Procurement Process Innovation

How to Identify Cost Savings and Reduce Spend
by Boosting Procurement Efficiency

ONE VIEW

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Foreword

For over 20 years, I've been plying my trade as a Strategic Sourcing professional with a focus on Procurement process and contract management.

I've seen the very good and the very bad this industry has to offer. I've had the good pleasure of working with experts in the field who exemplify the value an organization can get from a top-notch Negotiator or Vendor Manager.

And I've seen the disarray of companies plagued by tactical, old-school Procurement processes that make suppliers salivate at the money to be made by way of bad contracts, excessive fees, and compliance penalties.

When it comes time to make the leap from tactical Procurement to strategic sourcing, many organizations opt for a wholesale Procurement transformation with promises of new staff, new tools, and massive cost savings.

But the reality is that most transformations are not much more than cumbersome enterprise software implementations and departmental reorganizations.

The good news is there is another way.

I have found, through my own experience and that of my clients, that even the most skilled Procurement professional utilizing cutting edge technology cannot overcome the inefficiencies perpetuated by a broken or non-existent process.

But a well executed Procurement process, on the other hand, can establish a solid base from which to build upon and improve the efficiency of existing technology and personnel.

This report provides a roadmap for Procurement organizations to achieve cost saving objectives by improving processes and incorporating innovative new technologies. Whether you go the transformation route or not, a systematic approach to improving Procurement efficiency can help you squeeze cost savings out of any process.

I encourage you to share this report with your Procurement organization and executive leadership team to explore the potential cost savings to be realized by putting process first.

Mohammed Faridy
Founder, OneView

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HOW INEFFICIENT PROCUREMENT DRIVES UP COSTS

The Procurement organization is often easy to ignore. As long as goods and services are purchased with relative ease, executives will conclude that Procurement is doing its job.

But inside the Procurement organization, the way goods and services are acquired is often characterized by an inefficient process — or no process at all. Many organizations, due to a lack of effective oversight over the Procurement function, are not even aware of the impact these inefficiencies have on their bottom line.

Left unchecked, small gaps in the Procurement process can often escalate into larger problems that require major overhauls.

"On average, 18% of companies require manual intervention on 30% of their invoices."

KPMG GLOBAL PROCUREMENT SURVEY 2012

What Drives Procurement Inefficiency

Inefficient Procurement processes are typically the result of one or more of the following:

- **Lack of definition.** Is Procurement a tactical or strategic function? Many organization have not clearly defined what role the Procurement organization plays at a corporate level. In many cases, Procurement is relegated to the simple task of acquiring goods and services upon request. As a result, there's no clear sense of responsibility for the efficient purchase of goods and services at an executive level.

- **Decentralization.** Procurement organizations are sometimes rolled up into other corporate departments. IT, Legal, and HR
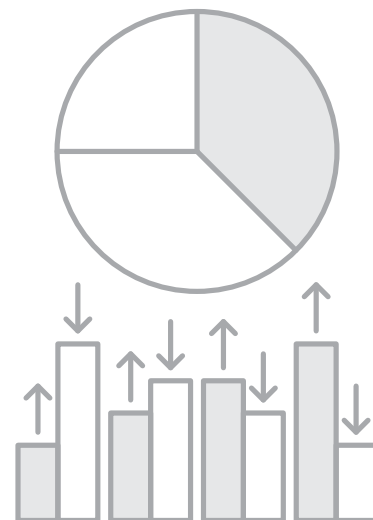
might all be responsible for purchasing their own goods and services. Without a company-wide view of what's being purchased, duplicate purchases and inefficient buying is commonplace.

- **Manual processes.** Often the result of the ineffective use of technology, manual processes are susceptible to human error and a waste of precious time. When disparate systems don't talk to each other or aren't performing the function they're meant to, they're usually replaced with quick and dirty manual processes to 'bypass the system'.

The lack of transparency and oversight surrounding the Procurement organization means these inefficiencies usually go unnoticed. Even if Procurement leaders identify the need to address process inefficiencies, they usually don't know where to begin because they lack a baseline Procurement process to measure results against.

In extreme cases, when process inefficiencies are left unchecked — there's a hesitation to even perform an assessment of the Procurement process out of fear of what might be found.

6 Opportunities for Procurement Cost Savings

In our experience — working both in the trenches and in leadership roles in the Procurement organization — there are six primary areas where inefficient processes can significantly increase costs:

1. **Multiple people assuming the role of a buyer.** Without a clear and efficient Procurement process, you may have multiple people from different departments taking on, or being assigned, the role of a buyer. Often without any training or guidelines, these ad-hoc buyers develop their own supplier relationships and negotiate pricing, terms, and conditions that do not align with the rest of the organization. This practice inevitably leads to unnecessary risk exposure and over-spending.

2. **Wasting time finding contracts and documents.** Pulling contracts is always a hassle. Where there are multiple systems and repositories used by different departments, it often takes hours just to figure out where a contract is stored. Finding out what's in those contracts and analyzing its contents can take weeks. This time equates to tens of thousands of dollars in man-hours lost each
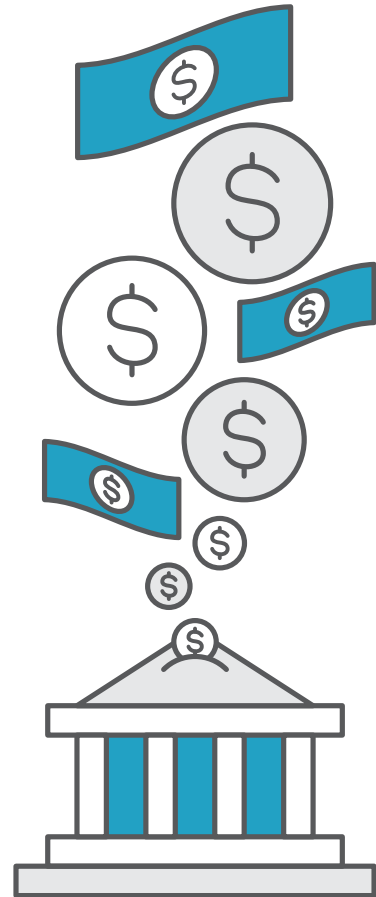
year that could have easily been saved with a clear and transparent contract management process.

3. **Not negotiating volume discounts with vendors.** Do you have a handle on what you're buying from which vendors? Without a strong vendor management process, you can't fully exercise buying power by consolidating purchases with fewer vendors. For example, if the business recommends purchasing a piece of software from a vendor, the Procurement department should check if the existing primary software reseller sells that particular software to negotiate a volume discount. Without a vendor management process, this step is often skipped and the software is purchased at a premium from the vendor that is recommended by the business.

4. **Overpaying for software licenses.** Software is a classic example of where you're probably wasting money by losing track of the renewals process. When a renewal is coming up, the process of determining what you're paying for and what you're actually using is usually too laborious to investigate. Most times, the renewal invoice gets paid without question. This is a clear opportunity to save money by developing a process to manage software renewals and ensure you're not paying for software you don't use.

5. **Losing track of contract execution.** How are contracts executed? What happens after a contract is finalized and signed by both parties? Who is the contract distributed to? Without a contract execution process, every contract will be handled differently. A few months down the road when you're looking for a contract or a summary of its contents, you won't know how to find it or where to look. This results in time wasted simply trying to understand what your organization has already committed to.

6. **Buying the same products from multiple vendors.** Do you have a catalogue or labelling process for the goods and services you buy? Without one, you may be duplicating purchases across multiple vendors. For example, a large public sector energy company found that they were buying hammers with 20 different descriptions from 15 different vendors after reviewing their taxonomy. When they consolidated those purchases down to one vendor, they were able to save significantly.

"Centralized Procurement reports highest levels of cost reduction."

KPMG GLOBAL PROCUREMENT SURVEY 2012
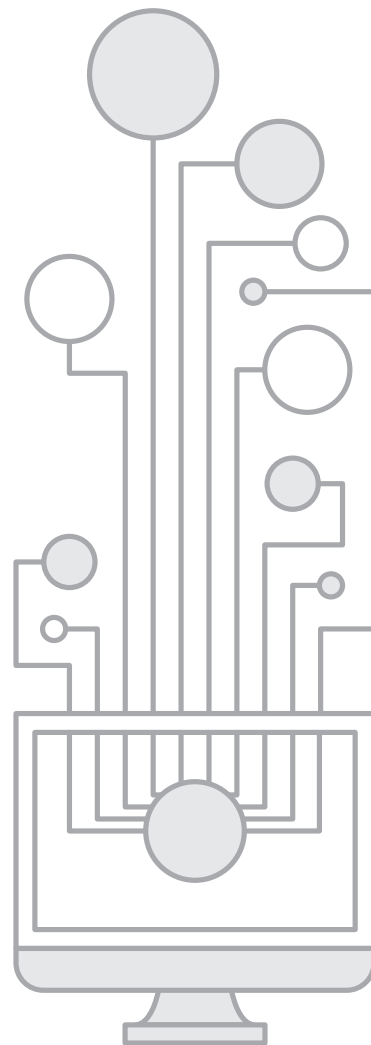
HOW PROCESS IMPROVEMENT GENERATES COST SAVINGS

The three primary cost drivers in a Procurement organization are people, tools, and processes. All three drivers are directly linked to and have an effect on one another.

When the Procurement organization is really in trouble, consultants will often recommend a complete rebuild of the entire organization from the ground up: people, tools, and processes.

Although that may be the right course of action for some organizations, it's difficult to measure improvement and quantify savings without first establishing a clear baseline of what's already in place.

Before determining the type of change that is needed, an assessment should be conducted to determine the maturity and effectiveness of the current process.

People:
Replacing Staff Doesn't Always Save Money

Personnel changes can generate long term cost savings. But before reducing headcount, you need to understand what tools and processes will be used going forward in order to evaluate the competency of current staff and determine what changes are actually necessary.

The biggest transformation trend within organizations over the past 15 years has been to centralize Procurement and move from transactional purchasing to a more dynamic strategic sourcing function.

"Our research indicates a direct link between cost savings and maturity in category management, strategic sourcing and SRM."

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Reactive purchasing agents are being replaced by category-specific professionals who not only have a deep understanding of their category, but can also preemptively engage internal business partners to understand the multiple facets of business requirements, including the legal and financial parameters of an acquisition.

Large organizations may have the financial wherewithal to absorb the impact of such a drastic personnel change. However, many companies that have gone down this path were unable to overcome the knowledge gap that was inevitably created.

As a result, any initial savings achieved through a wholesale replacement of personnel are difficult to maintain and overshadowed by the cost to onboard and retain new employees at higher wages.

Tools:
Technology Will Not Make Your Problems Disappear

Procurement tools are very closely integrated with Procurement processes. Before investing in new technology, you should evaluate the processes that are in place and then determine which, if any, new technologies can be easily integrated into without creating redundancies or complexities that will increase costs.

Technology is the backbone of any successful organization. As your company grows, you need to constantly add and change the internal tools that enable you to stay competitive and profitable. This applies as much to Procurement as to any other department within an organization.

The challenge lies in finding the right technology for your organization. IT suppliers have traditionally focused on building tools that address key operational areas of a company – Sales, Finance, HR, and Infrastructure.

Procurement tools have long been included as add-on functionality within larger ERP, CRM, and Finance systems. Many of the larger ERP solution providers, such as Oracle and SAP, have Procurement and Contract Management modules that can be added on. These suppliers often make the case for an integrated end-to-end solution, forcing Procurement teams to adopt whatever add-on modules the supplier makes available to them.
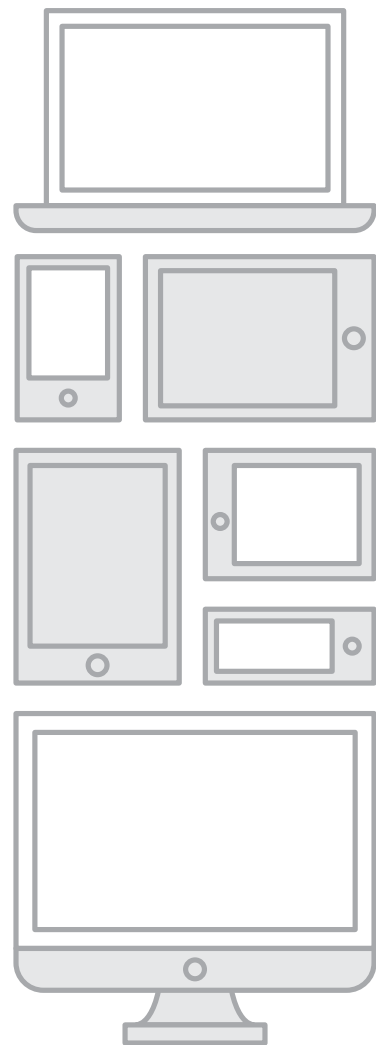
Unfortunately, this tight integration of Procurement technology with other departments limits an organization's ability to transform its Procurement practice by way of a wholesale change in technology because of the impact that it may have on the rest of the organization.

In some cases, Procurement will build its processes and procedures around the utilization of current corporate technology. This limits the organization's ability to incorporate best practices for Procurement, which in turn leads to lost savings opportunities.

More commonly, Procurement will recognize the limitations of add-on modules and implement 3rd party solutions that may not properly integrate with the larger solutions, most of which will include some downstream functionality such as Purchase Order generation and Asset Management.

To overcome this gap, Procurement will create redundant processes to allow teams to utilize third party solutions and manually input the same information into the larger corporate system.

Process:
The Key to Improving
Procurement Efficiency

Successful transformation within a Procurement organization that results in cost savings and efficiency gains is built on a solid foundation of process first — then tools and people.

Of the 3 areas where change is most likely to occur, process is the most impactful yet least regarded when an organization is conducting a transformation. Process change should be the foundational building block for any consequential change to the people or tools within an organization.

Personnel change may result in short-term gains by way of staff reduction, but those gains will quickly erode once new people are forced to use the same inadequate tools and broken processes.

Similarly, investing in expensive new technology which will require even further investment by way of training and implementation, without first establishing the process within which this technology is to work, will create redundancies and overhead as the organization struggles to force the technology to fit into a process that's not ready for it.
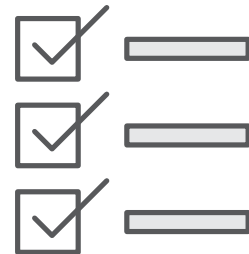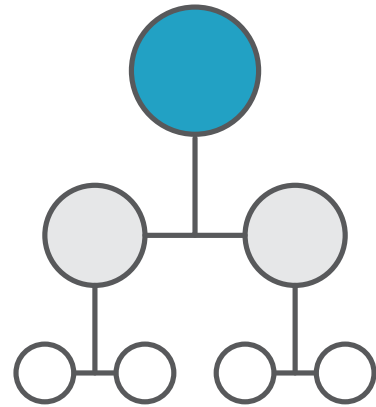
Case Study: Procurement Transformation Gone Wrong

A global financial services firm attempted a wholesale Procurement transformation some years ago. Their first step was a complete reorganization of the existing Procurement department. Tactical roles and responsibilities were re-aligned to new strategic categories that were to be lead by newly hired Strategic Sourcing Professionals, who were tasked with further reducing staff in order to meet cost savings objectives.

The next step was a significant investment in new Oracle Procure-to-Pay modules. Newly hired Category Leads were tasked with the configuration and implementation of the new modules based on their collective experience with industry best practices related to Strategic Sourcing.

18 months into a very expensive transformation, with the reorganization complete and new technology about to go live, the new Procurement Process was presented to the corporate leadership team. Unfortunately, the organizational impact of a wholesale change to how goods and services were purchased, paid for, and tracked was unacceptable to company's leadership.

New redundant processes had to be developed in order to preserve older processes that could not be changed. Additional personnel had to be hired to account for the redundancies and less than 50% of the functionality in the new Oracle modules ever went live.

3 STEPS TO REALIZING COST SAVINGS WITHIN PROCUREMENT

A cursory glance at any Procurement organization will suggest that there are many areas of opportunity to reduce cost. However, recognizing that there may be cost savings and actually realizing them are two very different exercises.

A methodical, step-by-step approach to discovering and realizing cost savings will not only yield immediate results but will also establish a baseline from which to measure continued gains in cost reduction and operational efficiency.

Step 1: Review

Document existing process and practices.

The first step of the discovery process is an in-depth and fact-based review of an organization's Procurement practices. This will establish a baseline against which to measure and compare future cost savings and help prioritize opportunities for further analysis and implementation.

The following key outputs from the review will establish a baseline from which to measure cost savings and efficiency gains:

- End-to-end requisitioning process map and key roles
- Primary method of initiating a purchase request
- End to end contract review and negotiation process
- Contract archiving and management process
- End to end purchase order process
- Supplier management methodology

1

REVIEW

Document existing process and practices.

2

ANALYZE

Identify and prioritize cost saving opportunities.

3

INNOVATE

Improve processes, implement tools, and align people.

STEP 1: REVIEW [COST SAVINGS DISCOVERY PROCESS]

PURCHASE REQUISITIONING

☐ Identify key roles in the purchasing process – End User, Requisitioner, Approver(s), Purchaser, Negotiator, etc.

☐ Identify the method of requisitioning – Form submission, email, verbal request, etc.

☐ Identify the process for assignment of requisitions within Procurement.

CONTRACT MANAGEMENT

☐ Identify the contract review process for existing suppliers.

☐ Identify the key roles in a contract review/negotiation.

☐ Identify the contract management repository.

☐ Define the approval matrix for contract review and execution.

☐ Define the process for executive review and archiving of new contracts.

PURCHASE ORDER APPROVAL

☐ Identify the tool(s) used for issuance of Purchase Orders.

☐ Document the approval workflow for Purchase Orders.

☐ Identify the integration points between Purchase Requisition and Purchase Order.

☐ Document invoice reconciliation process.

SUPPLIER MANAGEMENT & APPROVAL

☐ Identify process for vendor selection/approval.

☐ Identify the process for contract renewals/renegotiation.

☐ Identify the process for supplier reviews against SLAs.

» *Step 1 — Document existing process and practices.*

Step 2: Analyze

Identify and prioritize cost saving opportunities.

After completing the review and documenting current-state processes, the next step is to conduct an in depth analysis of the key outputs from the process review in order to identify specific areas of opportunity for cost savings.

STEP 2: ANALYZE [COST SAVINGS DISCOVERY PROCESS]

PURCHASE REQUISITIONING

☐ Is there a Procurement/Purchasing department within the organization? Is one warranted?

☐ Is there a defined requisitioning process within the organization? How is it communicated? Is compliance enforced?

☐ How many steps are there from the initiation of a request to order fulfillment? Can any of these steps be eliminated?

☐ Who are the key players in the Procurement process? Are they the correct individuals? Is there any duplication of roles and responsibilities?

☐ How are purchasing requests triaged and assigned to individuals? What are the SLAs for completion?

☐ How are new suppliers vetted for approval? Who conducts the review? Who approves?

CONTRACT MANAGEMENT

☐ How does Procurement validate whether or not a supplier is an incumbent? Is there an existing contract? What are the terms and conditions?

☐ Who negotiates new contracts with suppliers? Are the roles category-specific?

☐ Does the organization have in-house counsel? What is the protocol for engaging outside counsel?

STEP 2: ANALYZE [COST SAVINGS DISCOVERY PROCESS]

☐ What are the parameters for contract negotiation? Who approves changes to standard terms?

☐ How are contracts circulated for final review and signature? Who creates/circulates the executive summary? Who receives the executive summary?

☐ Where are final contracts stored? Who files/uploads new contracts? Who has access to filed contracts?

PURCHASE ORDER APPROVAL

☐ What system(s) are used for Purchase Orders? Is the organization PO-driven (every invoice needs a PO)?

☐ How are Purchase Orders approved? Are there any redundancies in Purchase Requisition, Contract, and Purchase Order approvals?

☐ What is the level of integration between the Purchase Requisition, Contract Management, and Purchase Order systems?

SUPPLIER MANAGEMENT & APPROVAL

☐ What are the criteria for conducting a competitive bid? How are suppliers selected for an RFx?

☐ How are new suppliers introduced to the organization? Is there a formal request to add new suppliers?

☐ Is there a financial analysis conducted on new suppliers?

☐ How are contract renewals managed? Is there an early warning system for expiring contracts?

☐ Does the organization conduct a regular business review with key suppliers? How are SLAs measured?

» *Step 2 — Identify and prioritize cost saving opportunities.*

Step 3: Innovate

Improve processes, implement tools, and align people.

Once the opportunities have been identified, the final step is to prioritize the areas of opportunity and make changes to the process, implement tools, and technology to support the changes and augment or reduce the roles and responsibilities within the new process.
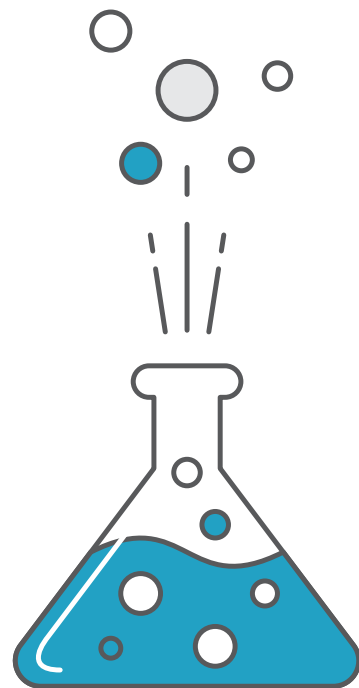
STEP 3: INNOVATE [COST SAVINGS DISCOVERY PROCESS]

PURCHASE REQUISITIONING

☐ Create a department or single point of contact within the organization for purchasing requests.

☐ Document the Procurement process, attain executive support and communicate to the organization.

☐ Eliminate redundant steps within the Procurement process. Where possible, implement a category sourcing structure.

☐ Eliminate multiple methods of requisitioning. No email or verbal requests.

CONTRACT MANAGEMENT

☐ Implement a Contract Management tool that provides a high level summary of current contracts.

☐ Establish protocol for engaging in-house/outside counsel for contract review and negotiation.

☐ Establish negotiating parameters for standard terms and conditions.

☐ Implement approval workflow for contract finalization. Utilize Contract Management tool for Executive Summary.

☐ Enforce policy for documents management to ensure all contracts are stored in the Contract Management tool.

☐ Where are final contracts stored? Who files/uploads new contracts? Who has access to filed contracts?

STEP 3: INNOVATE [COST SAVINGS DISCOVERY PROCESS]

PURCHASE ORDER APPROVAL

☐ Eliminate redundant systems for Purchase Order generation. Where possible, utilize P-Cards and Supplier Web Stores to gain efficiencies.

☐ Consolidate approval workflows for Purchase Requisitions, Contracts and Purchase Orders.

☐ Where possible, integrate Purchase Requisitioning, Contract Management and Purchase Order generation.

SUPPLIER MANAGEMENT & APPROVAL

☐ Establish and mandate a criteria for competitive bids.

☐ Establish and mandate a threshold for new supplier financial review.

☐ Create a formal process for new supplier requests.

☐ Utilize the Contract Management tool for notification of upcoming renewals and expirations.

☐ Establish and mandate a threshold for key supplier reviews. Utilize the Contract Management tool for SLA reviews.

» *Step 3 — Improve process, implement tools, and align people.*

CAN PROCESS INNOVATION GENERATE COST SAVINGS FOR YOUR COMPANY?

Procurement process innovation can be a lengthy exercise. While the benefits usually outweigh the costs, make sure there is real potential for cost savings before undertaking such an initiative.

Get a Free Procurement Process Review

We offer a free, no-obligation review to identify the potential for cost savings in your Procurement organization. One of our consultants will work with your Procurement team to identify the potential for efficiency gains in the following areas:

- Requisitioning Process
- Contract Review & Negotiation
- Purchase Order Process
- Supplier Management Methodology

At the end of the review, we'll issue a brief report that identifies where cost savings can be found and provides recommendations on how your organization can realize those savings.

To arrange a free review, email us at info@oneviewnow.com or send us a message at www.oneviewnow.com/contact.

About OneView

OneView specializes in helping organizations reduce spend by improving Procurement efficiency. We offer consulting services and software solutions to help streamline your Procurement process and realize cost savings.

Contract Management Simplified

The process of storing and retrieving contracts is often the cause of count-less hours wasted by Procurement personnel and executives. Without a centralized contract repository, many organizations are unable to find contracts when they need them. OneView is a simple contract management tool that takes the pain out of finding contracts.

Store all your contracts in one place. Are IT, Legal, and HR using their own systems to store contracts? Consolidate your filings cabinets into a centralized tool that everyone can access.
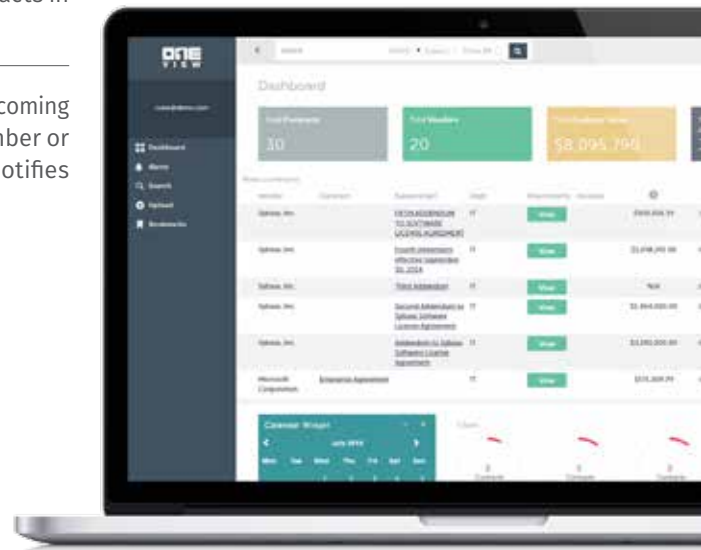
Find contracts when you need them. Stop wasting time trying to find the executed version of a contract. When everything is in one place, you'll know exactly where to look.

View all your contracts at a glance. Understanding what's in your contracts is another challenge altogether. OneView summarizes key data from your contracts in an easy to read dashboard.

Get important notifications and alerts. Contract coming up for renewal? Instead of hoping you'll remember or relying on elaborate spreadsheets, OneView notifies you when renewal dates are near.

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