

Deploy highly effective Spend Management that's aligned with your ERP system

**Answers to your top
10 questions about
why and how to do it**



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Introduction

Spend Management is a set of structured business processes that dramatically increase the management and visibility you have over what your organisation spends for all types of goods and services.

You use Spend Management to significantly reduce costs by ensuring that only truly needed and properly authorised goods and services are purchased, and by making sure you obtain best possible value when they are. It also serves to dramatically reduce invoice processing time, effort and cost in Accounts Payable, as well as creating greater efficiencies in Procurement and throughout your organisation.

But you may be wondering if it is possible to implement effective Spend Management without first replacing your existing Enterprise Resource Planning (ERP) system. You know from experience that process can be long, expensive and risky. You don't want to do it if you can possibly avoid it. You may also realise that just swapping out your basic financial systems won't, in itself, enable Spend Management. Something more will be needed even with a new ERP system.

The good news is that you can deploy highly effective Spend Management around just about any core financial management or ERP system. In fact it makes good sense to use a Procurement system that is outside the bounds of ERP for two important reasons:

1. Spend Management is about managing business processes that are outside the realm of ERP. For instance, it manages the processes before a PO or invoice hits ERP and before a supplier is added to ERP. And it uses a whole new range of information about suppliers, RFPs, contracts and catalogues that is not even in your ERP system.
2. Spend Management involves many more people than those who use ERP. Parts of your Procurement system will be used by practically every employee in your organisation. Other parts will be used by your suppliers who are outside the four walls of your organisation.

Because the business processes are so different, and because so many people will always be 'non-expert' users, the nature of a good Procurement system is quite different from the nature of most ERP systems. Modern Procurement systems have been designed to remove complexity and guide users through intuitive step-by-step processes – a different approach to the transaction processing model within most ERP systems.

Fortunately, most Procurement systems have been designed to make the touch points with your core financial and operational systems limited and non-invasive, making it quite practical to add them to existing financial management and ERP systems.

This guide

This guide will establish the key considerations for deployment of new Spend and Procurement systems to work hand-in-hand with your existing ERP system. However, effective Spend Management is about much more than just information systems.

In addition to the underlying support systems that make Spend Management possible, it's very much about how your Procurement team, your Accounts Payable team, your operational departments, and your senior financial executives work together to create savings opportunities and capture actual savings on a day-in, day-out basis. It's about organisational discipline.

If you are considering Spend Management as your next important initiative, you probably have most of the following 10 questions on your mind. In any case, the answers in this guide are intended to provide a summary of all the key things you will want to have clear before you begin:

Questions 1-6

are intended to help crystallise what you are trying to achieve with Spend Management, clarify the business processes that are involved and outline a few reasons why Procurement is a 'different animal' from your other business systems.

Questions 7-8

focus specifically on the relationship of your Procurement system to your ERP system and the flexibilities you have for deployment.

Questions 9-10

step back again from the systems issues and briefly touch on change management and project organisation.

10 key questions – knowing the answers will greatly simplify your Spend Management initiative

1. What is our fundamental objective?
2. Exactly how will we create savings?
3. What business processes are involved?
4. What people are involved?
5. What systems capabilities are needed?
6. What are the keys to success?
7. **How will eProcurement impact our financial/ERP system?**
8. **How do we avoid getting tangled up in a long, expensive project?**
9. How do we organise for both early and sustained results?
10. Where do we start?

Q1. What is our fundamental objective?

The fundamental objective of Spend Management is to gain control and visibility of the way your organisation buys goods and services, and to minimise the total cost of those goods and services as well as the cost of the process of buying them.

That includes the actual cost of the goods and services, the internal operational costs of obtaining them, and the costs that occur when there is a delay in delivery, less than expected quality, or when any form of liability is passed from a supplier to the organisation.

Though easily stated, meeting this objective is really quite a challenge when you consider the wide range of goods and services your organisation purchases over the course of a year, and when you consider the range of people throughout your organisation and supplier base who are involved.

But it's a challenge well worth attacking because the return is so great. Many organisations in all types of businesses as well as the Public Sector have successfully addressed this challenge with amazing results.



Q2. Exactly how will we create savings?

Every organisation in the world has opportunities to create savings by reducing these costs.

The savings are created through:

- ④ Prevention of unnecessary purchases.
- ④ Better matching of what is purchased to actual needs.
- ④ Lower prices for what is purchased.
- ④ Reduced administrative costs for buying and payment processes.
- ④ Reduced occurrences of erroneous payments, late charges or lost early payment discounts.
- ④ Reduced occurrences of supply disruptions and supplier problems that create unnecessary operational costs.

This combination of savings can only be obtained on a predictable basis for purchases meeting the following criteria:

- ④ Made with proper purchase authorisation.
- ④ Made with suppliers that were properly sourced and managed.
- ④ Paid with correct pricing and terms.
- ④ Processed quickly and efficiently organisation-wide.

In addition, for proper financial management, those purchases should be:

- ④ Clearly visible to both operational and financial management.
- ④ Properly coded for both financial allocation and purchase category.

Purchases meeting all of these criteria can be considered 'Spend Under Management' – i.e. spend that has been made within the organisation's Spend Management framework and therefore spend that captures maximum savings.

Q3. What business processes are involved?

There are two important business processes that must operate together to achieve truly effective Spend Management:

- 🕒 **Source-to-Contract**
- 🕒 **Purchase-to-Pay**

The Source-to-Contract process creates savings opportunities

by finding good suppliers and establishing advantageous agreements against which the organisation can then buy. Functions within this business process include sourcing, supplier management, contract management and supplier catalogue management. This process is performed by procurement professionals and cross-functional category teams working collaboratively with stakeholders across the organisation to match goods and services sources of supply to the needs of the business.

The Purchase-to-Pay process captures actual savings

by leading employees to place purchases for what they need using those advantageous supplier agreements. Purchases are therefore made at lower prices and with suppliers that present less risk. Ideally, employees still have the opportunity to shop for the best fit to their needs, but always with priority given to established suppliers and agreements. Functions within this business process include purchase request, authorisation, invoice processing and payment authorisation.

Q4. What people are involved?

Spend Management involves a high percentage of people across your organisation, as well as a number of people outside your organisation.

This includes:

- ④ Procurement professionals and category teams.
- ④ Accounts Payable (AP) personnel.
- ④ Every manager that has responsibility for a budget.
- ④ Every employee that needs to buy goods or contract for services in order to do their jobs.
- ④ Your suppliers; both large and small.

Procurement and AP personnel will use various aspects of the Procurement system on a daily basis.

Operational managers will use the Procurement system to view purchase requests against budgets and cost pipelines, and to approve or reject requests.

Employees from across the organisation will interact with the Procurement system to request or directly buy the things they need to do their jobs. Some will use the system frequently; others only occasionally.

Suppliers will interact directly with your Procurement system through a web-based supplier portal. As with employees, some will do so frequently, but most will do so only occasionally.



Q5. What systems capabilities are needed?

The main building blocks of a Procurement system are:

- ① **Information management and access.**
- ② **Workflow and business rules.**
- ③ **Guided processes.**

Information management and access

Similar to your ERP system, a Procurement system to support Spend Management business processes is built around management of, and access to, base information. Most of that information is probably not currently held in your ERP system, such as the details about supplier qualifications, supplier contracts, RFx documents and related supplier responses, and supplier catalogues. Transactions involve details of purchase requests, purchase orders and invoices – mainly during the time before they are recorded within ERP. Basic information like supplier IDs and General Ledger (G/L) account codes are shared between ERP and eProcurement, but most of the information in eProcurement is additive.

Workflow and business rules

Unlike most ERP functions that are about maintaining base information and recording the fact that something happened, Procurement processes are much more about facilitating the flow of activity among employees, managers, procurement professionals, accounts payable personnel and suppliers. For that reason, most of eProcurement is based on automated workflow that uses various user-defined business rules like approval thresholds and routings and on generation of alerts for time-based activities like contract reviews. Highly flexible, easy to configure workflows and business rules are very important in a Procurement system.

Guided processes

Because employee adoption of an organisation's Procurement system is so important to the Spend Management process, and because many employees will be 'non-expert' users that interact with the system only occasionally, it is very important that the functions they use are extremely intuitive, fast and easy. Solutions need to deliver a consumer-style experience that meet their needs today and in the future. They can't rely on in-depth training classes and they can't take much time away from the employee's actual job. The system must efficiently and correctly 'guide' employees through processes such as self-service buying (e.g. selecting items in a shopping cart), requests for expert assistance (e.g. help with buying a new laptop computer), simple supplier quote requests (e.g. selecting temporary employee services), or detail RFx requirement definitions (e.g. for a capital equipment purchase or IT service contract).

The same types of 'guided process' system capabilities apply to suppliers for updating their own profiles and catalogues, responding to tenders, submitting certification re-confirmations, etc.

Q6. What are the keys to success?

Spend Management involves virtually everyone in your organisation as well as your suppliers. Therefore, the underlying Procurement system is very much a people-oriented system.

With such a system, the keys to success are:

- 🕒 **Employee adoption:** Employee adoption is critical to gaining a high level of 'spend under management'. The key to success here is very simple – your Procurement system needs to make it as easy or easier for an employee to find and buy what they need within the system in accordance with organisational policies than it is to buy something outside the system. The ultimate goal is to make the experience people have with your system as close as possible to the type of experience they have with online websites they use in their personal life. Content obtained from supplier catalogues and website punch-outs will be as important to adoption as the system itself.
- 🕒 **Supplier adoption:** Similarly, your Procurement system needs to make it easy for suppliers to interact with your company in a self-service manner. That's how you reduce the administrative load in Procurement and Accounts Payable, and free up more time for value-added activities that lead to lower prices and greater value. Done right, your suppliers will like it too.
- 🕒 **A proven, complete framework:** Because truly effective Spend Management is only gained from the close interaction of the Source-to-Contract process and the Purchase-to-Pay process, it is important that the eProcurement framework you put in place covers that full scope – even if you move into it one phase at a time.
- 🕒 **A partner with experience:** Deployment of a Procurement system to enable Spend Management is quite different from deployment of an ERP system. In many ways, it is easier and much more incremental. But it involves more people both inside and outside your organisation. You will want a partner that is a specialist in Spend Management, and who brings tools and experience for non-technical activities – like supplier recruiting, on-boarding and enablement – as well as for technical software implementation.



Q7. How will Procurement impact our existing financial or ERP systems?

As indicated in the answers to the preceding questions, Spend Management business processes and the supporting Procurement systems are largely outside the scope of most ERP systems. Because of that, the impact of implementing eProcurement is minimal from a systems perspective.

As a brief guide, the following are likely steps and touch points:

For implementation of the Source-to-Contract portion of eProcurement:

- ④ You will make the comprehensive Supplier Directory in your Procurement system, your new master repository of supplier information and pass only basic supplier information from there to your ERP system as needed.
- ④ If you have any form of supplier contract file in ERP, you will replace that with the more robust eProcurement contract repository and use that as your new contract master.
- ④ All other information will be additive to what is in your ERP system.

For implementation of the Purchase-to-Pay portion of eProcurement:

- ④ If you are using some form of purchase requisition process within your ERP system (or that you have added yourselves over time), you will turn that off.
- ④ Your chart of accounts will continue to be maintained in your G/L and simply pass to the Procurement system. Budgets in your G/L will be accessed in real-time for use in 'cost pipeline' enquiries
- ④ Unless you are also deploying the Supplier Management application in Source-to-Contract (see below), your supplier master file will continue to be maintained in your ERP system and passed to Procurement for use in raising POs.
- ④ Most POs will be raised in your Procurement system and passed to your ERP system as accruals or commitments.
- ④ Payment checks will continue to be written from your ERP system, but most invoices and credit notes will be registered and processed in eProcurement and passed to AP as authorised payments.

It's really pretty simple, and Spend Management solution providers such as Proactis are very experienced in setting up the nominal level of required integration.

So with that in mind...

🕒 **Do we need to replace our existing ERP system before embarking on a Spend Management program?**

Unless you have other reasons for replacing it, the answer is almost certainly no. If you are getting the fundamental financial management and reporting capabilities you need today, most Procurement systems are not going to disrupt that, but will certainly give you more information to work with – especially a longer-term view of your cost pipeline.

🕒 **Is the Procurement system that comes with our ERP system my best option?**

Very few, if any, ERP systems have a Procurement system with the range of applications to fully support both the Source-to-Contract and Purchase-to-Pay business processes. Those that come close have all acquired and packaged together the solutions they offer, so they may be no more integrated than solutions from elsewhere.

In any case, if your ERP system offers an option for eProcurement, you will probably want to consider it along with best-of-breed options. Just keep in mind that, because ERP and Procurement are relatively separate systems, the advantages of a solution from a provider that is fully focused on Spend Management and Procurement may well outweigh the advantages of a single solution provider.

🕒 **Can we deploy eProcurement to support our Spend Management program now and then replace our ERP system later without replacing our Procurement system?**

Yes – by all means take the opportunity to gain the benefits of Spend Management now. The same straightforward integration points will apply in your future system as in your existing system. You should be able to replace your internal-facing ERP system later without disruption to your Procurement system just as you add eProcurement now without disrupting your existing ERP system. The transition of your Procurement system will add little to the scope of your future ERP implementation project.

🕒 **Can we deploy a single Spend Management process across multiple ERP systems?**

Yes – many companies are doing this today. If, because of mergers and acquisitions or other reasons, you have several different ERP systems supporting different business units within your organisation, you can gain tremendous advantages by implementing a common Spend Management 'umbrella' across all of those business units while integrating as needed with each of the individual ERP systems. It can even make it easy to quickly incorporate newly acquired business entities into your Spend Management process without the need to change their internal systems. A single enterprise-wide eProcurement system enables you to aggregate demand, consolidate suppliers and collect spend history across your entire organisation. This can lead to greatly increased spending power which results in better global suppliers, greater volume discounts and lower overall costs.

Your Spend Management program will be an important business process improvement initiative for your organisation, but the systems aspect is pretty straightforward and non-disruptive. And it can give you considerable flexibility over time.

Q8. How do we avoid getting tangled up in a long, expensive project?

Rolling out a Spend Management program need not be anything like the arduous and costly project you would expect from replacing your ERP system.

There is no need for a 'big bang' approach where you 'go live' with everything and everyone immediately. Although your ultimate goal is to have your Spend Management program 'firing on all cylinders' by covering all aspects of the Source-to-Contract and Purchase-to-Pay processes, those processes are not completely interdependent, nor are the spend categories you address.

Spend Management roll-outs are easily segmented into manageable mini-projects that have ROI associated with each step.

Deployment phases are usually organised around three key dimensions:

🕒 **Spend categories to be addressed:**

e.g. start with a single category such as IT spend or a grouping of categories that are similar; move through all your categories and associated suppliers in sequence of expected savings.

🕒 **Business processes to be implemented:**

e.g. start with the purchase-to-pay process to get a foundation of solid purchase authorisation Managements and AP efficiency gains, then move on to tackle each element of the Source-to-Contract process to incrementally expand the range of suppliers with whom you have competitively negotiated cost-saving agreements, and to improve the supplier and catalogue information integrated into the purchasing process.

🕒 **Organisational entities to use the new capabilities:**

e.g. start with your headquarters operation or a particular business unit to gain experience and refine your processes, then expand to all your branch locations and business units around the world one step at a time.

By making each phase a manageable combination of spend categories, business processes and organisational entities, you can closely control the scope of each mini project, measuring results and making refinements as you go. Using this approach, you will find that you realise increased savings on a steady basis with little organisational trauma or business risk.

Q9. How do we organise for both early and sustained results?

In today's world, every initiative needs to gain early, frequent and sustained results in order to be a success.

A ComputerWorld article titled The Rebirth of Re-Engineering said it well: "Unlike the mega-projects of the 1990s that spanned multiple years and revolved around big honking ERP systems that cost millions and produced disappointing results, today's process re-engineering initiatives feature multiple quick-hit projects, many born out of (focused innovation teams)."

It went on to say: "In a nutshell, today's re-engineering is not a one-time event. Rather, it's an ongoing endeavour that involves continually refining and enhancing the hundreds of end-to-end steps involved in (a complete process). What it's not about is the software that automates those steps."

That's why many organisations are organising Spend Management initiatives around focused management of its two key 'value streams' – Purchase-to-Pay and Source-to-Contract – with a business person taking responsibility as the Value Stream Manager for each. According to the previously referenced article: "When you have people organised around the processes being delivered rather than silos, those people are attentive to how the processes operate and how they need to evolve and change over time."

With a clear understanding of the inter-relationship between the Purchase-to-Pay and Source-to-Contract cycles, it is easy for these two important processes to progress in parallel, leveraging each other to increase savings at every phase along the way.

In the simplest form:

- 🕒 **The Purchase-to-Pay Value Stream Manager**, quite possibly someone in the Finance department, focuses on using eProcurement to create a standardised process that everyone will use to request and buy things within corporate authorisation policies, and from suppliers and agreements generated by the Source-to-Contract process. That establishes the framework to capture savings from all the opportunities created in Source-to-Contract. The Purchase-to-Pay Value Stream Manager also focuses on realisation of the significant efficiency gains to be had in AP.
- 🕒 **The Source-to-Contract Value Stream Manager**, probably a senior procurement professional, focuses on increasing the range of spend categories for which they obtain quality suppliers and well-negotiated agreements. In that way they continually create more and more savings opportunities for the organisation to utilise in the Purchase-to-Pay process. Underlying Procurement capabilities are used to incorporate the contracts, catalogues and websites associated with those suppliers directly into the Purchase-to-Pay process in a way that makes it easy for employees to see and use them.

In this way, the two Value Stream Managers work together on the 'ying and yang' of Spend Management and together steadily increase the percentage of Spend Under Management. That, in turn, increases the cost savings and risk mitigation that creates so much value for the organisation.

Q10. Where do we start?

Most successful Spend Management initiatives are a joint effort between an organisation's senior financial executive and senior procurement executive. Often, it is the financial executive that becomes the overall 'champion' for the Spend Management cause, with the procurement executive being an enthusiastic partner.

The basic steps for getting started are much like those for any other important effort:

1. **Build a common understanding** of what needs to be done within your executive team.
2. **Define the business case** for taking action.
3. **Establish a practical way to manage, measure and improve** each of the activities required in order to drive towards the objectives (i.e. the business case).
4. **Identify a sequence of steps** that self-fund the effort.

Proactis has many tools to help you get started, having worked with organisations around the world to implement Procurement solutions and gain the tremendous benefits of effective Spend Management. The great majority of those companies have deployed Proactis solutions around their existing financial management or ERP systems.

We understand both the technical and people aspects of successful Spend Management. And we offer a number of supporting services to help you get started and/or manage non-core activities over time. Contact us to discuss how we can help you achieve your Spend Management goals within your own unique organisational and information systems environment.

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