



Sourcing and Procurement Data Management Best Practices

Creating the Foundation for Sourcing and Procurement Success

Q2 2018 | Featuring Insights On...

- » Supplier Management Trends Among North American Organizations
- » The Value of Supplier Data Management Software for Procure-to-Pay and Source-to-Settle Success
- » A Real-World Example of a Supplier Data Management Transformation

Underwritten in Part By



Contents

Introduction	3
The Challenges of Manual PO Management	4
Foundational Supplier Data Management Best Practices	9
Conclusion	12
Case Study: BAE Systems	13
About the Sponsor	15
About Level Research	16



Introduction

For multinational, upper middle market (UMM) and enterprise companies, maintaining efficient Procure-to-Pay (P2P), Source-to-Settle (S2S), and supply chain processes is critical to sustaining business success and competitive advantage. Many companies try to accomplish this by replacing manual processes and increasing control over spend with P2P and S2S automation software. While this is the correct approach in general, when software is adopted without the right strategies and considerations, technology implementations can fail to achieve their full potential in terms of return on investment (ROI) and process improvements.

One of the main factors that determines the success of a P2P or S2S software implementation is how supplier master data is migrated and managed. Some organizations try to automate P2P and S2S processes without taking into account the complexity and difficulty of aggregating and optimizing their master data, which can hurt the success of automation initiatives in the long run. Instead, it is essential that organizations control supplier data intake at a single location in order to build a strong foundation for S2S and P2P processes—and future automation. This entails leveraging an advanced supplier and master data management software to cleanse and consolidate supplier data from the beginning of the supplier relationship.

This whitepaper explores modern supplier data management trends among organizations, and highlights the use case and value of supplier master data management software. The whitepaper also includes examples of how companies have leveraged technology to correct and improve their supplier data management strategies.



The Challenges of Manual PO Management

Organizations have many goals when it comes to managing suppliers, from making supplier payments on time to answering supplier queries as soon as they can. In a recent survey, PayStream Advisors asked procurement, sourcing, and finance professionals employed in various industries about their supplier management activities. When asked about their top goals in managing suppliers, most organizations hoped to increase supply chain efficiency, see Figure 1. However, the data also shows that goals differ somewhat by company size¹, and that larger organizations' goals tend to align with properly managing supplier data.

FIGURE 1



Larger Organizations Are More Likely to List Supplier Risk Among Their Top Supplier Management Goals

“What is your top goal in managing your suppliers?”

&

“What is your organization’s annual revenue in the most recent 12-month reporting period?”

¹Level Research defines organizations with revenue greater than \$2 billion as enterprises, organizations with revenue between \$501 million and \$2 billion as upper middle market (UMM), organizations with revenue between \$101 million and \$500 million as lower middle market (LMM), and organizations with revenue between \$30 million and \$100 million as SMEs



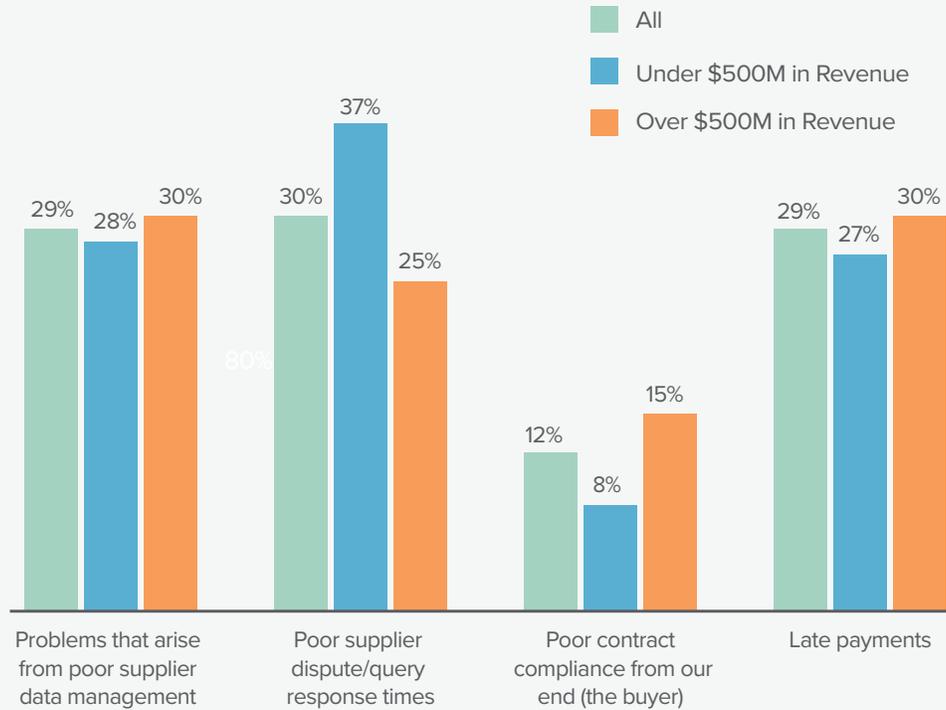
Organizations in the upper middle market (UMM) and enterprise market segments are much more likely to list improving supplier validation, adherence to corporate vendor compliance regulations, and reducing risk than organizations of SME and lower middle market (LMM) size. This is due in part to the fact that larger companies tend to have more widespread, complex supply chains and larger supplier bases with a great deal of regulatory compliance requirements. These companies are also likely managing thousands of suppliers across different business divisions and geographic locations, and must support an extensive amount of complex supplier information, including regulatory and compliance-related documents. Larger organizations often have more to lose if they fail to meet compliance. Poorly managed supplier data and unmet regulatory requirements can have detrimental impacts on a company's supply chain and bottom line in the long run, both in terms of monetary effects and legal costs. Poorly managed supplier data can also hurt an organization's chance of improving downstream P2P or S2S processes. In all, the larger the organization, the more it depends on the efficient supplier data management for successful business operations.

When organizations do not properly manage their supplier data, they also run the risk of weakening their supplier relationships, which can potentially affect supply chain processes and cash flow. Many factors lead to damaged relationships, which vary by company size as well, see Figure 2. Once again, the data shows that organizations in the UMM and enterprise are more likely to be concerned with the issues related to supplier data management (i.e., "problems that arise from poor supplier data management" and "poor contract compliance from our end (the buyer)").



FIGURE 2

Top Factors Contributing to Poor Supplier Relationships



Larger Organizations Are More Likely to List Supplier Data Management Issues as Reasons for Poor Supplier Relationships

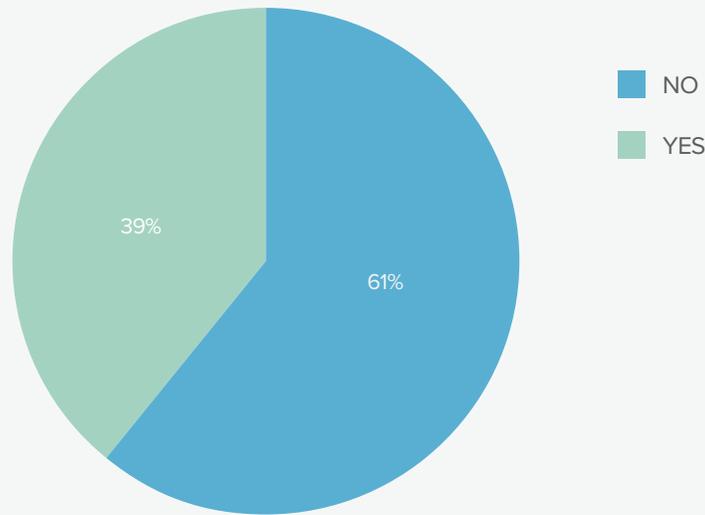
“What is the pain that causes the most damage to your organization’s supplier relationships?”
&
“What is your organization’s annual revenue in the most recent 12-month reporting period?”

While larger organizations tend to share common pain points and improvement goals related to supplier data management, not every organization in this market segment uses the same approach to changing their current state. Many companies spend time and money on misguided strategies and ineffective tools that can hurt their ability to improve processes in the long run. For example, some companies try to streamline supplier data management processes with individual S2S or P2P solutions, such as with an electronic procurement tool. This is partly because many eProcurement and other P2P tools offer built-in supplier networks, allowing eProcurement adopters to leverage the network to manage their supplier data. Research shows that over one-half of organizations are using a supplier network tool, see Figure 3.



FIGURE 3

Electronic Supplier Network Usage



Over One-Half of Organizations Are Using an Electronic Supplier Network Tool

“Does your organization use an electronic supplier network to manage suppliers?”

While using a supplier network to manage suppliers can be a good strategy for small and mid-sized organizations with fewer suppliers and data management requirements, it is not the best-case scenario for every large, international company. This is because procurement-focused supplier network tools are often primarily built to support processes related to P2P, such as taking orders and managing invoices. In some cases, these “networks” are little more than supplier portals rather than global communication platforms. Unless they are connected to more extensive supplier information management tools, supplier networks do little to support the data management requirements of international supply chains and widespread business operations. Companies in the UMM and enterprise market segments often require more data management services than a simple supplier network can provide, such as extensive supplier onboarding workflows, ongoing compliance and monitoring tools, and region-specific services to help maintain operational requirements within specific geographic locations.

Another problem with using S2S and P2P tools for supplier data management is the great amount of supplier data that large, international organizations must manage. Many companies in the UMM and enterprise market segment are operating across multiple entities, locations, and countries, and are using numerous different back-office technology systems, including multiple ERPs and



specialized tools for different parts of the back-office processes (e.g., separate solutions for managing indirect vs. direct spend). It is very rare that these organizations can consolidate their back-office information into one process or system, and many are forced to consolidate and replicate supplier data across many different systems instead. It is also difficult to convert extensive supplier data to the correct format that the P2P or S2S system needs, as some solutions are inflexible when it comes to data integration requirements. Organizations also often fail to consider the implications of integrating these solutions with their different ERPs, much less the complications that arise when supplier data is not synchronized across those ERP systems. In all, it can take months or years to properly synchronize, clean, and optimize supplier master data during a P2P or S2S software implementation. This is often because these organizations are approaching the process incorrectly, either by trying to consolidate and prepare the data for automation themselves, or by choosing a solution that cannot support their extensive master data requirements going forward.

Instead of adopting a P2P and S2S software tool to manage supplier data, P2P and S2S processes should be automated after the implementation of a separate supplier data management tool. Supplier data management solutions are built to streamline and consolidate supplier information for large companies with numerous back-office systems, and are designed to integrate seamlessly with other vital P2P and S2S systems that rely on supplier data. They also provide a centralized electronic environment for these processes, which helps to break down silos between teams, systems, and functions. Leading supplier data management tools synchronize supplier data that is spread across multiple business entities and ERP systems, creating a holistic foundation for all other business processes.

The following section highlights the value of supplier data management tools, and provides best practices for creating a strong master data foundation.



Foundational Supplier Data Management Best Practices

When organizations control the intake of supplier data through a centralized, automated data management platform, they reap the benefits of secure and efficient procurement and sourcing processes, premium suppliers, and a healthier supply chain. They also reduce the time and costs involved in future automation initiatives, such as S2S and P2P software implementations.

In order to help organizations understand how to better manage complex supplier data, the following section offers some best practices for building a strong supplier data foundation.

Centralize, control, and optimize vital supplier data from the very beginning. One of the most important things to do when streamlining data management is to ensure the correct forms are input at the beginning of the supplier management process, such as tax forms and risk assessment documents. However, this data needs to be imported in the same technical format and through a controlled process, as a company with widespread operations but without a centralized process or platform for housing and managing data will have a very difficult time controlling the intake of data. Without a controlled process, supplier master data will be inconsistent in terms of quality, as there will be no efficient way to ensure that only valid and high-value information is entered.

Supplier master data management solutions ensure that companies obtain all the proper validations and documents when onboarding suppliers. These tools allow organizations to centralize the data intake process with workflows, checklists, and configurable controls. This process helps to control who is adding information to the vendor master file, and reduces the need to manually reconcile data and reports that are created by different groups. The solution enables all teams, from finance to compliance to procurement, to have visibility into reporting documents from one place. This centralized data platform affects an organization's ability to analyze spend data to improve S2S/P2P processes and supply chain management.

Use a tool that helps to control compliance requirements throughout the supplier relationship lifecycle. Decentralized master data makes it very difficult



for organizations to maintain or prove compliance with various regulatory and validations requirements. This is particularly true for organizations that face complex industry-specific regulations, as they must constantly make an effort to avert penalties and mitigate risks (including reputational risks) when it comes to supplier data management.

Supplier data management platforms not only centralize all compliance forms and information across an organization, they also help the organization monitor and keep those documents up to date for as long as the company engages with their suppliers. The solutions provide workflows and monitoring tools to support compliance processes, which include automatic notifications to the organization and suppliers when certifications are expiring, as well as access to risk management tools through partners.

Reduce duplication and low-value activity. Many validation and data maintenance functions must be performed with a periodic frequency, and under manual processes, these functions are typically carried out using uncontrolled and time-consuming methods (e.g., through email) and in many different formats (Word documents, PDF forms, Excel spreadsheets). A lack of centralization and technical uniformity also means that some of the same supplier management functions are performed multiple times by different divisions and functions, and data is often duplicated in different ERP systems. This is an inefficient use of both company time and labor, and it also weakens the company's own credibility, as suppliers are often contacted by members from several different back-office teams who request updates to the same master data and contact information.

A supplier master data management solution will help foster better relationships with suppliers. Once the solution is live, organizations will see a great reduction of time and labor requirements, as the solution automates the majority of the maintenance and management tasks previously carried out manually by numerous teams. This can allow an organization to reallocate much of their employee's low-value labor, like manual data entry, to more strategic back-office tasks. Organizations can also consolidate different business units and roles in a centralized platform, aligning key stakeholders and functions, and streamlining communication between these parties—while still offering localized control and support to teams across different geographical areas.



Find a solution that supports Source-to-Settle, Procure-to-Pay, and supply chain management—not the other way around. In an effort to improve data management, some organizations may try to determine whether any of their current tools can help. Unfortunately, the functionality offered in many ERPs is not flexible enough to properly manage complex supplier data, and the needed customization is typically very costly and time-consuming. The same is true for P2P or S2S platforms. While it would be quicker and less expensive to adjust these tools, P2P solutions' capabilities are often not robust enough for the complexity and breadth of a large, international organization's data management needs. In addition, S2S and P2P platforms typically only manage certain portions of an organization's total spend, meaning that a great deal of supplier data is not going through the P2P platform at all.

Organizations should find a solution that strengthens P2P and S2S processes. This entails identifying a standalone supplier master data management software that will manage all supplier data from one place, effectively serving all business units rather than just those connected to procurement. These solutions that will integrate with all existing ERP systems, as well as their P2P and S2S solutions, and will serve as a centralized supplier data platform that connects all of these systems. For any tasks related to data maintenance, the organization will only need to update the supplier data management system rather than each iteration of the S2S/P2P tool, each ERP, and any other systems.



Conclusion

Source-to-Settle, Procure-to-Pay, and supply chain processes depend on strong information management and visibility in order to run properly and support business success. However, it can be very challenging to maintain and leverage supplier data with tools that are built specifically for procurement and sourcing functions. Unless organizations first create a strong data foundation with the correct tools, they run the risk of undermining the success of any other P2P or S2S automation initiative. When organizations prioritize supplier data management, they improve their competitive advantage for years to come.



BAE Systems gained a variety of benefits from the HICX solution, including the ability to collect new information and requirements from suppliers very efficiently across business units.

Client: BAE Systems

Industry: Aerospace

Headquarters: Farnborough, UK

Challenges

BAE Systems is a global aerospace, defense, and security company. The company offers products and services for air, land, and naval forces, as well as advanced electronics, security, information technology, and support services. BAE Systems was looking to centralize management of supplier data and information across six different sectors and 13 different business units.

BAE Systems has approximately 30,000 suppliers and onboards an additional 5,000 suppliers per year. They must annually renew 4-6 documents per year (insurance, business registrations, tax information, quality, export controls, etc.) per supplier. Onboarding of suppliers was manual and paper based, as was profile maintenance and document renewals. In addition to manual processes, much of this supplier information was housed in separate systems across BAE Systems' operations. This means BAE Systems had very little visibility into data and limited power in monitoring ongoing compliance with internal policies and regulatory requirements. The poor quality of supplier data also limited leadership's ability to make informed, strategic decisions.

Approach and Implementation

BAE Systems wanted to implement a common process for supplier data management across all six sectors to enable shared governance centrally and locally. The company wanted each sector to agree on what requirements would be needed for each type of supplier across different regulation types, such as quality and government-related requirements. They needed to consolidate and link suppliers from 13 different ERP systems into a centralized platform, and hoped to implement a technology platform to govern defined processes and update ERP systems with supplier data. They also wanted to automate manual/administrative steps and ongoing validations with external data providers.

In 2016, BAE Systems identified HICX as a potential candidate for their software provider. After a discovery period, HICX implemented its master data

management system across BAE Systems' operations, supplier base, and ERP systems. HICX's solution automates a variety of master data management functions for BAE Systems, including supplier discovery, onboarding, changes to supplier data.

Results

Since implementation, BAE Systems has realized numerous benefits in terms of process improvement and efficiency. The company has onboarded 74 percent of its suppliers since 2017, and has seen a reduction in front-end manual involvement in terms of onboarding suppliers, as the HICX web-based, registration portal allows suppliers to self-register with BAE Systems. The average business cycle (i.e., supplier onboarding to finalization in the system) has been reduced to 6.4 days. This is largely due to the BAE Systems' improved ability to efficiently collect new information and requirements from suppliers across all business units.

BAE Systems was also able to clean up their supplier base, as the HICX system improved visibility into active vs. stagnant suppliers across business units, which also gave BAE Systems an increased opportunity to engage additional business with active suppliers. The HICX solution improved external collaboration, with a centralized and automatic supplier outreach tool (e.g. mass communications, global collection of information, etc.), and internal collaboration, as business units can now better communicate on supplier activity.

From an audit perspective, BAE Systems has significantly reduced the number of missing supplier certifications and the need to manually gather documentation in support of compliance audits. From a technical perspective, HICX gave BAE Systems the ability to harmonize processes and systems without having to change individual systems. The solution monitors supplier documents like certifications, notifies BAE Systems of upcoming expirations, and automatically reaches out to the suppliers themselves to let them know about the expirations. This is done through HICX's automatic workflow, which BAE Systems can also use for actions like collecting documents and electronic signatures from suppliers, giving BAE Systems the ability to collect new information and requirements from suppliers very efficiently across business units. Because of the value of the HICX solution, and the strong foundation BAE Systems was able to build with their supplier data, BAE Systems was also able to plan for and begin additional automation initiatives within their P2P and S2S processes.

About the Sponsor

For over a decade, HICX Solutions has been offering a unique approach to procurement technology—the company uses its flexible platform to provide the foundation to all of an organization’s supply chain activities. HICX’s approach entails onboarding 100 percent of an organization’s suppliers through a self-service portal, and then building risk, compliance, contract management, and other functions on top of the supplier data using a flexible, buildable structure which doesn’t require expensive development and allows for cost-effective changes over time. This approach enables organizations to maintain a master record of data that can be pushed through to their ERP systems, thus allowing easy integration with other procurement-related software, such as P2P, S2S, or analytics solutions—and empowering procurement leaders.

With the supplier master data available in one centralized location, procurement leaders can make intelligent and informed decisions on strategy, and report on supply chain data more accurately.



About Level Research

Level Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Level Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Level Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Level Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Level Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

DISCLAIMER

All Research Reports produced by Level Research are a collection of Level Research's professional opinions and are based on Level Research's reasonable efforts to compile and analyze, in Level Research's sole professional opinion, the best sources reasonably available to Level Research at any given time. Any opinions reflect Level Research's judgment at the time and are subject to change. Anyone using this report assumes sole responsibility for the selection and / or use of any and all content, research, publications, materials, work product or other item contained herein. As such Level Research does not make any warranties, express or implied, with respect to the content of this Report, including, without limitation, those of merchantability or fitness for a particular purpose. Level Research shall not be liable under any circumstances or under any theory of law for any direct, indirect, special, consequential or incidental damages, including without limitation, damages for lost profits, business failure or loss, arising out of use of the content of the Report, whether or not Level Research has been advised of the possibility of such damages and shall not be liable for any damages incurred arising as a result of reliance upon the content or any claim attributable to errors, omissions or other inaccuracies in the content or interpretations thereof.

