Supplier Collaboration and Automation

Improving Today's Supplier Management Process

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» Common Pain Points in Today's Supplier Management

» Benefits of Automation for Both the Buyer and Supplier

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Introduction

Over the last decade, businesses have evolved rapidly due to globalization, growing diversity, and increased competition. Trends such as an increase in mergers and acquisitions (M&A) and divestiture have spurred technological advancements and new strategic approaches to business negotiations. In response to these changes, supplier networks have grown in both scale and complexity. As buyer AP and Procurement teams try to keep up with growing supplier bases, they are tasked with supporting profitability while simultaneously maintaining positive relationships with suppliers. The fractured nature of their work often curbs these teams' ability to minimize internal costs and cultivate fruitful partnerships. On the other hand, suppliers are also losing time and money while settling promotional sales, discounts, and deduction disputes.

Many supply chain organizations manage their Procure-to-Pay (P2P) processes manually, which only perpetuates the challenges associated with supplier relationship and information management. These include poor visibility into payments and dispute management, which makes processes time-consuming and frustrating. Manually based P2P processes also result in poorly managed supplier data, which exposes companies to the risk of working with fraudulent or low-value suppliers and missing information and documentation. Another significant pain point with manual processes lies in supplier payments and deduction management. Without the proper controls in place, organizations make millions of dollars in unnecessary repayments to suppliers each year, creating avoidable profit losses. These losses are due to a lack of both controls and visibility into deductions, help-desk support, and resulting dispute claims.

Fortunately, many of the issues within the deduction claims process can be solved by a centralized technological solution that manages costing, contracts, and agreement information. These cloud-based solutions offer automation and advanced capabilities that enable savings, efficiency, visibility, collaboration, and communication in downstream processes. In this whitepaper, Levvel Research explores the current landscape of supplier management and the features of automated supplier management tools, such as deduction management.

Global ePayments Today

Based on Levvel Research survey data, the most common pain points in today's supplier management arise from poor data management, see Figure 1. Other common complaints are related to lengthy dispute responses and settlement times. When taking into account all reported pain points and their consequences, two broad categories of problems emerge: lost efficiency and lost savings.

FIGURE 1

Poorly Managed Data Is a Top Supplier Management Pain Point
"What are your biggest pain points in your supplier management process?"

Lost Efficiency

As with many manual-based business functions, traditional supplier information and relationship management methods are inefficient—many interactions are often repeated or could be easily avoided, resulting in a waste of company time and resources. Without automation, buying organizations must handle transactional data, approve and fulfill payments, and manage compliance and contract terms all on a case-by-case basis. When businesses receive too many inquiries and become overloaded, responding to suppliers becomes a time-consuming task and results in inevitable lags in response times. These obstacles damage business relationships and waste resources for both buyers and suppliers.

A common example of inefficient supplier management can be seen in handling deductions. In a supply chain workflow, suppliers receive payments from their buyers, often with deductions. These deductions commonly result from three-way match differences or separate line-item deductions, such as an incentive program billback. Because of poorly managed payment data and limited visibility for suppliers, their relevant payment details are often consolidated into broader reasons for a charge or left out entirely. Furthermore, suppliers receive these seemingly unexplained reduced payments with limited or no help desk support from the buyer. Thus, suppliers will often dispute the deductions, resulting in hundreds or thousands of inbound supplier inquiries to the buyer each year. The buyer's employees must then manually go into an accounting system to patch together the payment data and determine the original cause of the deduction. The time-consuming nature of this work increases response times and complicated email chains. Most of these dispute cases end up being an unnecessary waste of time, creating further frustration for suppliers.

The deduction claims process today results in deteriorating vendor relationships, increased tensions, and further challenges downstream. These include supply chain interruptions, service-level impacts, lost negotiation leverage, and reduced rebates/trade funds.

Lost Savings

Manual supplier information and relationship processes result in lost savings opportunities. Operational costs are very high for companies without an automated solution for their supplier information management. For example, most companies do not have the time or money to efficiently manage the deductions/claims process. Usually, a designated team or individual will manage this manual process, which is a poor use of company time and talent. Other companies may outsource this type of work or hire temporary labor, which may save some payroll costs, but are ultimately still expenditures. Furthermore, there are hundreds of ancillary hours spent throughout the organization supporting the supplier claims process, including research and approvals. With that being said, staff can redirect their time and energy into more valuable company processes if a company has automation.

Businesses with manual supplier management methods also miss dollar-for-dollar revenue, and thus direct profit. One direct source of missed profit is the high payback rate of deductions back to suppliers, which diminishes a buyer's profit margin. Without proper payment, data controls, and workflow automation, suppliers can't get the necessary support for their deduction inquiries in time. For example, when a supplier is paid for a service, they may notice a deduction and submit a query to the buyer. Due to a buyer's inefficient systems, the supplier may have to wait for a long period of time to get clarification, which furthers frustrations and strains relationships. This prolonged process results in suppliers who are less willing to accept original deductions, leading to higher payback rates.

Unnecessary deduction reversals also lead to multiple areas of lost savings within the buying organization. One example is if a buying organization fails to provide sufficient help desk support for the deduction in question, or if it fails to report certain information within a defined timeframe (e.g., 24 hours for damages, etc.), it will be forced to repay the claim amount even if the deduction was valid. Most of these deductions are avoidable, but buyers don't have easy access to payment information, such as locating a special price that a buyer had agreed upon with a supplier.

Due to limited resources and process inefficiencies, many companies are forced to repay claims or make settlement payments due to dispute age, a pending credit hold, or an upcoming contract re-negotiation or expiration. Essentially, when a deadline arrives, buying organizations do not have any choice but to pay. Furthermore, many companies implement tolerances because resource constraints cannot handle the volume of incoming claims. Tolerances are the minimum claim amount allowed for processing, or a minimum claim amount allowed to be repaid without further authorization by an AP team.

The Benefits of an Automated Supplier Management Tool

Automated deduction management tools address pain points by redirecting labor needs with workflow automation and decreasing the demand for manual and time-consuming help desk support with supplier self-service tools. It also reduces operation costs and deduction payback rates, resulting in direct profit recovery.

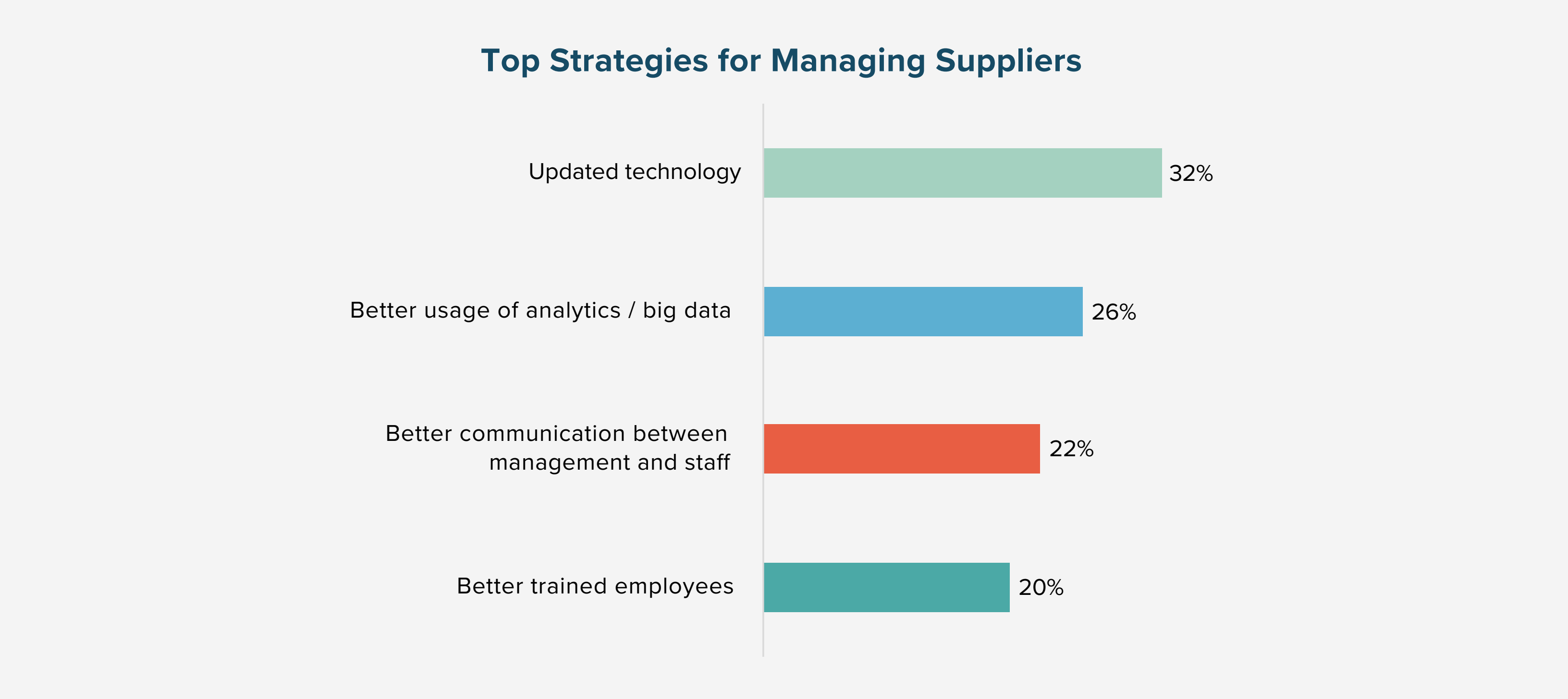
There are many reasons why businesses might choose to implement an automated supplier management tool, often closely related to their supplier management goals. Data shows that many buying organizations are looking to increase overall supply-chain efficiency and improve supplier relationships, as well as reduce risk and improve adherence to vendor compliance regulations, see Figure 2.

FIGURE 2

Buying Organizations Seek to Increase Supply-Chain Efficiency and Improve Supplier Relationships
"What is your top goal in managing your suppliers? (Select all that apply)"

Automated supplier management software directly addresses the goals of buying organizations hoping to transform their supplier management, and it is what many organizations are turning to for help. Data shows that the most common strategy among organizations to improve supplier management is updated technology, see Figure 3. Software solutions bring automation, methodology, and control to the process. Supplier management solutions allow clients to accurately respond to disputes with factual data in a timely manner. This technology also provides faster, automation-driven communication channels for more visibility and faster approval workflows and response times. Automated supplier management platform can strategically increase efficiency and direct dollar-for-dollar profit by addressing many common pain points. More modern software can also catalyze the use of other strategies, including using big data, improving communication, and training employees more effectively.

FIGURE 3



Updated Technology Is the Most Common Strategy to Improve Supplier Management
"What strategy would help you achieve your top goal in managing suppliers?"

Automated deduction management also leads to better process oversight and controls. For example, deduction management tools also offer supplier self-service portals, which grant suppliers access to their own payment and remittance history, as well as any supporting documentation explaining deductions. Self-service functionality significantly reduces inbound communications, reducing the burden and time constraints placed on Procurement teams—although a small portion of critical inquiries may still require internal action. Deduction management solutions reduce turnaround times for queries, and result in better adherence to specific service-level agreements (SLAs) and terms of contracts and regulations via automated analyses and audit reports. These tools also improve overall collaboration with suppliers and internal business partners.

Offering advanced reporting and metrics, such as deep root cause analysis, automated deduction management tools give businesses the ability to better reach their key performance indicator (KPI) markers and make more strategic business decisions. Automated solutions feature active and continued—rather than passive—analysis and aggregation of data, which provides vendor insight into root problems. This type of information suggests how Procurement teams can address problems before they are repeated.

An automated deduction management tool is also a supplier's solution. Any supplier-facing initiative, especially those involving a technological solution, will not be successful if it doesn't take into account the supplier's needs, which is why leading supplier management solutions make sure to address both sides of the supply chain. With a multi-tenant SaaS technology platform, suppliers no longer suffer from the frustrations of open-ended inquiries, where they send a query to a buying organization and never receive follow-up. With automated supplier management software, suppliers can access details and documentation they need to accept discounted payments. Suppliers also gain visibility into closed-loop communications related to inquiries or dispute claims, as well as real-time access to a claim's status within the entire resolution process. This kind of visibility and communication makes supplier and buyer interactions more collaborative, and results in more positive and balanced business relationships.

Just as buyers can increase their savings, suppliers can reduce operational costs associated with applying discounts and managing their outstanding claims with external customers. In addition, automation reduces the strain between their critical customers and improves overall relationships with all business partners. Levvel Research believes that championing suppliers and their needs is a crucial aspect of P2P innovation, and therefore makes a business more competitive.

Implementing an Automated Tool for Supplier Management

For companies considering adopting an automated supplier management tool, Levvel Research suggests the following plan to ensure thorough preparation and successful implementation.

Step 1: Analyze and verify ROI

Once an organization decides to seriously consider implementing a supplier management solution, it should analyze its current supplier management state and verify the potential ROI of any of technological transformation. Leading providers will include client services to support their program, as well as recommendations to benchmark success. These scorecards help verify that customers are getting the value that they initially estimated.

Any project with potential ROI should have a mechanism in place to manage and verify that ROI over time. Since business environments vary greatly between sectors, industries, and markets, there isn't necessarily a single method to calculate ROI. However, providers can use fairly standardized metrics within two categories: efficiency and hard cost savings/reduced payback.

Buying organizations should begin with a baseline study of their current state by measuring items like the number of FTEs involved in the supplier management process, how much time is spent on related tasks, and how many paybacks are processed. Next, they should identify goals for leveraging SaaS technology, including financial targets. The gap between a company's current profit and its estimated goal is the project's ROI. Organizations should lay out projected savings over time and prepare forecasts, stacked by savings type (e.g., efficiency, reduced paybacks, risk avoidance). They should leverage this analysis to identify several critical success factors or KPIs which will be used throughout the project's implementation on an ongoing basis to measure success.

Step 2: Identify all key players

While identifying goals and verifying a solution's ROI, buying organizations should identify all key players, including business stakeholders, sponsors, and suppliers, and gain their support. Companies looking to implement a solution must understand all of their stakeholders' individual needs in order to clearly define a solution's impact. For example, an AP department may have needs regarding managing inbound supplier communications, merchandising may have challenges in accessing historical deal and pricing information, accounting needs to accurately manage related accruals, such as anticipated repayments to suppliers and all processed transactions, and a treasury department needs to forecast future cash requirements. A company's ancillary support, such as merchandisers or warehouse inventory personnel, may also have specialized requirements. Suppliers may have specific contract terms, or technological needs that must be compatible with the new platform. Companies also must consider corporate vendor compliance regulations.

After recognizing all key stakeholders and their needs, implementation teams should strategize how to approach and engage with each group. Gaining traction with different departments and vendors usually demands time and transparency.

Step 3: Define implementation and supplier engagement strategies

Once all stakeholders are on board with a supplier management solution, buyers should create their implementation plan, which involves both internal and external steps. Internally, there should be an established transition team overseeing the implementation of the new software and its processes. Important variables to consider may include back-end systems with which to sync data, the guidelines of managing the inquiry and dispute processes, and the key players across all business units throughout the organization and their adapted roles.

Buying organizations should also work to successfully transition external parties involved—namely, their suppliers. Strategy teams should decide how and when to reach out to specific groups of suppliers, choose which features would work best with specific processes, and ensure that all compliance requirements are met. They should provide either instructions about how to integrate existing processes with the new software or guidelines for a new workflow.

Step 4: Align ROI model with the timing of the rollout plan

Global ePayments solutions screen transactions and payees against blacklists (e.g., OFAC, EU, etc.) for anti-money-laundering compliance. They also provide ongoing transaction screening aids to help identify fraudulent suppliers even after initial screening. Some solutions can identify blocked or suspended payees that are trying to create multiple accounts, and give the client the ability to block or suspend such payees from receiving payments.

Step 5: Create communication plans and implement the solution

Once a plan is finalized, an implementation team should create plans to share expectations and a rollout schedule with suppliers and stakeholders. Effective communication should be transparent and clear, with appropriate updates given as necessary.

Conclusion

In today's supplier management landscape, many companies suffer from the inability to communicate and collaborate effectively with their suppliers. Automated technological platforms alleviate many of the pain points reported in today's market while also increasing supply chain efficiency. Automated deduction management solutions allow buyers to efficiently and accurately respond to supplier requests with minimized effort and use intelligent data insights to recover funds. Companies can reap similar benefits when automation is applied to other supplier-oriented and P2P business functions, such as supplier information management (SIM), deal management, and onboarding. Automation enhances many aspects of supplier transactions and encourages supplier collaboration, and automated software tools offer a more holistic and hands-on approach to supplier management.

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