

Spend Management for CFOs

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



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Introduction

Spend Management is a structured business process that dramatically increases the management and visibility you have over what your organization spends for all types of goods and services.

It's a process you use to significantly reduce costs by ensuring that only needed and authorized goods and services are purchased, and by making sure you obtain the best possible value when they are. It also serves to dramatically reduce invoice processing time, effort and costs in Accounts Payable, as well as creating greater efficiencies in procurement and throughout your organization.

If you think your ERP system has procurement covered, think again. Most procurement systems are outside the bounds of ERP because:

- 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.
- ② Spend management uses a whole range of information about suppliers, RFPs, contracts and catalogs that your ERP isn't capable of handling.
- ③ Spend management involves many more people than those who use the ERP system. Parts of your procurement system will be used by practically every employee in your organization. Other parts will be used by your suppliers who are outside the four walls of your organization.

Because business processes are so different, and because so many people will always be 'non-expert' users, modern procurement systems have been designed to remove complexity and guide users through an intuitive and automated step-by-step process.

Alternatively, you may experience using little to no automation to manage your procurement process, using manual processes with a lot of paper and spreadsheets

This guide will establish the key considerations for uncovering if you need to transform your procurement processes.

Taking control over your spend doesn't just lie in the technology you deploy, it's very much about how your Procurement team, your Accounts Payable (AP) team, your operational departments, and your senior financial executives work together to create saving opportunities and capture financial data that helps you make decisions. There is an organizational discipline that's instilled to support the bigger picture.

If looking at procurement to see how you can reduce costs is on the next to-do list, here are 10 key questions to get you started.

Questions 1-6

are intended to help you identify what you are trying to achieve by managing spend, clarify the business processes that are involved and outline a few reasons why procurement brings value to the business.

Questions 7-8

focus specifically on the relationship of your procurement system with your finance or ERP system and the seamless integration it should accomplish for true automation and a holistic view.

Questions 9-10

will help with change management and project organization.

Q1. What is our fundamental objective?

The fundamental objective of managing spend is to gain control and visibility of the way your organization buys goods and services, and to minimize the total cost and time it takes to buy them.

This 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 organization.

Though easily stated, meeting this objective is a challenge when you consider the wide range of

goods and services your organization purchases over the course of a year, and when you consider the range of people throughout your organization and supplier base who are involved.

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

Arcop achieves **\$10 million** in sourcing savings with Proactis

Halliburton reduces purchase order cost by **75%**

Bauer Media Group achieves **straight-through** invoice processing and payments

Bedford Borough Council reduces invoices processing time by over **60%** with Proactis invoice capture

a.s.r achieves **full control** with company-wide insight into expenditure and contracts

Q2. Exactly how will we create savings?

Every organization has the opportunity to create savings by reducing the costs outlined below:

Savings are created through:

- ① Prevention of unnecessary purchases.
- ① Better matching of what is purchased to actual needs.
- ① Lower prices for what is purchased.
- ① Reduced administrative costs for buying and payment processes.
- ① Reduced occurrences of erroneous payments, late charges or lost early payment discounts.
- ① Reduced occurrences of supply disruptions and supplier problems that create unnecessary operational costs.

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

- ① Clearly visible to both operational and financial management.
- ① 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 organization's Spend Management framework and therefore spend that captures maximum savings.

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

- ① Made with proper purchase authorization.
- ① Made with suppliers that were vetted and negotiated.
- ① Paid with correct pricing and terms.
- ① Processed quickly and efficiently, organization-wide.

Q3. What business processes are involved?

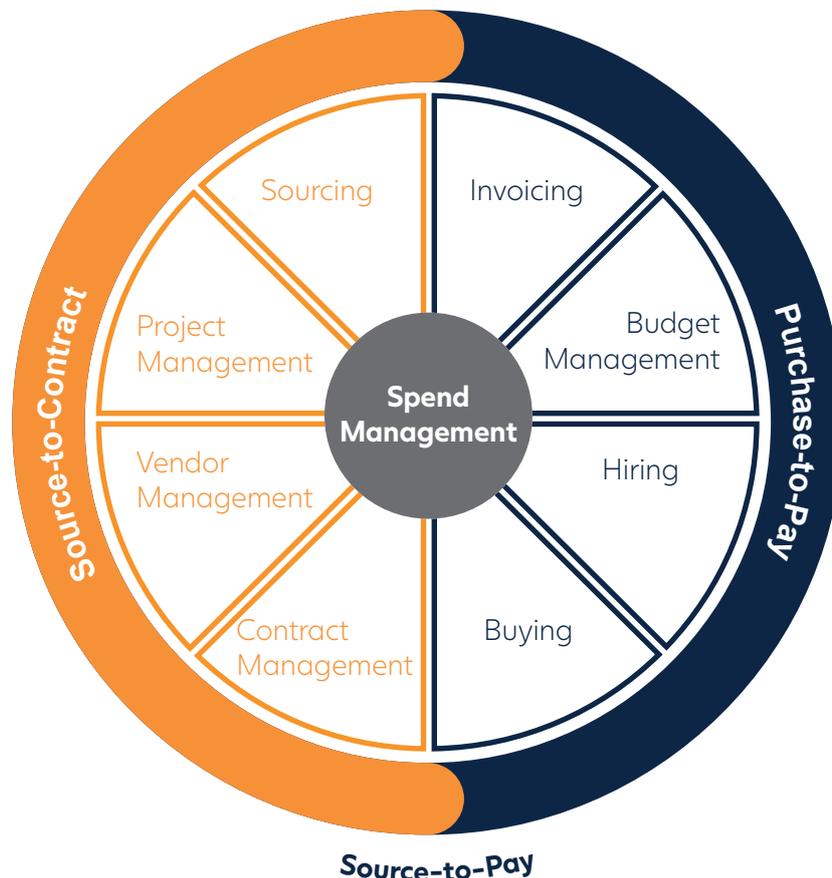
There are two important business processes that must operate together to achieve truly effective Spend Management:

Source-to-Contract

can be summarized as finding good suppliers and establishing discounted agreements so employees can buy from them. Functions within this process include sourcing, supplier management, contract management and supplier catalog management. This process is performed by Procurement professionals and cross-functional category teams working collaboratively with stakeholders across the organization to align goods and services sources of supply to the needs of the business.

Purchase-to-Pay

is enabling employees to place purchases for what they need using the suppliers they have already built relationships with (discounted contracts). Purchases are therefore made at lower prices and with suppliers that present less risk. Ideally, employees still can 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, authorization, invoice processing and payment authorization.



Q4. Who's involved?

Spend management involves all buyers across your organization, as well as a number of people outside your organization.

This includes:

Within your organization



Procurement and AP professionals have different needs as Operational Managers as to buyers.

Operational managers view purchase requests against budgets and cost pipelines, and to approve or reject requests.

Buyers across the organization need to request or directly buy the things they need to do their jobs for volume buying or one-off purchases.

Suppliers need access to update their information, agreements, and payment terms easily and quick so there is no lag time.

Everyone involved in the procurement process needs to be able to easily and quickly perform these actions to improve efficiency and reduce the amount of time it takes to buy goods and services.

Q5. What systems capabilities are needed?

The main building blocks of a eProcurement system are:

- 🕒 **Information management and access**
- 🕒 **Automated workflows aligned with purchasing policies**
- 🕒 **Intuitive and guided processes**

Information management and access

An eProcurement system to support spend management business processes is built around management of, and access to, base information - including details about supplier qualifications, supplier contracts, RFx documents and related supplier responses, and supplier catalogs. Transactions involve details of purchase requests, purchase orders and invoice management.

Automated workflows aligned with purchasing policies

Procurement processes are about facilitating the flow of activity among employees, managers, Procurement professionals, Finance and Accounts Payable personnel and suppliers. For this reason, streamlining authorizations in an 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 will minimize delay and mitigate risk.

Intuitive and guided processes

Because employee adoption of an organization'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. They can't rely on in-depth training classes or take much time away from the employee's actual job. The system must efficiently and accurately '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 catalogs, responding to sourcing events or solicitations, submitting certification re-confirmations, etc.

Q6. How can you get everyone on board?

Spend Management involves virtually everyone in your organization as well as your suppliers. Therefore, the key to success is simply making sure everyone adapts to the process and solution.



Three keys to success:

Employee adoption:

The key to success here is very simple – make it as easy, or easier, for an employee to find and buy what they need within the system in accordance with organizational policies than it is to buy something outside the process. The ultimate goal is to make the experience that people have with your system as close as possible to the type of experience they have when shopping online. Content obtained from supplier catalogs and website punch-outs will be as important to adoption as the system itself.

Supplier adoption:

Similarly, make it easy for suppliers to interact with your company in a self-service approach. 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 full spend management is only gained from bringing the Source-to-Contract process and the Purchase-to-Pay process together, it is important that the eProcurement framework you put in place covers the full Source-to-Pay scope. And this can be done one phase at a time.

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

As indicated in the answers to the preceding questions, procurement processes and the supporting procurement systems are largely outside the scope of your core business 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 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' inquiries.
- ④ Unless you are also deploying the Supplier Management application in Source-to-Contract, 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.

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 in addition to what is in your existing systems.

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...

- ④ **You don't need to replace your ERP system.**
- ④ **Your procurement solution in your ERP might not be your best option.**
- ④ **You can deploy a single-wide eProcurement solution and integrate across multiple ERP systems.**

Your spend management program will be an important business process improvement initiative for your organization, 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 procurement transformation doesn't need to be an arduous and costly project.



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 the Source-to-Pay process,

those areas 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 organized 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 authorization 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 catalog information integrated into the purchasing process.

Organizational 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 organizational 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 realize increased savings on a steady basis with little organizational trauma or business risk.

Q9. How do we achieve 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.

Many organizations are measuring their spend management initiatives into 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 organized 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.

Responsibilities:

The **Purchase-to-Pay Value Stream Manager**, quite possibly someone in the Finance organization, focuses on:

- ① using eProcurement to create a standardized process that everyone will use to request and buy things within corporate authorization policies;
- ② establishing a framework to capture savings from all the opportunities created in Source-to-Contract;
- ③ realization of the significant efficiency gains to be had in AP.

The **Purchase-to-Pay Value Stream Manager**, quite possibly someone in the Finance organization, focuses on:

- ① increasing the range of spend categories for which they obtain quality suppliers and well-negotiated agreements;
- ② continually creating more and more savings opportunities for the organization;

capabilities used to incorporate the contracts, catalogs and websites associated with those suppliers directly.

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 organization.

Q10. Where do we start?

Most successful Spend Management initiatives are a joint effort between an organization'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. **Create common goals and 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 organizations around the world to implement procurement solutions and gain the tremendous benefits of effective spend management. Contact us to discuss how we can help you achieve your business goals.



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