

The Procurement Technology Lifecycle

PART TWO: Funding the Technology



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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. Recent research indicates nearly 60 percent of procurement organizations are seeking additional support to manage both their direct and indirect spend. The solution is more often related to optimization 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, ProcureAbility is publishing *The Procurement Technology Lifecycle*, a three-part whitepaper series. Part I of the series, *The Procurement Technology Landscape*, explores the impact of the Cloud and other market changes. This second whitepaper, *Funding the Technology*, delves

into how procurement leaders might seek to justify and fund these solutions. The final part of the series, *Beyond the Implementation*, will cover how an organization can successfully implement and adopt software and sustain its value year over year.

This whitepaper will target decision makers and assist them with how to best develop the business case for attaining necessary approval to initiate a procurement technology transformation. Critical questions will be addressed, such as “What are needs (business) versus wants (my users)?” and “What are the real requirements?” “What makes for a good business case?” will be discussed as well.

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

Needs vs. Wants

There are many P2P (procure to pay) solutions available on the market, and each has its core functionalities and associated value. This being the case, companies can find it challenging to determine which solution to deploy. We've found that in order to be successful, companies need to determine the scope of their true needs. In recent examples, some clients are experiencing multiple procurement pain points, each of which could require very different business and/or technology solutions. For example, we've had clients who were looking to capture more effective supplier and price compliance, emphasizing the need for e-catalog development and contract management. Alternatively, we've had clients seeking to increase efficiency in submitting requisitions and placing orders (req-to-pay), emphasizing the need for improved automation and workflow enhancement. There are certainly scenarios where businesses need to solve for both and/or need much more.

The point is that companies don't always need a full-scale or best-of-breed P2P solution. There are P2P tools on the market that solve many of the challenges in procurement without having to deploy a large, expensive solution. Conversely, when a full-scale P2P solution is justified, companies will greatly benefit from accurately identifying and prioritizing the business requirements so that a fair and equitable competitive comparison can be conducted. Companies should try to avoid getting stuck in the excitement of “a new solution that will solve all the problems” and stay the course of solving the genuine problems.

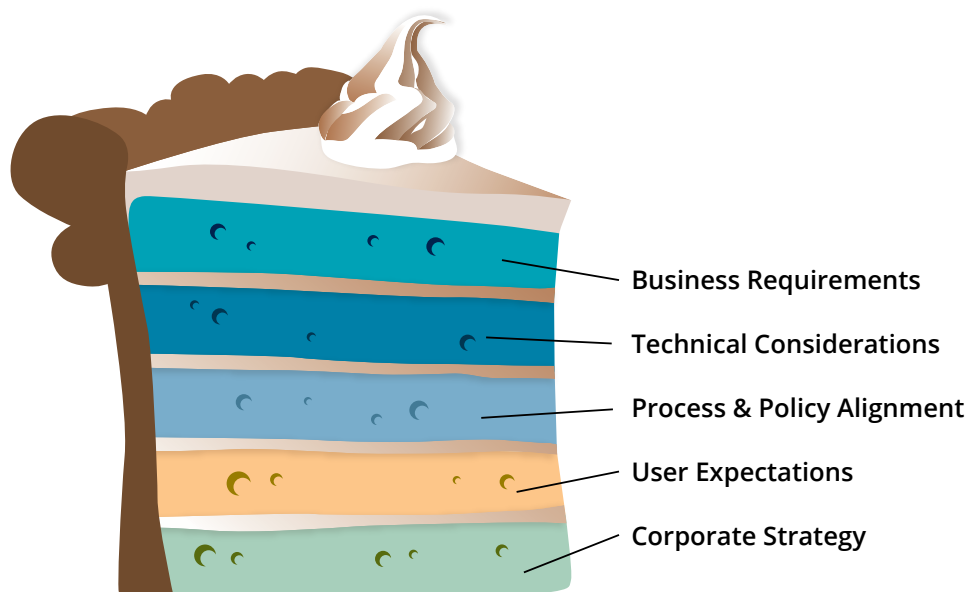
Conducting a comprehensive requirements-building effort is key to determining a company's actual needs. The requirements-building activity allows the business to look deep into every procurement process, allowing for the identification of every issue facing the procurement functions' ability to be effective.

Not Just Functional Requirements

The requirements-building effort is, in part, an exercise in validating perception versus reality within the procurement function. We often find that many procurement leaders can easily identify their organization's pain points but have a much harder time effectively aggregating each underlying issue or problem area that could best justify real change. We've heard CPOs say, "I know we can do better" or "Our purchasing process is the problem." That effort can be much more difficult given the daily demands on and priorities with the procurement team.

In order to change effectively, the procurement team needs to produce a business case that justifies the change; this has been accomplished successfully by recent clients only through an analysis of the current state of their procurement operation. We've seen clients who developed P2P requirements and went straight to solution acquisition. Although this is an efficient approach to getting a solution "in the door," it usually ends up in poor implementation and slowed adoption. Why? Because, without knowing the inline processes and policies and the impact on users, major pieces of the P2P pie necessary to achieve a successful implementation are unaccounted for.

The P2P Pie



The P2P pie has five key ingredients:

Business Requirements: Business requirements outline what the procurement operation requires to meet the organization's needs. Companies often mistakenly focus on functional requirements for the solution they think they need (with a tendency to include bells and whistles) versus what the organization truly needs for the business (e.g., customizable workflow, robust reporting, ease of use)

Technical Considerations: Although many organizations are moving to the Cloud with SaaS-like solutions, there are still many internal technical considerations to assess.

It's important to ensure that the IT function supports the initiative, that there aren't any competing or overlapping solutions in place, and that there is a plan for managing integration with other solutions (e.g., ERP, CRM).

Process and Policy Alignment: In order for any change or addition of technology to be effective, it must align with current procurement process and policy. It's imperative to take a comprehensive approach to define gaps in process and to learn how P2P solutions might close those gaps and at what costs (both hard and soft). Many companies

take this element lightly, only to find they need to make major shifts in policy or process because the solution they selected isn't flexible enough.

User Expectations: More often than many would think, the expectations of users are overlooked. It's been proven repeatedly in today's high-tech savvy culture that getting input from the user environment can make or break any enterprise software deployment. We've found that clients who collaborate on how the solution will fit into the general business operations and company culture gives their business a great advantage. At the very least—even if new solutions aren't welcomed—this exercise helps companies identify areas for change control and risk mitigation (to adoption).

Corporate Strategy: As with any major initiative, the business case requires both input and acceptance from the executive sponsorship team. Many organizations

struggle with identifying factors that justify the investment. In our recent work, we've helped clients align the P2P business case to the corporate strategy. For example, if there is a corporate target to improve the bottom line, then an objective for procurement could be to reduce procurement transaction costs or reduce the cost of supply. In either case, the company can tie the business case for P2P to this by increasing the efficiency of requisition to payment (reduce time/cost of resources) and by automating supplier contracts and catalogs (e.g., reduction in noncontract compliance, reduced spend leakage).

Many factors must be considered to determine what is needed in a P2P solution. It is much more than a list of solution functionalities, needs, and wants.

Building the Case for P2P

Once an organization has completed an internal assessment, it has the ammunition needed to start building the business case. An internal assessment will provide procurement with a list of both improvement areas and gaps, along with recommended solutions: in this case, a new procurement technology (P2P). We've

seen some clients make the common mistake of thinking they already know what they need and fail to uncover true problem areas, missing the opportunity for greater procurement influence and value. Ultimately, leadership is seeking to understand the economics of the initiative in order to justify a moderate to large investment, albeit through essentially an analysis of ROI and savings.

$$\text{Business Case} = \text{ROI \& Savings} =$$
$$\left\{ \begin{array}{l} \text{Benefits} \\ - \text{Costs} \end{array} \right\} \times \text{RISKS} + \text{Feasibility} \times \text{Strategic Fit}$$

Many organizations have been successful in compiling and aligning specific economic factors to the most important and/or relevant corporate and procurement goals. For example, cost-savings goals can be attributed not only to contract compliance but also to lower purchase order costs and savings from early payment discounts. Also, ROI can depend greatly on whether an on-premises install or a SaaS solution is deployed. Typically we've found that on-premises solutions have a higher TCO.

It's an organization's ability to detail and report how each key economic metric and solution cost will be influenced and measured that gives decision makers the confidence needed to approve the initiative. When it comes to the economic analysis, many organizations tend to look at effectiveness and efficiency factors (right) when evaluating and building the business case. While it's important to

assess and focus on the factors that matter most to the organization, avoid trying to capture and report on all available metrics.

In general, we've found that if a comprehensive business case is completed using the right metrics and assumptions, an organization can realize significant savings and return on investment from a typical P2P transformation. In recent cases, ProcureAbility has seen clients justify the acquisition of SaaS Procurement Solutions with annual cost savings ranging from 1.5 to 3 percent of total spend, ROI estimates starting at 10:1, and payback periods starting as early as three months. If the assessment and analysis are done effectively, an organization will be able to proposition executive leadership with confidence.

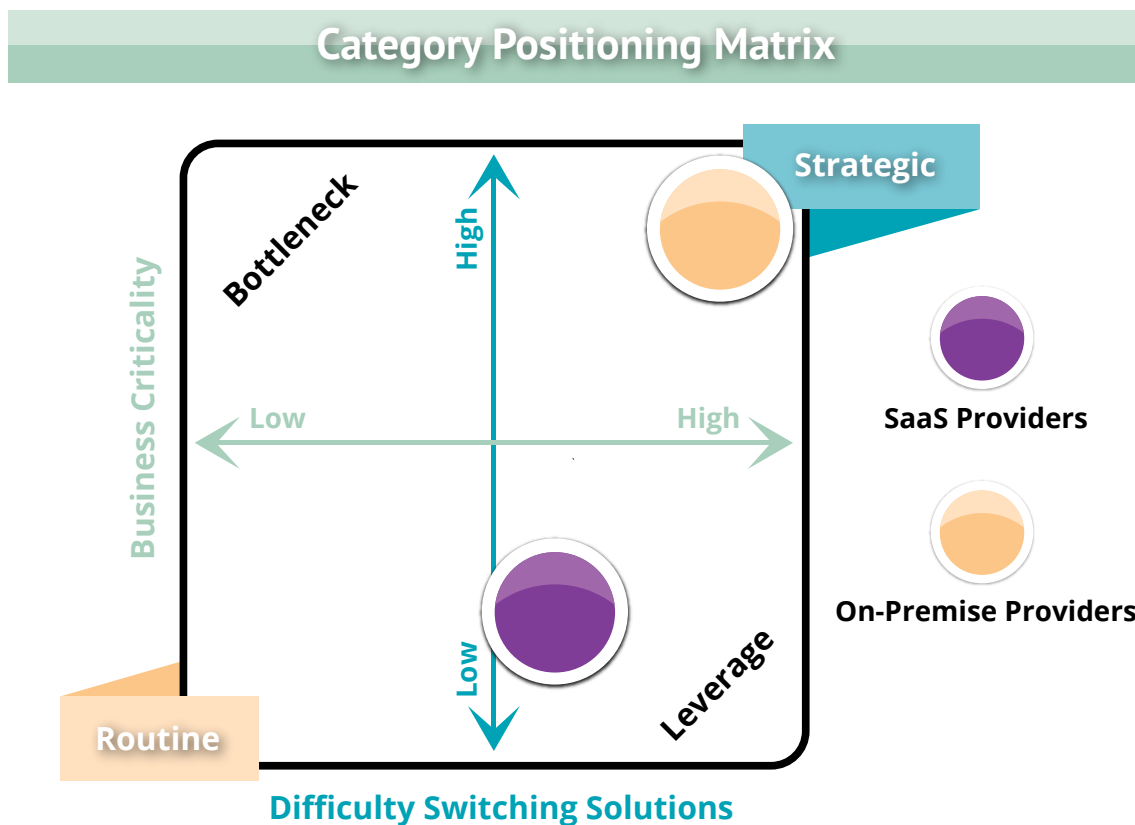


The P2P Relationship

Evaluating providers for potential fit within an organization's business and culture is part of the strategic sourcing methodology to determine the type of relationship they will have, affecting the approach to competition and level of ongoing contract management. Historically, enterprise solutions, such as ERP and CRM, have been widely considered a strategic relationship. ProcureAbility believes this is primarily due to the on-premises technology infiltration that those types of solutions are known for. However, there are several other options. Over the past few years, solution providers have made the shift to the off-premises models (e.g., SaaS subscription-based, Cloud-instance licensing), thus

becoming more of a services provider with a self-service software tool.

Additionally, given the growing level of competition and ease of switching solutions, we're repositioning this spend category (SaaS P2P providers) in the category of leverage (not strategic). We found that it's much easier in today's technology landscape to be nimble and flexible in the selection of procurement software tools. No longer are procurement teams stuck with a provider for the long term because the provider is too integrated into the technical infrastructure.



Some critics may argue that a P2P solution touches every employee, every dollar, and every supplier, thus justifying a long-term strategic relationship. However, organizations need to ask why. Is it because they are afraid to consider how easy it really can be to switch procurement solutions in today's environment, or are they just programmed

to believe that enterprise solutions are too difficult to change? The bottom line is that buyers of procurement technology need to take a closer look at the advantages of the ever-changing technology environment and ensure we aren't forming strategic relationships where they aren't warranted.

Conclusion

In this whitepaper, we've discussed how companies could better prepare themselves for the process of effectively justifying and proposing a comprehensive business case for a P2P transformation. In Part III, Beyond the Implementation, we will discuss how procurement leaders can successfully lead and manage a P2P transformation.

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

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**.