates the delays, technical challenges and costs of managing numerous locally hosted supplier catalogs and individual website punch-outs. Visit: <http://www.Vinimaya.com> to learn more.