



**Best Practices for Long-Term Success**

WHITEPAPER



## **Accelerating ROI with On-Demand eProcurement**

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### **Table of Contents**

Executive Summary	2
The On-Demand eProcurement solution.	3
The Benefits of eProcurement.	4
Who needs hosted eProcurement?	4
What makes a good eProcurement system?	5
What are the advantages of online procurement?	6
What about my suppliers?	7
Conclusion	9
About Perfect Commerce	9

## Executive Summary

For many businesses, the advantages of online procurement have been tantalizingly clear but damnably distant. Long ago, these companies recognized that getting rid of paper-based purchasing could save them money. Their executives realized that electronic procurement could eliminate human errors and speed up business processes.

But, these savvy companies weren't willing to pay hundreds of thousands, even millions of dollars for a full ERP or eProcurement implementation that would take months, if not years, to implement. So, these companies sat on the sidelines, monitoring the war stories of eProcurement projects that failed.

Today, companies can opt for hosted eProcurement solutions that are "pay-as-you-go" systems, instead of committing to an extensive internally managed and funded program. Hosted eProcurement is part of the On-Demand movement typified by technology providers such as Salesforce.com and Perfect Commerce.

## The On-Demand eProcurement solution.

“Nearly 20 percent of respondents indicated that they are currently using some form of pay-as-you-go services, which is exceptionally higher than anticipated.” *Saugatuck Technology, April 2004*

With a hosted eProcurement system, enterprises don't need to plan, install, test and then manage a large enterprise procurement application with the hardware, integration and training requirements that go with big applications. That results in less time and money invested up front and affords the opportunity for purchasing professionals to focus on more strategic initiatives.

Saugatuck's research found that financial issues dominate decisions to adopt On-Demand computing: Lower capital expenditure, reduced operating costs and ROI/payback. In addition, adopters believe On-Demand will help them create more flexible and agile IT capabilities. In other words, the decision to implement an On-Demand initiative rests on the same factors as any other significant IT decision.

In the On-Demand model, customers accelerate their time to financial benefit. With a low start-up investment, they realize faster return on investment (ROI) and lower total cost of ownership (TCO). If their On-Demand service provider also has a large network of suppliers, buyers can quickly find their existing suppliers among the thousands that are immediately ready to transact. The larger and more mature the purchasing hub, the better.

With hosted eProcurement, start-up is straightforward. Purchasing departments define permissions for authorized buyers — purchasing limits, approvals required, items authorized to purchase, etc. Then, purchasing professionals determine which of their current suppliers are already online. For suppliers who aren't already transacting electronically, on-boarding suppliers should be as simple as inviting them to register. With On-Demand, companies can begin buying in weeks, not the months it takes with costly enterprise software. The On-Demand customer can focus on its own purchasing processes, instead of worrying about managing and maintaining eProcurement software.

“UMB's decision to use a hosted procurement and sourcing system helped lower costs from both an IT resource and purchasing department staffing perspective. Combined with the much faster than anticipated implementation, as well as better than expected savings, our ROI has been outstanding.” *Nancy Grasse, SVP Purchasing, UMB Financial Corp.*

## The Benefits of eProcurement .

The advantages of electronic procurement are well documented. In an enterprise with buyers distributed throughout the organization, eProcurement allows purchasing professionals to regain control of the purchasing process. With all purchases going through an eProcurement system, the purchasing department can ensure that buying complies with negotiated contracts. It reduces “maverick” or off-contract purchasing.

At the same time, eProcurement streamlines and automates the purchasing process by eliminating paper or faxed purchase orders (POs) and supplier responses. Instead, standardized electronic documents reduce human errors and dramatically speed up PO processing, cutting time from days or weeks to minutes. Purchasing cycle times may be cut by 75 percent or more. Workflows in the eProcurement software correctly route requests for approval.

In short, procurement becomes more efficient. People who once shuffled paperwork can be assigned to higher-value procurement activities like purchasing analysis or supplier relationships. Departments can get immediate visibility into the status of all orders and requisitions, saving on urgent phone calls and faxes. In addition, reporting can provide data to purchasing managers to help analyze performance. Conducting this type of analysis allows some companies to cull their number of suppliers and keep only the best ones.

## Who needs hosted eProcurement?

Anyone sitting on the sidelines watching as the benefits of on-demand unfolded and who elected to hold-off on buying pricey procurement software is a candidate for hosted e-procurement. This includes large enterprises that have implemented ERP (enterprise resource planning) software but haven't purchased the procurement modules. Another category: Mid-sized enterprises that couldn't justify the expense of procurement software and on-going support in their IT budgets.

In addition, many Global 2000 companies have grown by mergers and acquisitions, leaving them with a hodge-podge of different procurement systems. In some cases, past policies of decentralized IT decisions resulted in multiple procurement systems installed in different divisions or geographies. Instead of “ripping and replacing” these existing investments, these enterprises can transition their procurement process to Perfect Commerce's Procurement Manager<sup>SM</sup> and their hosted supplier network, The Open Supplier Network<sup>SM</sup>, to get centralized visibility throughout the enterprise and to enforce purchasing contracts.

“Yellow Transportation and Roadway Express had disparate purchasing and procurement processes. We needed to quickly consolidate these functions in order to accomplish our goal of delivering continuous improvement to our customers, shareholders and employees. We chose Perfect Commerce based on their proven processes and depth of expertise in bringing programs on line quickly and efficiently.”  
*Jim Peterson, Vice President, Purchasing, YRC Enterprise Services, Inc.*

## What makes a good eProcurement system?

For a good eProcurement solution, the first principle is to distribute purchasing decisions (when to buy and how much to buy) to authorized users in operating units. At the same time, a good system enforces rules set by purchasing management on preferred suppliers, approved items, terms and other aspects. In other words, enterprises should set policies globally, but implement them locally.

Second, a good system must provide tools for central purchasing to aggregate demand from throughout the organization so it can negotiate better deals. That requires centralized visibility into purchasing activity throughout the enterprise. You can't get a better deal, if you don't know how much you're buying. Once negotiated, those contracts must be enforced — no more buying from petty cash and getting reimbursed for office supplies.

Third, procurement is not a stand-alone activity, and e-procurement must be integrated with existing back-end financial, accounts payable and invoice management applications. Make sure the connections are easy. Does the hosted e-procurement service support SAP, Oracle, PeopleSoft or other enterprise financials? Does it allow for XML dispatching of POs and Change Orders? Does it integrate easily with supplier hubs?

Fourth, don't forget invoicing and receiving. A good e-procurement solution either addresses these activities with a complete "purchase-to-pay" system or links easily to an enterprise's existing capabilities.

Fifth, the value a company gains from an eProcurement system depends mightily on how many employees use it to make purchases. Ease of use, intuitive interfaces and powerful search features will boost compliance.

Sixth, look for catalogue management tools and services. Catalogues change, so insist on management tools to keep listings up-to-date.

Finally, the success of an eProcurement system is influenced by the number of suppliers using it. Just because a supplier is online doesn't mean it can use your system. Look for a network that not only has many suppliers — but also a network where many of your suppliers already connected. Those suppliers will be immediately available to you. For suppliers not on the network, you should be able simply to invite them to join, and then expect easy on-boarding.

## What are the advantages of online procurement?

Although much attention is focused on direct procurement (materials that are utilized in a company's final product), AMR Research found that enterprises also can realize important benefits from indirect e-procurement. (Indirect procurement refers to the everyday materials and services needed to run a business — MRO, industrial items, office supplies, etc.)

Table 1: Ranked benefits of indirect procurement

Importance of Benefits	Rating	In hard ROI
Purchase price reduction	6.6	89%
Reduce maverick buying	6.6	83%
Increase process efficiencies	6.6	77%
Free staff for strategic activities	5.9	51%
Staff reduction or expected attrition	4.3	51%
Getting business units to wrk together cross-functionality	4.1	23%

As the table above illustrates, the biggest gains come from better pricing, sticking to authorized contracts and reduced paperwork.

“The strategic relationship between Office Max and Perfect Commerce has helped customers accelerate their e-purchasing initiatives. This partnership benefits customers accessing The OSN with the fastest deployment capability in the industry. Customers can begin realizing the gains of implementing an automated procurement process in just days, not weeks and months as can be the case.” *Jim Carrington, Director, Electronic Commerce, OfficeMax (formerly Boise Office Solutions)*

### Features to look for:

Beyond those high-level principles, companies must decide on purchasing criteria that will serve them for the long term. Among the areas to consider:

**Easy to use.** Is the user interface intuitive? If not, your roll-out could be slowed by the need to extensively train your purchasing users. Ask whether your e-procurement provider offers training services to users.

**Easy to locate items.** Every eProcurement system has a search function, but users look for items in different ways. You want multiple ways to search or browse catalogues. Once found, users want to save their commonly purchased items for future use. Also, they need to identify preferred suppliers quickly.

**Punch-out and round-trip.** These capabilities allow buyers to access content or configuration tools on a supplier's Web site using the buyer's own eProcurement software. This real-time access to configuration tools and product information is critical for products with many configurations or options and for products that must be customized for each buyer.

**Customize workflows.** Every organization has its own authorization and approval processes, and an e-procurement solution should adapt to existing practices — or allow enterprises to improve them. These include configurable approvals and routing and spending limits for specific purchasers.

**Create single requisitions.** Buyers want to specify purchases once and have them approved and implemented without more paperwork. That means a single requisition for multiple suppliers and shipping addresses.

**Generate POs.** Does the eProcurement system automatically create purchase orders, send them electronically to suppliers, and request electronic confirmations? It should.

**Check order status.** Users should be able to log on and instantly see all their open orders and requisitions and their status.

**Handle receivables.** Reconciliation of items ordered to items received, and items invoiced should be easy.

**Global flexibility.** Global companies need an e-procurement solution that can handle multiple languages and multiple currencies.

## What about my suppliers?

As mentioned above, an eProcurement system only works if your suppliers are able to receive and process POs from it. Slow supplier adoption has hampered many eProcurement efforts.

### Here's what to look for:

**A single connection.** Your company wants a single connection to many suppliers, not point-to-point links for each supplier.

**Open system.** For suppliers not already connected to your network, look for whether suppliers can get online easily, accept electronic POs and issue invoices and ASNs, etc.

**Catalogue management.** Suppliers should be able to submit their own catalogues—or obtain assistance in creating and loading them. Make sure those resources are available on the network you choose.

**Manage buyers.** Suppliers need tools to manage multiple buyers (you and their other clients) on the same system.

**Killer combination.** Procurement Manager and The Open Supplier Network

Perfect Commerce offers a hosted eProcurement solution, Procurement Manager, that lets purchasing departments take back control of their purchasing processes. Procurement Manager, built on sound procurement principles, offers a complete solution that gives buyers centralized control of their entire procurement process.

Procurement Manager's end-to-end functionality comes with features sophisticated buyers will prize:

- Automated requisitions and purchase orders.
- Searches by supplier, manufacturer, keywords or UNSPSC commodity codes.
- Comparisons of products and pricing from multiple suppliers.
- A single requisition for multiple suppliers and shipping addresses.
- Automated workflows that conform to enterprise business processes.
- Support for multiple payment methods.
- Detailed reports on transaction and purchasing activity.
- Integration of PO extracts to AP and financials.
- Integration with invoice management, providing 2- and 3-way reconciliation and dispute management.

In addition, Perfect Commerce's Procurement Manager works closely with Perfect Commerce's Open Supplier Network (The OSN), which lists 8,000 suppliers and 21 million products ready for purchase. Many enterprises will find their current suppliers already on The OSN, the largest independent supplier network in the world. The OSN offers an "easy on-ramp" with automated tools not only for buyers but for suppliers too.

Together, The OSN and Perfect Commerce's hosted Procurement Manager comprise an "On-Demand" solution that delivers the fastest road to ROI. With a low start-up investment and quick deployment, Perfect Commerce's automated processes save enterprises time and money. With Perfect Commerce, the promised benefits of automated procurement are delivered with a typical 75% reduction in purchasing cycle time and true visibility into enterprise-wide procurement spending.

Procurement Manager connects seamlessly not only to The OSN but also to enterprise applications, enabling straight-through processing with financial and accounts payable systems. Procurement Manager's flexibility lets companies configure it to their business processes, including management approvals. In short, hosted procurement streamlines the purchasing process through automation and improves spend management.

## Conclusion

For companies that have not yet invested in online procurement software, On-Demand or hosted e-procurement has been worth the wait. Enterprises increasingly require fast ROI and lower TCO for any IT initiative, and AMR Research suggests hosted e-procurement can save 5% to 15% in selected categories. On-Demand systems get companies buying online quickly and with minimal up-front investment.

Perfect Commerce's Procurement Manager delivers those benefits and more. It comes with access to The Open Supplier Network, the largest independent supplier network in the world, with more than 8,000 suppliers and 21-plus million catalogue items. The combination of The OSN and Procurement Manager provides an end-to-end solution that lets buyers reclaim control of their entire procurement process.

### **About Perfect Commerce, Inc.**

Perfect Commerce delivers world-class On-Demand SRM solutions and The Open Supplier Network, with more than 150 Global 2000 clients, 160,000 users and 8,000 suppliers. The company serves a broad cross-section of Global 2000 and Fortune 500 clients with significant presence in the oil/gas/chemical, financial services, automotive, and consumer packaged goods industries.

Perfect Commerce is focused on maximizing the buyer-supplier relationship and has enabled large volumes of transactions and savings for its clients. In 2003, the company's consolidated purchasing transaction volume exceeded 3.5 million with dollar volumes reaching \$3.6 billion. Perfect Commerce's simplified and highly functional solutions have helped clients reduce costs by more than 15 percent and compress cycle time by up to 75 percent. Headquartered in the metropolitan Kansas City area, Perfect Commerce can be reached at 877.871.3788 or [www.perfect.com](http://www.perfect.com).