



Determining the ROI of eProcurement Implementation

Maximizing User Adoption with Spend Management Solutions

2019 | Featuring Insights On...

- » Current Market Trends in Procurement Management Among North American Organizations
- » eProcurement Software Features and Functionality
- » Improving User Adoption of eProcurement Software

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Introduction

Although few companies will deny the value of electronic procurement for improving cost control and enabling strategic spend management, research shows that the majority of organizations manage their procurement using manual processes or with inefficient, outdated technology. Without a procurement process that properly controls spend across all departments, purchasers, and budgets, companies experience high costs and high amounts of maverick spend.

One of the greatest barriers to automation technology investment is the fear that ROI will be low. This fear is largely attributed to concerns that a company will not be able to achieve high user adoption. Fortunately, by selecting the solution that is the best fit and using the right implementation and change management strategies, organizations can ensure high user adoption—both internally and externally—and successful technology implementation.

This white paper serves as a guide to improving long-term ROI with technology transformation and implementation, maximized user adoption, and increased visibility into spend. It explores current trends in procurement management and highlights user-friendly eProcurement features and services. It also serves as a guide for measuring procurement ROI around user adoption, and provides strategies for increasing that ROI.



The Current State of Procurement Management

Procurement is a multi-faceted, complicated process that involves budgeting, ordering, and verifying pricing details across multiple complex supplier bases, supply chains, and systems. Procurement teams must manage purchase orders (POs), communicate with selected suppliers, monitor spend activity, maintain proper receipt methods and reconciliation, and send all transactional information to AP. The procurement process involves many parties, including all employees making purchases within an organization, internal AP departments, legal teams, and suppliers.

The following content explores trends revealed by Levvel Research's recent survey conducted across more than 400 organizations.

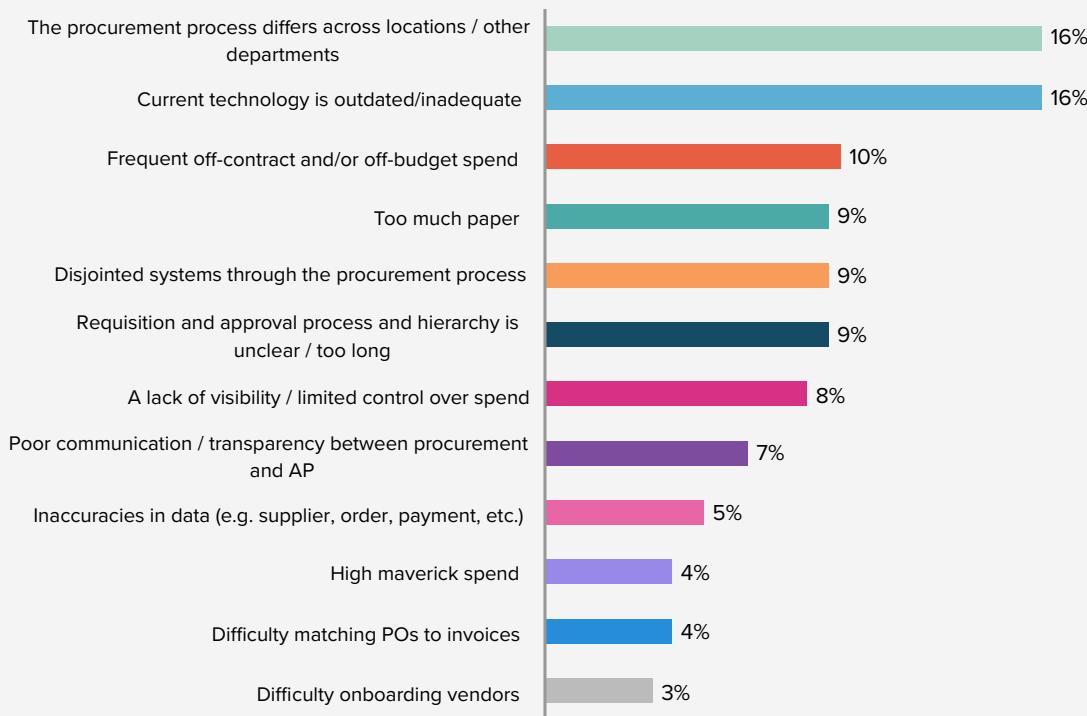


Pain Points of Procurement

The complex responsibilities of Procurement departments increase if the departments rely on manual methods. The greatest pain points reported for departments not using eProcurement software were differing processes among locations or organizational departments, and outdated or inadequate technology systems, see Figure 1.

FIGURE 1

Procurement Process Pain Points (Without eProcurement)



Without eProcurement Software, Disparate Processes and Outdated Technology are Organizations' Top Procurement Process Pain Points

"What are the greatest pain points you experience in your procurement process?"

Other common challenges to manual procurement methods include frequent unplanned spending, a high volume of paper, the use of several disjointed systems, and unclear requisition and approval processes. Manual procurement methods leave room for unwanted spend, such as off-budget or off-contract spend, limited control over spend, and high maverick spend.

Organizations that do not use an eProcurement solution report many process challenges related to low cost control and high inefficiency. When opting to use manual procurement methods instead of automation, organizations do not have

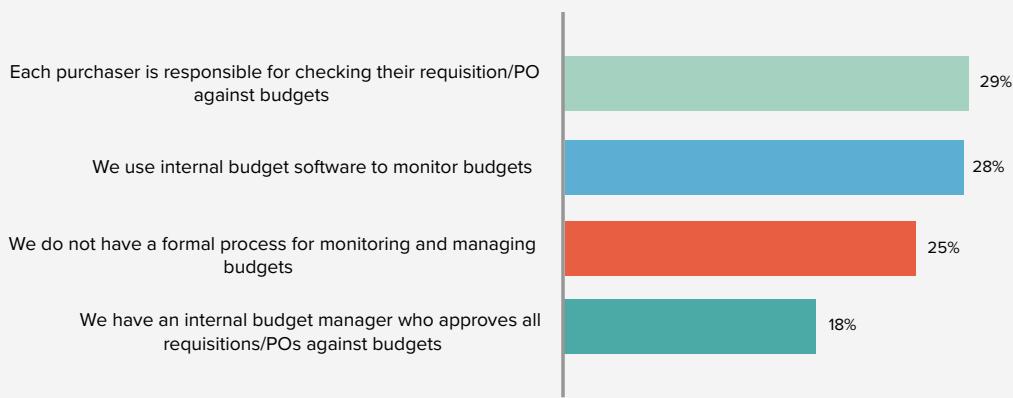


full visibility into employee purchasing activity and spend, as there is often a lack of synchronization across processes.

Organizations report varied methods for monitoring and complying with indirect spend in procurement and nonprocurement budgets. Manual methods range from individual purchasers verifying their own requisitions against budgets to using a budget manager who approves POs, see Figure 2 and Figure 3.

FIGURE 2

Organizations' Methods for Managing Procurement Budgets

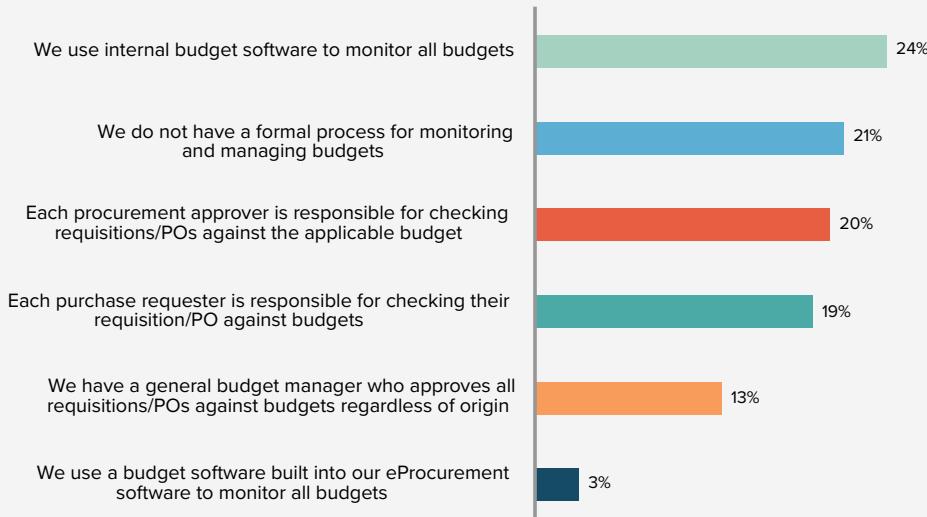


Organizations Report Varied Methods for Managing Spend Against Procurement Budgets

"How does your Procurement department monitor and comply with indirect spend budgets?"

FIGURE 3

Organizations' Methods For Managing Nonprocurement Budgets



Organizations Report Varied Methods for Managing Spend Against NonProcurement Budgets

"How does your company monitor purchases against nonprocurement budgets (i.e., other departments)?"



About one in four organizations surveyed do not have a formal process in place for managing these budgets, allowing for high indirect spend. While having a procurement budgeting procedure in place is more effective than having none at all, it can still be difficult to maintain visibility into and control over departmental spend without an automated monitoring tool.

Many Procurement departments use email to transfer POs to and from suppliers. While email is preferable to other methods of communication, such as telephone calls or paper mail, it is not ideal for managing POs with suppliers. Email still demands manual data entry and monitoring against budgets by either individual purchasers or approvers. An automated eProcurement tool would give procurement professionals more intelligent, efficient oversight over these transactions and approvals.

Manual procurement methods also include checking purchases against supplier contracts. Without an eProcurement solution, organizations often lack the capacity to check requisitions and POs against supplier contracts or agreements. Individual purchasers may not consider checking requisitions or purchasing against supplier contracts at all.

When organizations fail to check purchasing against contracts, they greatly increase their chances of off-contract and off-budget spend. The result of this mismanagement means companies may be paying much more for a good or service than the rate specified in a contract—a rate that their Sourcing or Procurement department may have spent a great deal of effort negotiating. Ultimately, failing to implement a robust system for managing spend against budgets can lead to high maverick spend.

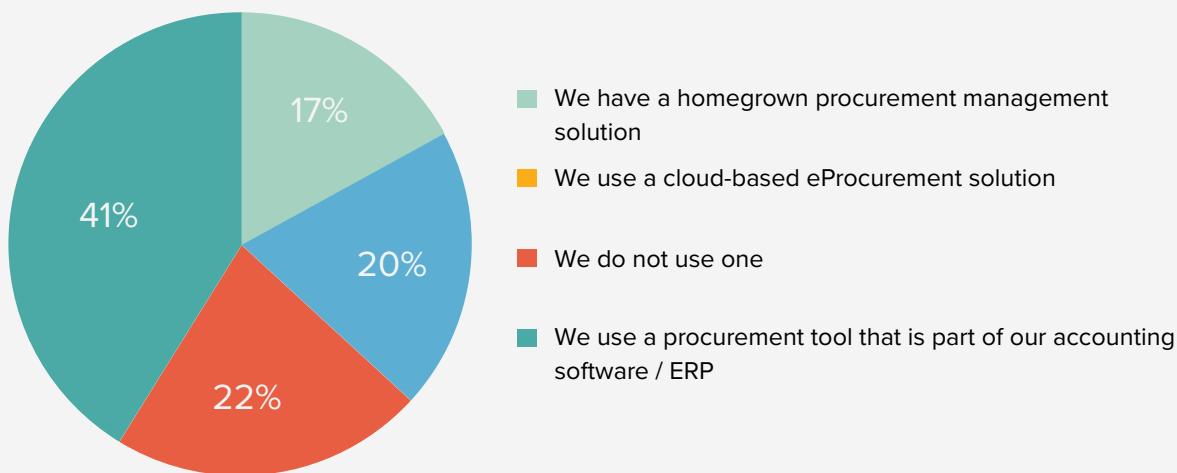


The State of eProcurement Adoption

Automation technology adoption varies greatly across surveyed organizations. Only 20 percent use a cloud-based eProcurement solution. Almost a quarter of respondents do not use any procurement software, instead using manual procurement methods. The highest number of respondents—41 percent—report using a procurement tool that is integrated with existing accounting software or an ERP system, see Figure 4.

FIGURE 4

Procurement Software Adoption By Tool



Many Organizations Use Procurement Software Built into Their ERP Systems

“What type of procurement automation tool do you use?”

ERP-based procurement software is often outdated, short on management capabilities, expensive to maintain, and difficult to customize. For smaller, scaling companies with growing infrastructure needs and limited capital, or enterprise organizations with complex back-office systems and widespread purchasing processes, ERP-based solutions are not efficient enough.

Homegrown management solutions are also often difficult to maintain, and both small- and large-scale customization projects are costly, as changes are usually made piecemeal. Furthermore, homegrown tools lead companies to grapple with broken systems for years rather than pay for a process overhaul.



The Benefits of eProcurement Software

The most effective tool to meet the procurement management needs of organizations of all sizes is cloud-based eProcurement software. Levvel Research has found that organizations using manual procurement methods are deprived of the savings opportunities and efficiency improvements offered by automation. Organizations with a cloud-based eProcurement tool are able to process more than twice as many POs per month across a higher number of suppliers than companies with manual procurement processes and fewer suppliers. In addition, eProcurement solutions significantly decrease the average cost of processing a PO.

In order to evaluate average processing costs among procurement teams across the North American market, Levvel Research applied its proprietary Cost Per PO Calculator. This calculator takes into account the centralization of the procurement process, the number of manual tasks involved, and the timeliness with which the team is able to process POs. Examples of procurement tasks that are assessed include processing mail, entering data, managing vendors and their master data, and providing internal procurement system support.

Levvel Research organized companies into three main categories based on their procurement automation maturity: novice, mainstream, and innovator, see Table 1. Levvel Research found that 30 to 40 percent of North American companies with more than \$100 million in revenue are considered either novice or mainstream in their procurement automation maturity.

TABLE 1
Procurement Automation Maturity and Cost Per PO

Metrics	Procurement Automation Tool	Cost Per PO
Novice	No tool	\$89.73
Mainstream	ERP / homegrown solution	\$65.05
Innovator	Cloud-based eProcurement software	\$30.72

Novice organizations do not have an eProcurement tool in place, instead operating on completely manual processes. They take the longest amount of time to process POs, and report the highest cost per PO.

Mainstream organizations incorporate some automation into their procurement practices, but they use either a homegrown procurement tool or one that is



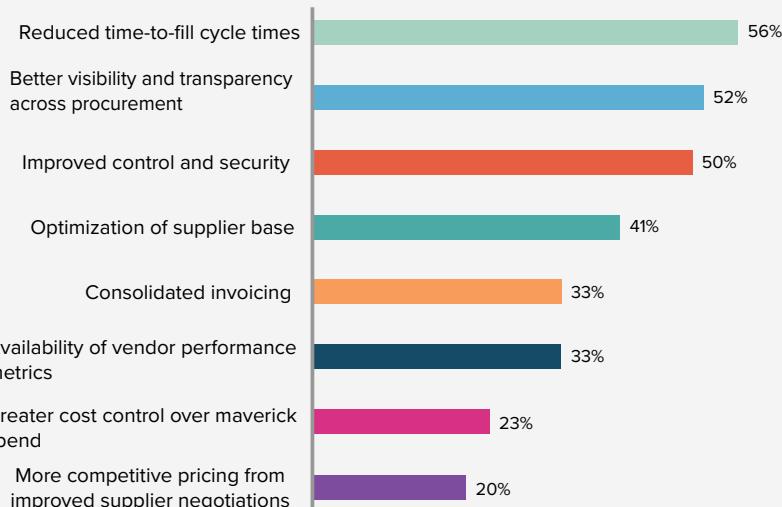
integrated into their existing ERP system. Even though these companies process their POs more efficiently and quickly than their novice counterparts, they still have a high cost per PO.

Innovators, however, use a cloud-based eProcurement tool, decreasing the need for manual involvement in the procurement process. Those in this category have cost-per-PO savings of more than 50 percent and are able to process more purchase orders per procurement employee than organizations in the novice or mainstream categories. (Note: Implementing a cloud-based eProcurement solution alone does not qualify an organization as an innovator; successful user adoption across an organization and through its supplier network is essential to achieving innovator maturity, as well as the innovator's average cost per PO.)

In addition to savings from lower processing costs, eProcurement solutions offer a host of other improvements, including reduced cycle times, increased transparency, and improved security, see Figure 5.

FIGURE 5

Improvements Seen From eProcurement Adoption



Reduced Cycle Time Is the Most-Observed Benefit from eProcurement Adoption

"Which of the following improvements have you seen in your procurement process since implementing a solution?"

Reduced time-to-fill cycle times not only reduces the risk of late payments and fees, but also improves relationships with suppliers and can facilitate future cost-saving negotiations. Increased visibility into spend gives companies oversight over aspects of budgeting, supplier contracts, and vendor management, leading



to long-term spend control. All of these benefits increase an eProcurement solution's ROI, as well as enhance organizations' long-term financial stability.

Barriers to Adoption

Despite the benefits of adopting an eProcurement solution, many organizations choose to continue with the status quo: manual procurement. A significant barrier to adoption is that companies do not anticipate ROI from implementing a cloud-based automation solution. Several other factors impact organizations' internal disposition towards eProcurement tool implementation.

Companies may not have executive sponsorship to move forward with a solution implementation. Procurement teams and the C-suite may believe that current processes are sufficient and therefore do not warrant any change, or that business process re-engineering would be too difficult.

Cultural attitudes towards adopting new technology within the procurement process differ. Decision makers are often afraid of resistance or backlash, even after a technology solution is implemented. They may fear that if an eProcurement implementation does not go smoothly, making purchasing processes more complex or burdensome instead of improving the current state, employee morale will decrease. Those completely immersed in the procurement process (i.e., the department members), however, are usually enthusiastic about updating the processes and software that they use daily.

Some organizations may believe that they are already doing what they can in terms of automating their procurement processes. However, they may not be reaching their maximum ROI because they are not investing enough in their procurement resources. One way to maximize ROI for procurement is to choose the best technological solution for the company. Levvel Research believes that comprehensive cloud-based eProcurement is the solution that can best manage spend. Companies using an ERP-based or homegrown solution, or only part of a cloud-based solution, are likely under-investing in technology.

Finally, organizations may be unaware of or not fully comprehend current eProcurement solutions. As a result, they may believe that they do not have the budget to support a cloud-based eProcurement solution implementation, or they may discount any possible ROI. Resources such as this white paper and other research-based reports that explore current market offerings should provide a better understanding of the potential gains and the certain ROI of an eProcurement solution.



Maximizing ROI through User Adoption

Once a company decides to implement an eProcurement solution, it should take several steps to ensure all of the tool's benefits are achieved. Ensuring user adoption is essential for gaining the visibility and budget compliance that comes with automated procurement solutions, as well as for creating the highest long-term ROI.

When a company chooses to begin its eProcurement solution implementation, it should first gain the support of internal stakeholders in order to optimize user adoption. All stakeholders must understand the value, need, and primary use of the software.

When presenting their case for automation, practitioners should leverage all current-state and ROI metrics in a detailed plan for eProcurement implementation, highlighting the long-term benefits of the solution in both direct and indirect costs. Key benefits that can be used to build a business case for a cloud-based automation solution include saved time and money, reduced risk within purchasing activity, and improved productivity among procurement staff and throughout the entire organization.

Practitioners should take the time to gain buy-in from all levels of the organization, from the C-suite to individual requisitioners or purchasers. Support from all staff will increase user adoption and motivate users to quickly learn the new system. C-suite members will be most concerned with a new system's potential for cost and risk reduction. IT staff will care most about ease of implementation, reduced maintenance requirements, and a more streamlined technical environment. Procurement professionals will prioritize ease of use and the automation of low-value, labor-intensive tasks.



Maximizing the potential ROI of an eProcurement solution will help to secure support from users. For an illustration of methods for quantifying procurement ROI around user adoption, see Table 2. The table also includes two ROI metrics for potential savings further down the Procure-to-Pay life cycle.

TABLE 2
Measuring Numeric Returns

ROI Category	Method
General ROI	(Gain from investment - Cost of investment) / Cost of investment
Procurement ROI	Annual cost savings / Annual cost of procurement
Total Cost Per Invoice	(Number of procurement professionals * Average annual salary) / Number of annual invoices (does not account for overhead or other indirect costs)
Perfect Payment Index Calculation	% electronic * % paid on time * discount achieved

Beyond the direct cost savings, it is important to measure a few other important areas when presenting the potential benefits of an eProcurement solution. One way to do this is to create an implementation plan with future benchmarks that will be used to evaluate the success of the selected solution.

For three additional evaluations that show the qualitative savings from automating procurement processes, and which can be used to develop key performance indicators (KPIs) and implementation plans, see Table 3.

TABLE 3
Quantifiable Procurement Factors to Account for in ROI

Factor	How to Measure
Volume of POs and invoices	Determine the quantity of POs and invoices. PO issuance costs will directly correlate to this number.
Time spent on procurement functions	Evaluate time efficiency gained by ascertaining current and projected cycle times between buyers and suppliers, as well as internal processing time.
Indirect costs	Compare costs of vendor onboarding, initial or continuing communication with vendors, management oversight of the PO process, errors, and compliance checks or noncompliant spend.



Practitioners should also assess more in-depth returns. Buying organizations should assess their supplier base and how an eProcurement solution would benefit those users. They should also measure broader improvements in their supply chain, which may reach other back-office processes such as payables or sourcing.

Optimizing ROI also means increasing user adoption with external users (e.g., suppliers). It is important to have suppliers using the same network and platform as procurement teams.

User adoption is also important when it comes to nonprocurement budget compliance, as any employee who makes purchases and/or is connected to a company's budget must be trained in and adopt the new eProcurement tool. Without full internal user adoption, companies do not achieve the maximum ROI for their implementation.

Common hindrances to user adoption include:

- » *Company culture.* A company's culture may have a propensity towards resistance to new technology. This problem can be managed with proper messaging that emphasizes the benefits of the solution.
- » *Poor or arduous training.* Buying organizations should seek solution providers that have accommodating training and help desk support, and/or an intuitive solution that does not demand difficult training.
- » *A large number of nonprocurement users.* A selected eProcurement solution should have a flexible system with intuitive and user-friendly features, simple controls, role-based access, and configurable workflows that can accommodate different divisions of a company.

Education is key for ensuring user adoption—particularly education around what automation can do for all members of the organization. The following section provides a brief overview of the features and functionality of leading eProcurement software solutions.



eProcurement Software Features and Functionality

Electronic procurement software automates the procurement process by consolidating requisitions, POs, receipts, and invoices into one system. eProcurement tools enable procurement departments to view all activity in a single interface, increasing visibility into transactional data and providing executives with insights to enhance operations. Leading eProcurement software includes functionality to directly accommodate the procurement professional and increase productivity across all purchasing members and teams. It also has advanced reporting and analytics tools that enable strategic spend management. The following section provides a brief overview of leading eProcurement software features.

Requisition and Approval

eProcurement software's purchase requisition creation and workflow tools enable organizations to control employee spend. Users can search an online catalog for items, add them to a configurable requisition template, and send the completed requisition through a rule-based approval workflow. The template can incorporate controls linked to company policies, budgeting, and inventory data. Built-in controls prevent rogue spending by flagging noncompliant purchases based on predetermined rules (such as price or vendor) before requisitions are routed to the appropriate approver. Requisition tools also enable users to access frequently purchased items, compare multiple products, and save favorite searches.

The software provides advanced approval workflow tools which can be configured according to spending category, dollar threshold, business need, geographic location, supplier category, and other parameters. The workflow functionality can include escalation procedures to ensure timely approval, out-of-office forwarding, and workload balancing for approvers.

eCatalogs

Electronic catalogs function as online marketplaces that give users extensive details and competitive pricing on a variety of goods. Most eProcurement solutions include support for the following catalog types: static, or hosted; external, or punch-out; hybrid, or advanced; and specialized.



- » Hosted catalogs usually operate directly within eProcurement software. They categorize items by supplier or item type. They require supplier registration and maintenance to ensure that product information, pricing, and shipping details are correct.
- » Punch-out catalogs are hosted and maintained by suppliers, are integrated with the user's ERP software, and quickly transfer purchasing information to the supplier's system.
- » Advanced catalogs are hybrids that combine the features of hosted and punch-out catalogs.
- » Specialized catalogs are tailored to specific industries' needs, such as catalogs of laboratory products.

Many eProcurement systems provide interactive, user-friendly catalog shopping to compete with Amazon. They allow the creation of requisitions and POs from catalog selections, but offer more accuracy and compliance than manual requisitions because they are integrated with supplier contracts and/or maintained by suppliers.

PO Management

Many eProcurement software suites automatically create a PO from an approved requisition and transmit the order to the supplier. This gives an organization visibility into the status of the order throughout its fulfillment, and facilitates communication with the supplier.

Solutions may also allow users to batch multiple orders from a single supplier, or send orders to several different suppliers with a single requisition. Solutions can also support blanket orders and partial shipment orders, update contract terms or POs as shipments arrive, and allow suppliers to send advanced shipping notices (ASNs) when an order is ready for delivery.

Receiving and Reconciliation

Once a shipment is received, eProcurement software allows users to confirm the delivery and create a goods receipt. The receipt is checked against the PO to ensure that the right items and quantities have been received. Some software suites support returns or enable users to hold part of a payment.



After goods are received, many solutions automatically convert the PO into an invoice for the supplier. The system can then match the PO, goods receipt, and invoice for reconciliation, and may also match against contracts. Some systems include a summary report on the order, with all related documents to ease reconciliation.

During reconciliation, procurement software can integrate with a client's AP processing system or forward the invoice through its own AP module. eProcurement software facilitates collaboration with other departments, including budgeting, compliance, treasury, and inventory. An eProcurement solution's AP module will likely include invoice approval, exception management, and electronic payment connectivity.

Supplier Portal

Most eProcurement software includes advanced self-service supplier portals that enable suppliers to communicate with buyers. The portals allow suppliers to accept POs, send ASNs, check on the status of invoices and payments, and update their profile and payment information. Some portals also allow suppliers to manage catalogs, choose how they want to receive their POs, and submit legal, tax, and validation documents. Many portals include dispute management features to send queries about current transactions, and provide an online dispute management help desk. Supplier portals strengthen relationships with buyers and provide insight into the value of each relationship.

Reporting and Analytics

As an organization works to improve purchasing decisions, it must consider costs, benefits, and vendor performance trends. eProcurement reporting and analytics allow managers to view procurement-related activity in all levels of their organization. Reporting and analytics tools display expenses by spend type, department, region, vendor, and other categories. This functionality allows companies to track spend—occurring within and without budget or contract—and prevent future maverick spend. Advanced analytics identify areas of improvement, such as strategic sourcing, fulfillment times, or supplier performance, and offer predictive insights for managers and executives to make smarter decisions.



eProcurement reporting software often includes both out-of-the-box report templates and the ability to generate custom queries and reports. Some solutions offer benchmarking to industry standards. Advanced eProcurement solutions include configurable dashboards that allow users to see information regarding process times, budgets, and suppliers, including spending reports, POs, and active invoices for approval. Reporting and analytics tools are crucial for managers and executives to gain important insights into company spend and optimize their strategic approach to procurement.



Conclusion

Even with the current back-office tools available, the best procurement teams will find it difficult to manage their process efficiently using manual methods. Cloud-based eProcurement software solutions bring control and visibility into spend in a single controlled environment, allowing procurement teams to become more strategic in their purchasing, streamlining their PO processing, and eliminating manual labor.

However, the utility and benefits of eProcurement solutions are limited if user adoption remains low. User adoption must be maximized in order to achieve the highest possible ROI on an eProcurement solution. Decision makers looking to implement a technology solution should gain buy-in from all stakeholders in their procurement processes, including the procurement department itself, any other employee involved with company purchasing, C-suite executives, and suppliers, and ensure that all members adopt the solution. This maximizes an eProcurement solution's long-term ROI, as well as its benefits for an organization.



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