

“Are we there yet?”

When & How to Effectively Leverage Procurement Technologies

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“Reverse auction technology will create 15-20% cost savings or more”

“Implementing ERP will facilitate a single company-wide best practice procurement process”

“Automated workflow management will streamline business processes and free up time for higher value activities”

How often have you heard these or similar statements from software vendors, consulting firms, work colleagues or others? In Treya’s experience working with customers over the years, we have found that those who hold the above as incontrovertible truths risk being disappointed by the return on their investments in procurement technology. These organizations tend to view these technologies as “cure alls” and need to adopt a “back to basics” approach if they are to enjoy the full benefits that these enabling tools can bring. Such an approach will need to address four key issues - readiness, requirements, planning, and management.

Readiness

A procurement organization must be ready to leverage technology before it begins to pursue it. Procurement organizations that first make sure they have a solid foundation in place – a well thought out strategy, streamlined processes and procedures, staff trained on procurement best practices, and sensible organizational design – are the ones best equipped to make the most of procurement technology. Without a strong foundation in place, procurement technology often serves as a “band-aid” – while it may address certain piecemeal problems, it doesn’t allow for true procurement transformation.

For example, in working with a \$3B national retailer with a fledgling procurement organization, we found strategy to be one of several key development areas. The procurement organization was expending equal amounts of time and effort on multi-million dollar strategic procurements and low-dollar value bids (e.g. \$10K or less). However, instead of taking an introspective look at strategy and working towards first become a strategic, outcomes-driven organization, this procurement group turned to technology too soon. The draw of dazzling reverse auction technology was strong, and this retailer’s procurement organization turned to it with enthusiasm. However, while dramatic savings were initially achieved in several commodity

areas, the procurement organization did not holistically transform over time. The team's attrition rate was high and the group did not fulfill its full potential as it turned to technology before carefully getting its "house in order."

Requirements

Once a procurement organization has the basics down and has dedicated sufficient time and attention to issues such as processes, strategy, and staff development, it should thoughtfully turn to technology selection. The first step is for a procurement group to clearly articulate its goals and priorities. Procurement teams should ask themselves what their biggest issue areas are and explore how technology can address existing challenges. A rapid Request for Information (RFI) process can assist in understanding various technologies available in the marketplace, along with their pros, cons, and implementation timeframes. Additionally, surveying the marketplace can help organizations determine how much to budget or, alternatively, what's affordable given an existing budget.

Once armed with the above information, the next step is to critically prioritize the most desired features and functionality. How important is a spend analysis capability? Is an e-procurement system critical? Is an e-sourcing tool truly necessary? Is a contract management system what is really needed? It's important to exhaustively evaluate trade-offs and determine what is needed today and what can wait. Finally, having identified immediate priorities as well as longer-term ones, a formal Request for Proposal (RFP) can be issued in which only the vendors that are capable of fulfilling key needs are invited to participate.

We routinely follow the requirements gathering process described above with any of our clients embarking on technology selection. For example, we went through a similar effort while leading an e-procurement technology RFP for a multi-state government purchasing consortium. The clients we have gone through this exercise with have found it well worth the extra time and effort upfront to go through this somewhat reflective, introspective process before investing in procurement technology.

Planning

Proper implementation planning is key to success. Even when the organizational groundwork has been laid, procurement technology related priorities have been determined, funding has been arranged, and the technology has been carefully selected, success is not guaranteed. In order to ensure a successful implementation of newly acquired procurement technology, planning must begin very early. A representative from the business' IT organization should be involved from the very beginning of the technology prioritization and selection process. IT should understand early on in the process what will be required of them, and they should have

an opportunity to weigh in on what technologies will be easier to integrate with than others. If IT resources are highly constrained, it may be wise to more seriously consider cloud-based solutions that are known for their relatively quicker implementation timeframes. Once a technology is selected, the implementation plan should be developed in coordination with IT *prior* to contract signature. IT should *never* be pulled in for the first time after contract signature – this is a recipe for a needlessly painful implementation process.

Another key element of planning is addressing the funding issue. Paying for procurement technology can be a challenge, but not an insurmountable one. Sometimes, after going through a thoughtful, deliberate procurement technology prioritization and selection process, funding proves to be a limiting factor. When budgets become tight, investing in technology is often labeled a “non-critical” expense that can be tabled until finances improve. It is possible to plan ahead and avoid such situations. For example, one option is to pursue strategic sourcing efforts in advance of the implementation of a procurement technology and use cost savings to fund it, making it cost-neutral. Another approach is to pursue technology solutions like e-procurement which are supplier funded – vendors are required to pay a small fee (often 1% or so of sales) to participate. If an organization has sufficient volume to offer its suppliers, they are often willing to absorb this cost with no change to existing pricing.

Management

With a robust implementation plan and a workable funding mechanism in place one would think the hard work is done, right? Just plug in the technology and you’re on your way. With today’s cloud-based technology and the improved performance, reliability, and security of the internet you can start sourcing, contracting, ordering and paying with only dreamed about levels of efficiency and effectiveness. Well, maybe. It all depends upon whether you are prepared to go the final mile and actually track and manage the performance of the underlying processes you have enabled with your technology solution of choice. This means for an e-procurement system, for example, monitoring the rate of user adoption and the percentage of purchasing transactions being conducted through the system for targeted spend categories. It also means collecting information on user experience in the areas of ease of use and the ability to locate needed products and services in the system catalogs. Analysis of the collected performance data will reveal any areas where ‘mid-course corrections’ need to be made to the implementation plan to ensure that full benefits are realized from the technology.

Ready, Steady, Go

Ultimately procurement technologies can serve as great assets that enable procurement transformation and allow purchasing organizations to become world-class. They should

absolutely play an integral role in a cutting-edge purchasing group's toolkit. However, it's critical that an organization masters the fundamentals of good procurement before turning to technology. Once the proper organizational groundwork has been laid, careful attention should be given to prioritizing and selecting the appropriate technologies that will best meet the organization's objectives and requirements. Implementation plans and funding sources should be in place. Then, finally, there must be ongoing measurement and management to ensure that the original vision and return on investment in the technology are realized. Follow these guidelines, avoid the time worn mantras of technology being the silver bullet, and investment in a leading-edge solution could be one of the smartest procurements you ever make.