

Gaining Buy-In for Procurement Automation

How to Evaluate and Address the Need for Electronic Procurement (eProcurement) in an Organization

Q4 2017 | Featuring Insights On...

- » Procurement Automation Adoption Trends
- » The Cost of Manual Procurement Processes
- » How to Leverage Procurement Automation According to Current State Conditions
- » Strategies for Gaining Internal Buy-In for eProcurement Adoption

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Executive Summary

Automating back-office processes is one of the most beneficial things a company can do to lower costs and improve their bottom line. For example, within the Procure-to-Pay process, automating Accounts Payable departments can lower the average total processing cost per invoice from \$15 to \$2.36—which can lead to millions of dollars in annual savings for some companies. However, when it comes to procurement processes, the savings possible with automation are a mixture of soft and hard savings, and achieving these savings requires more than simply adding in an electronic procurement (eProcurement) solution.

Unlike many AP automation projects, automating procurement cannot be accomplished with a “quick fix” approach. A company must also strategically align current procurement processes with automation technology in order to achieve the greatest success. This requires careful planning and preparation, as well as enthusiastic buy-in from all internal stakeholders. Unfortunately, compared to some other technology initiatives like with AP software, possible savings and improvements are harder to estimate before eProcurement adoption. This difficulty creates more resistance from internal stakeholders, as it can cause them to believe that there will be no ROI. Gaining buy-in is also complicated by the siloed and independent nature of many procurement departments. Not only do these teams value their autonomy from other back-office processes like AP, they also believe that a disruption to their current state would harm their ability to manage suppliers, orders, and the supply chain.

In order to properly implement a solution that brings full transparency and control over indirect spend, the solution must be embraced by all stakeholders. If employees are resistant to using an eProcurement tool for purchasing, it can limit the success of an automation initiative, as the employees may bypass the system for some or all of their purchasing. This means that eProcurement software cannot help a company accomplish some of its main goals, such as reducing maverick spend and controlling purchasing activity.

One way to approach internal resistance is to properly illustrate the risk and cost of not automating procurement by showing the current costs of a manual procurement process. Another way is to educate all stakeholders on how eProcurement improves rather than hinders the current state, and demonstrate how it can aid the entire procurement team in their short-term and long-term goals.



The following report offers a guide to gaining internal buy-in and enthusiasm for software adoption initiatives. It highlights the cost savings possible with eProcurement software and illustrates some strategies organizations can use to prepare internal teams for automation.



The Cost of Manual Procurement

When measuring the costs of spend management processes, the metrics grow more complicated based on the department. Measuring AP efficiency and costs is fairly straightforward—organizations can look at time (approval times, dispute resolution, etc.), costs (fully loaded cost per invoice, etc.), and the ability to save with things like discount capture or payment rebates. Often, companies consider reducing the amount of people involved in invoice processing and reallocating those talents in order to add more value to other parts of the business.

In procurement, a company can also focus on time and costs, including order-to-fulfillment lifecycle times and costs to process purchase orders. However, money tied up in procurement is less about excess operational costs than about how goods and services are purchased. Saving money in procurement requires some action before the purchase itself, such as:

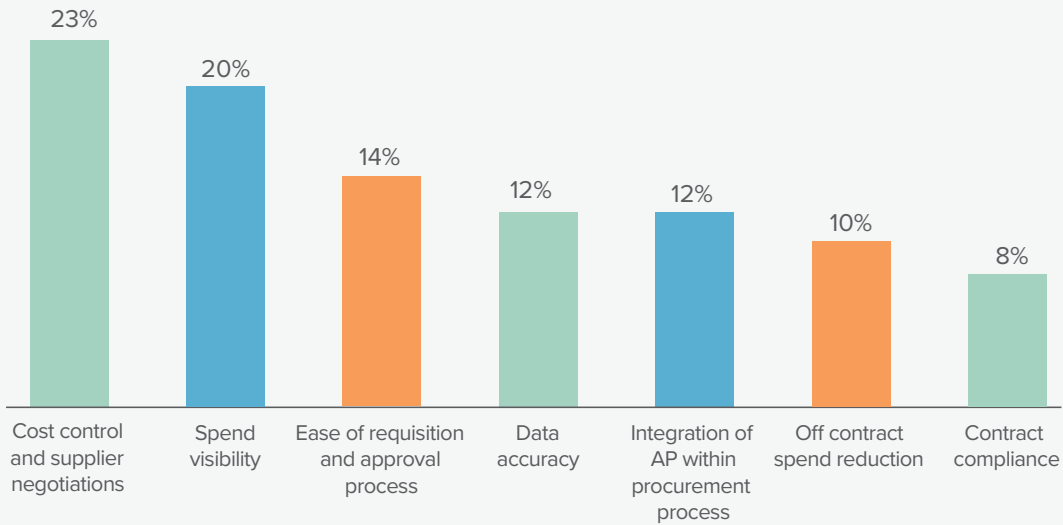
- » Gaining visibility into all spending activities
- » Finding and negotiating the best prices
- » Consolidating the supplier base
- » Leveraging volume buying power
- » Ensuring compliance and on-contract buying, especially in a decentralized procurement environment

Research shows that companies' top procurement problems revolve around the inability to control costs and see into spend, see Figure 1.



FIGURE 1

Top Opportunities for Improvement in Procurement Process



Most Organizations Want to Improve Cost Control and Spend Visibility

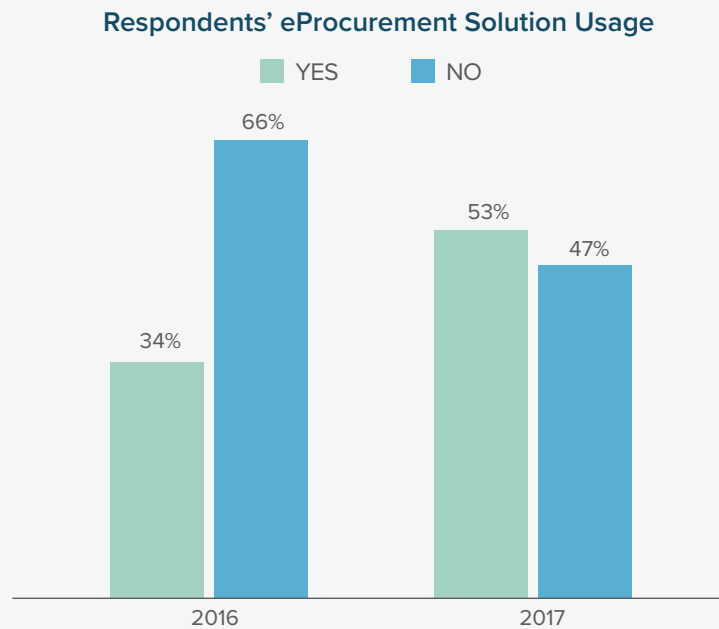
“In what area would you like to see the greatest improvement to your procurement process?”

Without a proper system in place to monitor employee purchasing activity, a company may have very little idea how much money they are losing from duplicate orders, non-contract purchases, rogue spending, not using preferred suppliers, missed savings opportunities from bulk discounts, and fraudulent activity.

Typically, the more automation a company uses, the more efficiency and control it has in the procurement process. According to Level’s research, procurement automation is increasing, with a 19 percent increase in eProcurement adoption since last year, see Figure 2.



FIGURE 2



eProcurement Adoption Has Increased in the Last Year Among Organizations

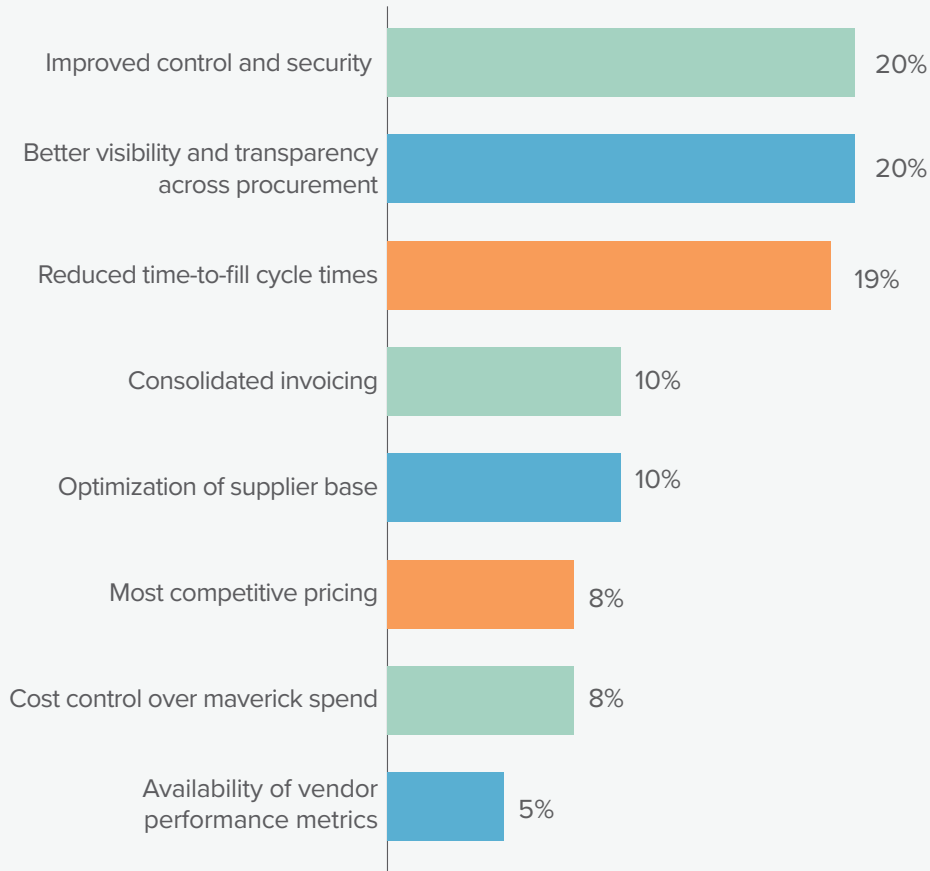
“Does your organization utilize an eProcurement solution?”

eProcurement solutions bring many benefits to procurement teams, the greatest of those addressing their two most important goals—control and visibility. Figure 3 shows the benefits that organizations achieved after they implemented an eProcurement tool.



FIGURE 3

Improvements Gained Through Procurement Automation



Organizations Gain Improvements in Control, Security, Visibility, and Cycle Times

“Which of the following improvements have you seen in your procurement process since implementing a solution? (Select up to three)”

The benefits possible with procurement automation help companies save tremendously in their procurement process. However, it can be hard to predict the potential improvements for a process into which the company currently has no visibility. How can a company measure how much money they will save if they do not know how much they are losing? How much of the process can be fixed if it is unclear where it is broken? Difficult questions like these make it harder for companies to gain buy-in from key stakeholders for adopting a procurement solution. These stakeholders include both executives concerned with gaining ROI from a technology investment and procurement professionals reluctant to change the current state for fear it could negatively disrupt processes.



The best way to respond to this resistance is to showcase how eProcurement adoption can improve the current state and help teams achieve both short-term goals (e.g., daily activities, manual process-related pain points) and long-term goals (e.g., improving strategic cash flow, negotiating more competitive purchasing agreements). eProcurement software can ultimately manage all spend and procurement activity, but in a way that suits the specific characteristics of the organization's procurement department. This can be done by outlining the current state and illustrating how an eProcurement tool can improve each aspect of that state. This educational, personal approach to adoption is much more likely to help gain internal enthusiasm for automation and to ensure the software's long-term success and ROI. The following section offers some guidelines that companies can follow to identify their current state and adopt an eProcurement solution according to their needs and preference.



eProcurement Environment Evaluation

In order to illustrate the value of eProcurement software, a company should understand the main components of an eProcurement platform, and how it fits their own needs and environment. The main tools of these solutions include requisition and approval, catalog management, order lifecycle management, receiving and reconciliation, supplier networks, and spend analytics. Together, these features create a holistic, controlled, and highly transparent procurement environment. However, some tools are specifically designed for procurement challenges or environments. The following items will help companies compare eProcurement capabilities with their own current state and use this information to build a customized business case.

Procurement Process Challenges

As shown in Figure 1, most companies hope to improve control over spend and visibility into spend more than any other pain point. eProcurement tools help control purchasing by bringing all spend onto one platform, and the centralized purchasing platform includes catalogs with built-in purchasing controls. Table 1 showcases how some of the additional procurement challenges from Figure 1 can be solved by eProcurement software. These examples are useful when making a business case for automation, particularly if an organization is experiencing many of these issues.



TABLE 1
Procurement Challenges and Applicable eProcurement Tools

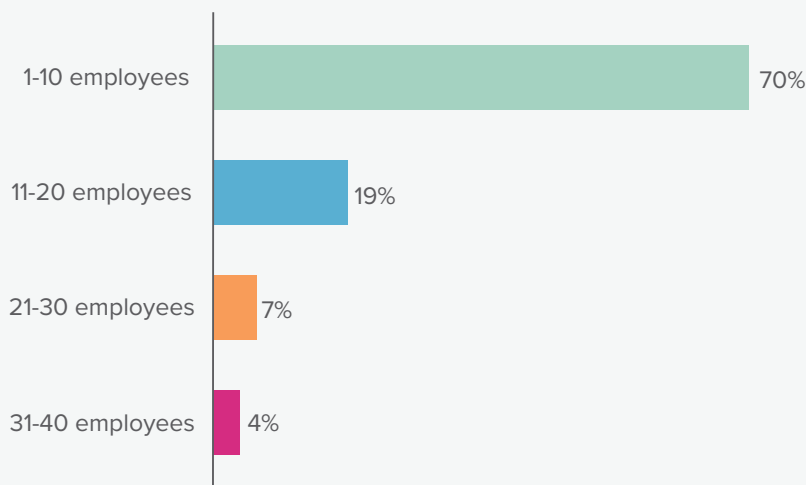
| Challenge | Applicable Tool |
|--|--|
| Ease of requisition and approval process | Requisition and approval tools offer customizable requisition templates, built-in controls, links to catalogs, and approval workflows. |
| Data accuracy | A company’s procurement data is centralized across all locations, teams, and users when an eProcurement tool is installed. |
| Integration with AP | Receiving and reconciliation tools streamline workflows between procurement and AP by automatically generating invoices from fulfilled POs, and by enabling 2-, 3-, and 4-way matching of all related business documents. |
| Off-contract spend reduction | eProcurement budgeting and project management components offer controls that are linked to requisitioning tools and catalogs, enabling a company to keep a tighter reign over spend and stay in compliance with contracts. |
| Contract compliance | Procurement tools offer configurable purchasing controls and/or contract integration capabilities. |

Procurement Department Environment

The majority of companies surveyed report between 1 and 10 full time employees (FTEs) in their procurement departments, see Figure 4.

FIGURE 4

Organizations’ Procurement Department Size



Most Organizations Report 1-10 FTE in Their Procurement Departments

“How many full-time employees work in your procurement department?”



These numbers vary by the size of the company and by the degree of centralization—more centralization tends to lead to fewer FTEs even if the company deals with more suppliers—but for the most part, many companies tend to maintain a relatively small and concentrated team to manage procurement operations. Regardless, the number and types of FTE employees should be evaluated when considering where to start with automation. The following questions can be used to measure the current employee structure and environment:

- » How many of each type of procurement professional does a department have?
 - » Requesters (facilities, operations, administrator)
 - » Department approver (managers, directors, department leaders)
 - » Purchasing agent
 - » Purchasing managers
- » What are the daily needs of each procurement professional?
- » What are their greatest pain points on a daily basis?
- » How many hours are these professionals spending on their actual job assignment compared to the hours they are spending on fixing problems related to manual procurement process pains?
- » What elements of an eProcurement solution would be most valuable for all users?

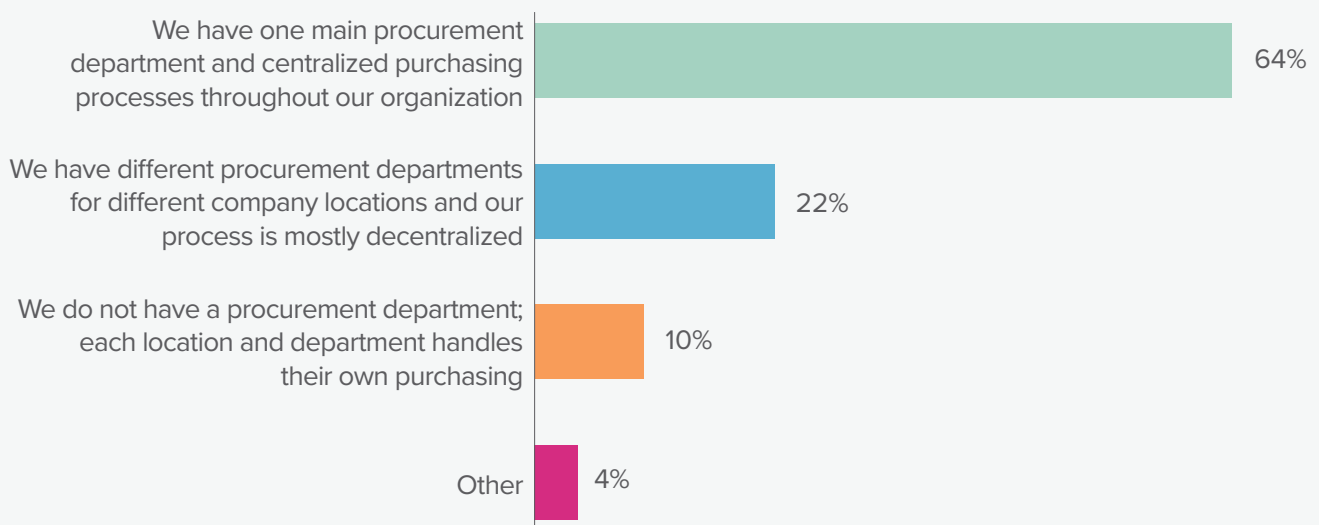
These questions will help a company identify how procurement automation would most benefit a department in both the short term and the long term. It will also help make the case for improving a procurement department's value by allowing the organization to reallocate those employees who are spending too much time fixing manual-process related issues.



According to Level’s research, most companies have centralized procurement processes, see Figure 5. Centralized procurement typically enables a company to manage spend more efficiently. In fact, companies with centralized procurement departments are more likely to deal with a higher number of suppliers with fewer full-time employees. However, this does not always mean that a company cannot succeed without a centralized department. In some cases, centralized procurement is not necessary—companies that did not have centralized procurement departments typically had fewer than 150 suppliers under management.

FIGURE 5

Respondents’ Current Procurement Process Structure



The Majority of Organizations Have Centralized Procurement Processes
“How would you best describe your current procurement process structure?”

Even though the most efficient procurement departments are those that are centralized and have eProcurement solutions in place, a decentralized process can be just as efficient with the right software tool. eProcurement can help fill in the gaps that a decentralized process leaves, and for those smaller companies that have business structures not suited to a centralized process, eProcurement can create digital centralization. Companies should identify their own structure and try to determine if they can either centralize processes with an eProcurement tool, or use an eProcurement tool to gain better control over decentralized processes.

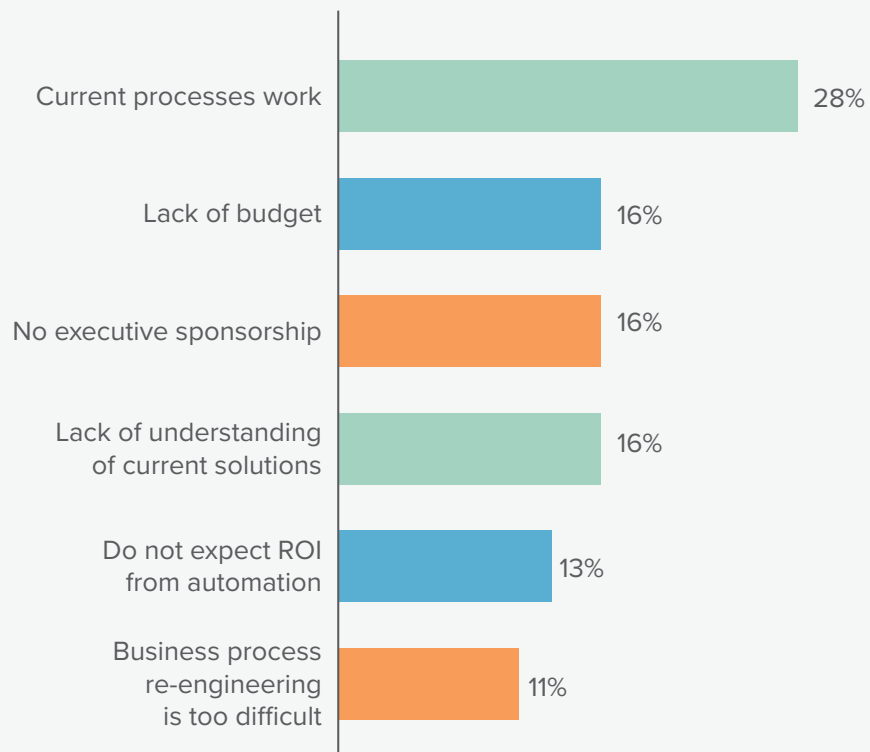


Automation Adoption Barriers

One of the best ways to gain enthusiasm for eProcurement is to target adoption barriers, and to highlight the ways to overcome these barriers. Level’s research shows that the main reason companies hesitate to adopt eProcurement technology is because they believe current processes work, see Figure 6.

FIGURE 6

Top Electronic Procurement Adoption Barriers



Most Organizations Do Not Adopt eProcurement Based on a Belief that Current Processes Work

“What is the greatest barrier to procurement automation implementation in your organization?”

Table 2 offers some ways that internal change-makers can present eProcurement to show that current processes do not work in the company’s favor. These arguments can go a long way in gaining buy-in from internal parties and ensuring that automation implementations are more successful.



TABLE 2
eProcurement Value Propositions for Different Parties

| How to Present to C-Suite | How to Present to Procurement Teams |
|--|--|
| <p><i>eProcurement automation brings...</i></p> <ul style="list-style-type: none"> » A great amount of spend under management » Consolidated purchasing and more control over procurement » The ability to identify savings opportunities with advanced spend analytics tools » Contract compliance and stronger supplier relationships » Synchronization with other back-office departments » More strategic supplier relationships | <p><i>eProcurement automation brings...</i></p> <ul style="list-style-type: none"> » A centralized digital platform that gives procurement more control over purchasing from other locations and by those outside of the department » A better ability to manage suppliers and supplier relationships with a centralized supplier network » Roles-based access to procurement features » The ability to maintain supplier contracts and renegotiate for more competitive pricing » Better control over budgets and project management compliance » Reduced technical difficulties associated with older legacy systems, as the technical architecture of the eProcurement solution is managed by the provider in the cloud |

Procurement Compliance

Many companies struggle to gain complete control over spend throughout the organization, and worsens when procurement processes are more widespread and decentralized. Below are some questions an organization should ask to help determine if compliance is a minor, moderate, or critical issue in spend activity.

- » What is the organization’s annual indirect spend?
- » Is all indirect purchasing conducted by the procurement team?
- » What is the current state of procurement in terms of centralization?
- » Does the procurement department use any sort of digital platform to centralize and/or monitor indirect spend?
- » How many non-procurement individuals have the power to make purchases with the proper approval?



- » How many levels of approval are in place for non-procurement purchasing?
 - » How is non-procurement purchasing conducted? (e.g., via the phone, from online sources, through an eProcurement platform)
- » How many non-procurement individuals have the power to make purchases regardless of approval?
 - » Are parameters in place that dictate which purchases may bypass approval? (e.g., spend thresholds, category, purchaser role)
 - » How are these parameters controlled/monitored?
- » How many procurement staff members are responsible for monitoring spend and tracking down non-compliant purchasing/purchasers?
- » Does the organization have any system in place for measuring the amount of annual maverick indirect spend?

As previously stated, measuring rogue spend can be very difficult because it falls outside of a procurement team's visibility. The questions above are a good place to start when trying to understand just how much spend occurs out of compliance. If the majority of the answers to the questions are "No", "N/A", or "I do not know", the organization likely has little control over spend and a major problem with purchasing compliance.



Next Steps

The current-state evaluation criteria are designed not only to help companies understand the power of eProcurement for their own processes, but also to help them build an actual business case. This case can be tailored for two or more audiences (e.g., one for the C-Suite and one for the procurement department) and it can be focused on whichever elements are most important to the organization (e.g., central case is “bringing spend under management”). It should involve as much relevant detail as possible and as many metrics as can be determined. Finally, those presenting the business case should be sure to highlight that ultimately, eProcurement solutions will conform to the needs and goals of the Procurement department, rather than forcing the department to change for the software.



About the Sponsor

Basware is a global leader in cloud-based, Source-to-Settle solutions. The company works to help each customer achieve 100 percent supplier onboarding, user adoption, and invoice automation. Basware also grants customers full visibility into spend and the ability to capture all of their financial data in one solution. Basware provides scale and reach for organizations of all sizes, enabling them to grow their business and unlock value across their operations by simplifying and streamlining financial processes. Organizations around the world achieve significant cost savings, more flexible payment terms, greater efficiencies, and closer relationships with suppliers.



About Level Research

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