The Procurement Technology Lifecycle

PART ONE: Procurement Technology Landscape

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Introduction

Since procurement has started to have a greater impact on corporate strategy, the demand for enterprise procurement technology has reached new heights. While many organizations have automated portions of their supply chain and accounts payable, purchasing processes typically are still undermanaged. Some recent research indicates that nearly 60 percent of organizations are seeking additional support to manage both their direct and indirect spend—the solution is more often related to optimization of procurement through the use of modern technology. Procurement and financial decision makers are often tasked with justifying these relatively large technology investments.

To assist these decision makers, Denali Group is publishing a three-part whitepaper series titled: The Procurement Technology Lifecycle. This series starts with "The Procurement Technology Landscape"—a look into the impact of the "cloud" and other changes in the market. The second part, "Funding the Technology," covers the approach to how procurement leaders might seek to justify and fund these solutions. In the final part, "Beyond the Implementation," we cover how an organization can successfully implement and adopt software, and then sustain its value.

In "The Procurement Technology Landscape," we target decision makers who are seeking answers to some of the key questions related to making changes to their procurement technology environment. We answer critical questions, like *Why not just use my ERP providers' solution? Should we go to the cloud? and What should we be looking for in a solution?*

Procure-To-Pay Activities

Contract & Manage	Request & Order	Invoice & Pay
Catalog Management	Requisition & PO Management	Invoicing & Payments

Supplier Management via Network

- Requisition Exceptions
- PO Spend
- Catalog Based Buying
- Spend thru Preferred Supplier & Catalogs
- Req ➞ PO Cycle Time

- Paid on Time %
- Discount Capture
- % Invoices Ready to Pay on Time
- % Duplicate Payments

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When we talk about procurement technology (procure to pay or P2P), we are speaking strictly to the transactional side of procurement process, which spans online requisitions, catalogs, supplier punch-outs, electronic purchase-order delivery, contract tracking, compliance management, invoice and pay, and general procurement management. This paper does not include a review of any other procurement-like solution, such as supplier risk management, e-sourcing, contract management, supplier performance management, or spend analytics. Those solutions will be covered in an upcoming whitepaper series.

> **Learn** more about how ProcureAbility can help you **evaluate**, **select**, and **implement** procurement technology solutions today.

Why Not Big ERP?

Traditional on-premise ERP-module implementations lead to a higher TCO (total cost of ownership) than do purely SaaS (software-as-a-service) based procure-to-pay solutions. We have found that many leading ERP (enterprise resource planning) users are experiencing higher TCO as a result of increased costs to support the solution and the burdensome annual software upgrades.

Through many of our engagements, we've found that nearly every procurement and finance organization

is seeking higher ROI (return on investment) for their procurement technology transformations. When we examined comparable solutions in the ERP-procurement market, we found that the key factor in minimizing long-term value is slow adoption. In some recent cases, we've found that successful installs of leading SaaS-P2P platforms are realizing higher ROI as a result of capturing more spend under management and a much higher speed. For example, a leading SaaS provider is achieving the ROI at a fast pace, which allows their clients to realize additional savings of at least two to four percent of the spend—over and above the efforts of strategic sourcing.

The bottom line is that we as buyers have evolved. In our personal lives, we are living in an Amazon-like world of "click, click, purchase," which means we naturally expect more from our work lives. The traditional ERP procurement user interface (UI) is not intuitive and degrades adoption rates from the start—not at all akin to Amazon or eBay. A leading SaaS provider said it best: "Achieving a return on investment, if ever, takes a backseat to ongoing programming changes in the nonstop attempt to customize the path to a friendlier procurement solution. Even then, functionality upgrades are tied to ERP cycles, and ERP upgrades take precedence over P2P requirements. As so many experience, increased internal IT burden (due to weak self-service functionality for end users) leads directly to high support costs costly ongoing training for each version upgrade or change."
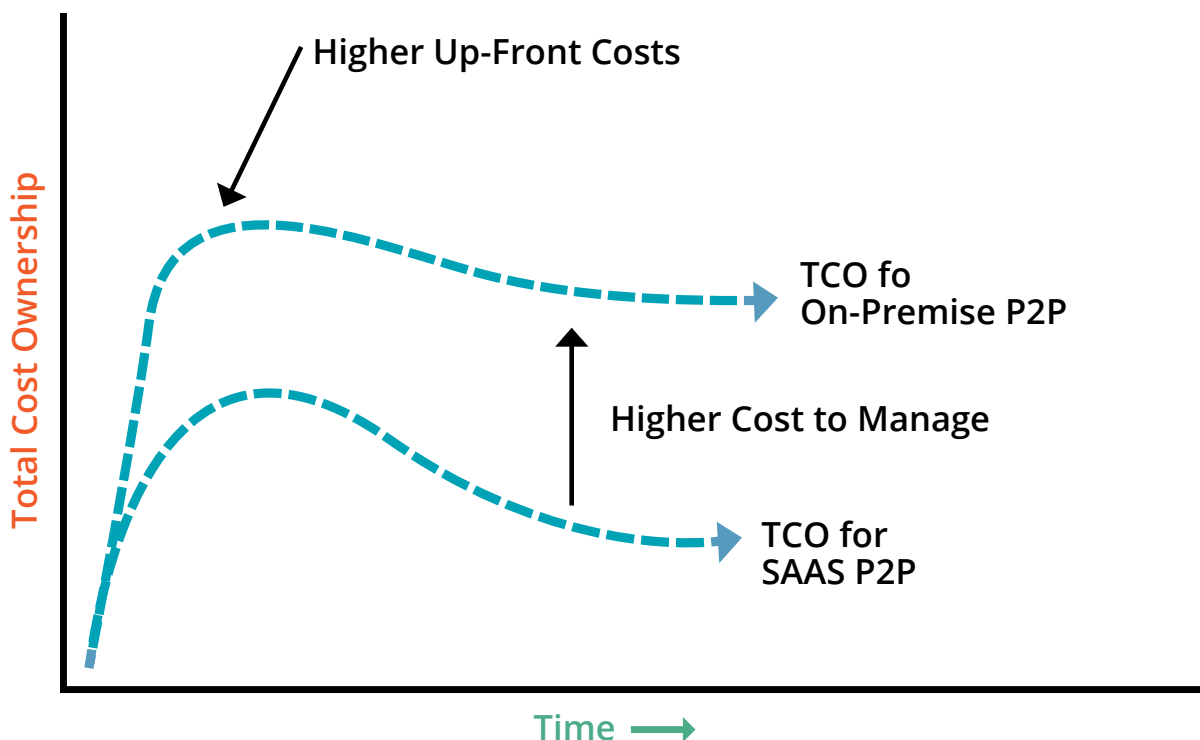
When our clients begin to compare ERP and SaaS, we often advise them to be aware of the costs beyond the solution when looking at ERP (graphic above). When the costs of customization, integration, catalog development, etc., begin to add up, the choice is simple. Software is only a minor part of the costs with ERP-based e-procurement.

License or Subscription

Many of our clients have been challenged to justify a change in procurement technology that is not already part of current ERP install-base—primarily when it comes to the expectations of the IT Department. The IT Department tends to take one of two positions, either "It's easier to just add a module to our current ERP versus implement a new solution" or "We have an alliance with a 'big ERP or P2P provider,' so we couldn't possibly move to something new."

One of the more important questions organizations should be addressing is whether to implement a licensed software solution (which is probably comfortable) or opt for a SaaS model (software-as-a-service or subscription-based). Many experts would say that there is no one-size-fits-all answer to this question, and the choice will depend on the organization's specific needs and the in-house IT department's ability to implement and manage the solution.

We continue to help our clients answer this question by starting with a simple side-by-side comparison of the models of a license versus a subscription.

Licensed Software Model	SaaS Model
+ Solutions can be installed and run from behind the company's firewall and ownership provides a higher degree of control and flexibility	**+** Solutions are hosted and maintained by the technology provider, which results in lower internal costs of IT.
+ When it comes to licensed versions, clients can modify or customize the solution to meet their specific business requirements, control the platform and adjust its security parameters.	**+** SaaS solutions are deployed quicker, resulting in immediate cost savings.
– Cost of infrastructure, operating cost, maintenance, service and software updates can all represent considerable costs.	**+** The buyer is not burdened with the periodic expense and effort of upgrading to new versions of the solution and paying annual maintenance fees.
– Implementations can take 2-5 times that of a SaaS install due to the burden of heavy IT involvement	**+** Solutions are provided on a subscription basis, limiting "buyer's remorse" and allowing a company to switch providers more easily if the solution does not produce the expected results.
	+ SaaS models require minimal up-front costs due to the fact that clients do not have to pay to license and install the software.
	– Potentially limits ability to customize due to reliance on providers' infrastructure and resources.

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When taking all the relevant cost and benefit factors into consideration, the SaaS model can be procurement's most economical software option. Additionally, the SaaS model ensures maximum global availability of the solution (24/7) and—because of its quick implementation time—usually leads to ROI periods of less than six months.

Trends in Procurement Technology

The subscription-based revenue model is fueling massive changes across many billion-dollar industries, from communications and media to technology and consumer services. Some experts might say this is a signal that ERP is becoming less relevant, perhaps because the rigid enterprise ERP procurement systems were designed specifically for the 20th-century manufacturing era rather than the 21st-century services-based world. Enterprise ERP platforms were built to track products that can be stacked on a pallet versus services that are consumed over time. As a result, ERP's days are numbered. In the case of procurement, the subscription model demands new ways of both measuring and monetizing supplier relationships.

Beyond the shift from ERP to subscription-based solutions, the procurement technology market is changing. And as the needs of the industry change, trends emerge. We've found that customers have growing needs in five key areas.

1. Aggressive Transition to SaaS Procurement Solutions: In today's economy, procurement software isn't a "nice to have" but a "must have." Some providers are improving their implementation process; thus, many procurement software systems are now easier to install, and we see organizations from diverse industries and countries implementing them to reduce indirect costs and more.

2. Stronger Analytics and Reporting: When budgets get tighter, it is important to monitor all your spending to make more informed purchasing decisions. In addition to working with IT, organizations are seeking solutions offering real-time spend analysis and customizable reports to assist them in this initiative.

3. Supplier Risk Management: Organizations want to guarantee vendor compliance and operational efficiency and, therefore, will invest in supplier risk-management solutions including supplier scorecarding, certification, and other measurement features.

4. Wider Use of Punch-Out Catalogs: Using punch-out catalogs, companies can enjoy negotiated prices with preferred vendors and access to up-to-date item details, all achieved without demanding efforts to maintain these catalogs since it's done by the supplier.

5. e-Invoicing: It's time to move on and do what most organizations have been doing for the past few years: switch to e-invoicing. Eliminating manual and redundant invoicing tasks enables companies to accelerate their invoice processing time.

Procurement has witnessed major changes in productivity, effectiveness, and impact during recent years, mostly due to the new capabilities that procurement systems deliver. The business transformation journey is far from over, as these new capabilities will allow procurement to continue to make considerable contributions to organizational performance.

Looking at the Marketplace

Denali Group is a veteran procurement and sourcing advisory firm that provides unbiased guidance to clients. We maintain an agnostic view regarding technology-provider evaluation, judgment, and selection. However, because of our experience with helping clients assess, select, award, and implement procurement solutions, we do have a deep sense of the players in this market. While we wouldn't necessarily score one provider over another, there certainly are providers that are building credibility with key decision makers.

Prime Candidates	Contenders	Recruits (upstarts)
Coupa SAP/Ariba	Oracle Zycus SciQuest GEP Basware	Verian Ivalua Wax Digital b-pack Perfect HUBWOO

Coupa and SAP/Ariba are the most common providers in this complex market, with the likes of Oracle, SciQuest, Zycus, and others trying to keep and acquire new market share. Although we may never anoint a clear winner in this market, we believe it will remain close, for only the providers that embrace offering new innovative integrations and partner alliances that expand the buyers' ability to influence and achieve higher value.

> **Learn** more about how ProcureAbility can help you **evaluate**, **select**, and **implement** procurement technology solutions today.

Conclusion

In this whitepaper, we discussed how often-under-managed procurement processes can be optimized by the adoption of modern procurement technologies and how the cloud is changing the market for enterprise procurement technology. In Part II of this series: "Funding the Technology," we will cover the approach to how procurement leaders might seek to justify and fund these solutions.

About ProcureAbility

ProcureAbility™ transforms traditional, outdated consulting and staffing models by offering our clients advisory and resource support on their terms.

Our delivery model is unique. We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice—an approach unheard of in traditional consulting and staffing firms.

ProcureAbility's customer-focused delivery model allows for a wide range of flexibility:

· **Working with strategic or tactical experts** who can deliver a wide range of solutions, from consulting to staffing
· **Scaling a team your way**, from individual resources to complete project teams
· **Adding value as needed** from a deep and broad library of procurement insights
· **Choosing remote or on-site support options** — or both

Since 1996 we've focused only on procurement's success. **It's all we do.**

For more information on ProcureAbility services, visit **ProcureAbility.com** or call **(888) 824-8866**.

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