

eProcurement can be a powerful cost-saving tool. Unimarket president Kurt Black gets under the hood and describes how it can be used as an engine to drive savings

UNDER THE HOOD

e Procurement drives cost savings in three main ways: through process efficiency; contract and policy compliance and realising reductions in the price of the goods and services the organisation buys. This white paper examines how eProcurement can do this by looking at the various components of functionality on offer and how they can help in achieving cost savings.

The whitepaper was put together by Unimarket, an affordable SaaS eProcurement solution that facilitates business spending online.

What is eProcurement?

eProcurement is a means by which traditional procurement activities are moved online to make the end-to-end process faster and more efficient. The aim is to replace manual, paper-based processes with a streamlined electronic process.

An example of this; are the supplier catalogues that moved online instead from having been paper catalogues resting on someone's desk.

Requisitions are now made online instead of on a piece of paper and routed to the various approvers electronically rather than being passed around manually for signature. Once approved, orders are sent to suppliers electronically rather than by fax or phone.

eProcurement addresses the entire 'procure-to-pay' process, automating many of the steps and electronically integrating the process. This can include online supplier-maintained catalogues, the integration with an organisation's financial system, the sending of purchase orders to suppliers and receiving invoices back.

Efficiency and automation are the keys to eProcurement, resulting in a faster and less resource-intensive process with far fewer errors.

The chart over the page describes some of the basic differences between the traditional procurement process and eProcurement.

Now, let's look at each of these components to understand them a little better.

Online Supplier Catalogues

One of the larger components of eProcurement is online catalogues. eProcurement solutions typically have a 'marketplace' as part of the product, where organisations select the suppliers they trade with. Suppliers typically have two options for delivering electronic catalogues: build a catalogue; build a 'punch-out' to their existing eCommerce site.

With both options, the goal is to have online catalogues that are maintained by the suppliers, with the current items/prices specific to each buying-organisation. The obvious benefit is that the buyers have immediate access to the latest and greatest items and pricing offered by each supplier, without the organisation having to maintain that data itself.

A nice benefit for small, local suppliers is they can quickly and easily build catalogues in the marketplace, and put themselves on a level playing-field with much larger suppliers for minimal investment.

While many suppliers offer their own website for placing orders, the benefit of eProcurement is having a single, consistent process for the buyers across all suppliers. The eProcurement solution can handle signing on to the various supplier websites automatically, without the buyers having to keep track of logins/passwords for all the different supplier sites they need to access. Suppliers can build custom catalogues within an eProcurement marketplace.

Online Shopping Carts

Shopping cart functionality is another major component of an eProcurement solution. These are the same shopping carts buyers are familiar with if they've used sites like Amazon.com. Shopping cart functionality makes it easy for end-users to create requisitions in an online system. Contrast this to the traditional requisition / purchase order functionality found in the major ERP systems, where the user creates a purchase order "header" and purchase order "lines." These older software solutions aren't very easy or intuitive for the buyers, and have resulted in procurement staff needing to be involved in more of the data entry than is really necessary.

Shopping cart functionality is more user-friendly and offers a more

intuitive way to create requisitions. Why not let the end-users search for the exact items they want and create the initial requisition? The procurement team can then have an approval role, rather than doing item research and calling users to get item details etc. This also means they can spend time on more strategic activities instead.

Online Sourcing / RFx

eProcurement also has the ability to generate Request-for-Quotes/Information/Proposals (RFx). This functionality allows the organisation to send base information and requirements to multiple suppliers, so they can then provide responses. This outgoing information, and the incoming responses, can be tracked and compared in the system, and the underlying RFP/RFQ process can be handled significantly faster, consistently and more efficiently, with the added benefit of having an electronic record.

Online Approval Workflow

Once requisitions or purchase orders are generated they usually need approval. eProcurement solutions offer workflow to handle these approval chains. Approvals can be configured to be handled manually or automatically, based on a set of pre-defined business rules. Manual approvals are typically routed to the various approvers via emails or even via mobile devices. Automated approvals can be configured, via business rules, in the software so that pre-determined actions can be taken without user involvement – for example, if the requisition is under \$250 it is automatically approved.

Benefits include faster processes and improved visibility of electronic records of approvals/denials – for example, where is my requisition in the approval chain?

Online Receiving

Online receiving is another function offered by eProcurement. One of the nicest features of an online solution is that it is easily accessible by all users with internet access. This applies to the receiving function as well.

	REQUISITION	APPROVALS	FINANCIAL SYSTEM	ORDER TO SUPPLIER	RECEIVING	INVOICE
TRADITIONAL	<ul style="list-style-type: none"> - Paper based requisitions - Paper catalogs - Manual intensive - Slow end-to-end process - No link to existing contracts and/or preferred suppliers 	<ul style="list-style-type: none"> - Paper based routing for physical signature(s) - Slow process (prone to delays) 	<ul style="list-style-type: none"> - Approved requisitions "rekeyed" into system - Inefficient - Requires procurement team effort to "rekey" orders - Prone to error 	<ul style="list-style-type: none"> - Printed from financial system and phoned in, mailed, faxed - Inefficient 	<ul style="list-style-type: none"> - Typically not received into system 	<ul style="list-style-type: none"> - Receive paper invoice - Invoices "rekeyed" into financial system - Inefficient - Prone to error
ePROCUREMENT	<ul style="list-style-type: none"> - Electronic process - Online catalogs - Catalogs maintained by suppliers (latest/ greatest pricing) - Faster process - Shopping carts for easy req. creation 	<ul style="list-style-type: none"> - Electronic approvals (email alerts, mobile devices) - Implement rules for automatic approvals - Electronic audit trail of approval 	<ul style="list-style-type: none"> - Seamless integration to financial systems - Efficient (no rekeying) - Procurement team review / approve rather than data entry 	<ul style="list-style-type: none"> - Orders can be electronically routed to suppliers - Faster process 	<ul style="list-style-type: none"> - Goods and services can be received directly into the same system - Can write automated matching rules 	<ul style="list-style-type: none"> - Invoices can be received from suppliers electronically - Reduces / minimizes errors (no rekeying, etc.) - Less A/P reconciliation

Users throughout the organisation can record receipts of orders that were placed, which can then be used in a three-way matching process.

Online Matching

eProcurement also allows for the streamlining or automation of financial-matching activities. If organisations opt to receive electronic invoices from their suppliers, they can write business rules (matching tolerances) to handle many of the matching decisions automatically.

Matching can be configured in different ways. Some organisations like to use eProcurement for all their matching, while others prefer to use their ERP/financial system. Others like a hybrid solution, where they use the eProcurement to perform an initial match, to filter for high-level matching errors, and then do a more detailed match in the ERP / financial system.

Electronic Integration to ERP /finance

eProcurement solutions act as a user-friendly front-end to an organisation's purchasing module within its ERP/financial system. They can serve as a stand-alone product for smaller organisations that don't have another procurement system.

eProcurement integrates with financial systems to pass requisitions over and then receive approved purchase orders back to be routed to suppliers. This seamless integration allows for a "req-to-check" process that is significantly faster and uses far less resources.

Electronic Integration to Suppliers

A big benefit of eProcurement is electronic integration with suppliers. After a requisition has been created and approved, it is routed electronically through the eProcurement solution's supplier network to the particular supplier. The degree of integration is dependent upon the individual supplier's technical capabilities, but it can range from a simple email order to full electronic integration into the supplier's eCommerce solution, so that it automatically comes in to the latter's system as a sales order.

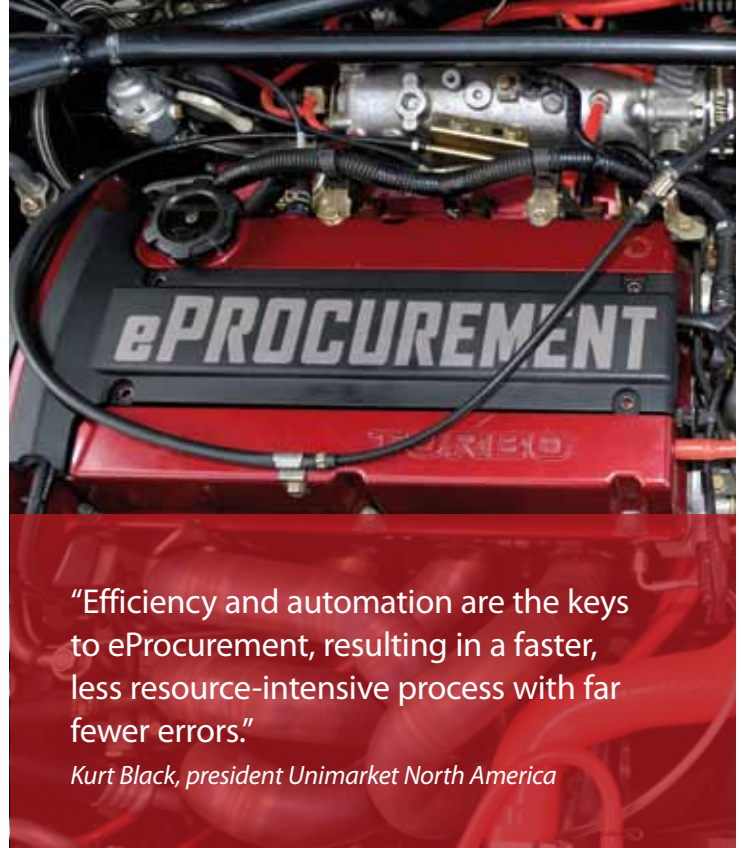
The other aspect of supplier integration deals with invoices. Suppliers have the ability to perform what is generically called a 'PO Flip'. This involves the supplier taking the purchase order and 'flipping it' into the corresponding invoice. The obvious benefits to this are speed and accuracy. It reduces the time required to generate the invoice and eliminates or reduces data errors because the system is automatically creating an invoice based on the data from the purchase order.

Reporting

eProcurement solutions also offer big benefits in spend reporting and analysis, because of the reporting and analysis features of the software. Also, all spend (or at least significantly more than before) is going through a single system. With the complete data, organizations are able to do significantly more reporting and perform more thorough analyses of their spending.

Making Real Savings

So, this eProcurement stuff sounds great, but how do I really achieve cost savings by implementing it, you may ask? Well, let's take a look at spe-



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Kurt Black, president Unimarket North America

cifically where the cost savings come from.

Essentially, eProcurement delivers cost savings through three primary areas: process efficiencies; contract / policy compliance; and reductions in the actual prices of the goods and services the organisation buys.

Process Efficiencies

Moving processes from paper onto a fast, automated, online platform can result in tremendous process efficiencies. This is one of the primary benefits of eProcurement solutions. The efficiencies come in the form of efficiencies to the Procurement team itself. Traditionally very transaction-focused these processes are often manual and full of inefficiencies. There's also no time to do anything but process incoming requests into purchase orders.

Requisition requests come via paper, phone calls, emails or faxes and must then be re-keyed into a purchasing system. This often involves a bit of research, such as looking up an item in a supplier catalogue. It might involve calling the requisitioner back to get more information; all very time-consuming and inefficient. eProcurement eliminates or minimises these inefficient activities in a number of ways.

First, because the catalogues are online and maintained by the suppliers, the onerous chore of keeping track of the latest-greatest item lists and current pricing is pushed to where it belongs – to the supplier. When items are added or prices change, the supplier does this and the updates are immediately available to the buying community.

Another efficiency improvement comes in the form of being able to quickly search across suppliers/contracts to find the best price for an item. Because all of the catalogues are online, it is significantly easier and faster to search for and compare options for a particular item.

Still another area process efficiencies can be achieved is in approvals. With the procurement process online, organisations can handle the approval process electronically as well. Approvals can be handled in an eProcurement system with notifications sent to the approvers via email or to a mobile device. The resulting approval process is significantly faster and more efficient.

These improvements can result in either 'hard dollar' or 'soft dollar' cost savings, depending upon various organisations' intentions. That is, if they need to reduce staff and do more with less, they can achieve hard dollar savings by needing fewer staff to accomplish the same level of procurement activities. If they want to refocus their staff on other things, they can achieve soft dollar savings by freeing up time staff to focus on more strategic, value-adding activities such as spend analysis and contract negotiations.

Ball-park potential savings: Best practice studies from analysts such as Aberdeen show traditional "total per order cost" can be US\$70 per purchase order. With eProcurement this per cost can cut by US\$20 to US\$25 per order.

Contract/Policy Compliance

Non-compliance by the end-buyers is an issue. Sometimes this non-compliance is intentional ("It takes too long to figure out the terms of the contract and place my order."), but sometimes it's unintentional ("We have a contract for that?") Whatever the intent, non-compliance with existing supplier contracts is a major reason organisations spend more money on goods and services than they need to.

With eProcurement, non-compliance is minimised. Because everyone is ordering online, via a central procurement portal, some degree of control is returned to the procurement department by limiting the choices buyers have. This allows for decentralised autonomy for the buying entities (for example, departments, colleges, franchises, etc) with centralised control or oversight.

If the organisation has contracts with three office suppliers, for example, those can be the only options presented at the time of creating the online requisition. This means procurement can ensure everyone takes advantage of the negotiated prices with key suppliers. This also means volume discounts can be negotiated with suppliers.

Ball-park potential savings: Best practice studies show 70 percent of an organisation's goods and services spend is addressable by an eProcurement system. Studies show that, on average, 38 per cent is procured "off existing contract". Furthermore, they find the average contract savings is eight per cent.

To ballpark the potential savings, start with your total spend and multiply by 70 per cent to get addressable spend. Then multiply that by 38 per cent, to get the "off existing contract" spend, and multiply that number by eight per cent to ballpark the potential savings.

Reduced Prices of Goods & Services

The final category of savings is actual prices paid for goods and services. As we've seen, by driving spend to a select set of suppliers, we can pool the organisation's purchasing power and create opportunities for volume discounts.

But eProcurement also offers the benefit of improved spend visibility. By capturing complete spend through a single system the organisation has better visibility of exactly how much it spent with which suppliers and on what categories or items.

Under the old process, complete-spend visibility was difficult to get because of the various means by which buyers could procure the exact

same items. Some people would go to the local stationer and buy reams of copy paper and submit it as expenses, while others would go online and buy their paper without using a company account.

Using all of these different means to buy the same item results in poor spend visibility, because it's difficult to see the complete picture. It results in lost savings, because buyers are paying retail prices rather than negotiated contract prices. It results in lost opportunity to negotiate with the supplier at the end of the year because the organisation doesn't have data on the total spend with that supplier.


Using a tool to coordinate and manage sourcing events (for example, RFP/RFQs) is another way in which organisations can significantly reduce the actual prices they pay for goods and services. Many organisations tender RFPs, but they are often labour-intensive and time-consuming to develop and manage. eProcurement helps to make the process much more efficient, so the organisation can coordinate many more RFP/RFQs and, thus; more savings.

Finally, one of the most potentially beneficial ways in which eProcurement helps organisations reduce prices is through collaboration. This can be both internal and external. Internally, these solutions help various departments pool their purchasing power and aggregate their spending with strategic suppliers, resulting in better contracted prices. But the more advanced eProcurement solutions help to pool purchasing power across external entities – other whether regionally or vertically across a given sector or consortium – collective purchasing and social networking techniques within eProcurement can achieve lower prices for all involved through alignment and economies of scale.

Ball-park potential savings: Benefits in this area come from multiple components, including contract management (having the data and time to negotiate better contracts); sourcing (RFQs) and collaboration. Best practice show potential savings from eSourcing and collaboration can range from five per cent – 15 per cent, depending on the organisation's current degree of volume discounts.

To ballpark the potential annual savings in this area, start with your total goods and services spend and multiply that number by 70 per cent to get addressable spend, and then multiply the resulting amount by five per cent – 15 per cent to get a range of potential savings.

Conclusion

In the current economic climate, organisations need to look for every opportunity available to drive efficiencies and reduce costs. eProcurement is a solution that helps drive significant costs savings. These savings come about as a result of much more efficient processes (more automated; less resource intensive) improved contract and procurement policy compliance; and lower prices of goods and services due to better sourcing activities and collaboration. 

Unimarket provides on-demand, procure-to-pay solutions to facilitate business spending online. Many public and corporate organisations are adopting Unimarket's collaborative procurement technology to drive significant cost savings and business process efficiencies. For more information please visit www.unimarket.com