



http://www.canadianmanufacturing.com/purchasingb2b/features/coverstories/article.jsp?content=20090522_164747_6088

Time to Shine

Procurement takes centre stage in the downturn

By Lisa Wichmann
May 22, 2009

The question on everyone's mind these days is how long will the recession last? Purchasers might not know the answer to that, but they do know how to help their companies survive. Senior executives are calling upon purchasers to find savings, avoid further layoffs, and bring more discipline to spending.

"This is an opportunity for procurement organizations to really take a greater leadership role," says Andrew Bartolini, vice-president of global supply management with Aberdeen Group, a Boston-based research and consulting firm. "It puts procurement right at the hub of core business operations in 2009."

Not only do purchasers have the skills to negotiate, capture spend data, and ensure contract compliance, they're also good at mitigating risk, and that alone is the single most important challenge this year.

"There are tens, if not hundreds of plants that have ceased to operate along the coast of China...It's impacted supply chains of global companies very significantly and that wasn't foreseen because there was really no visibility into the suppliers' own operations and financials," Bartolini says.

"Enterprises thought they had the relationship with the primary supplier, but that supplier was in fact subbing out a large amount of that manufacturing."

In the past, managing risk meant getting a copy of a supplier's financials. But today, buyers must know about debt ratings, trade and tariff issues, political changes, and contingency plans for overseas and domestic suppliers.

Purchasers are taking their cue from investment managers and starting to view their supply base as a portfolio, monitoring it constantly, and ensuring they diversify. "Supply

risk is the area that they need to be the most concerned about," Bartolini says.

Commodity swings

As purchasers juggle these risks, they should also be analyzing their existing contracts. Over the past six months, the markets have seen dramatic swings, and it's up to buyers to leverage the fluctuations.

"The commodity bubble has burst," Bartolini says. "Anybody who signed a contract in the early part of 2008 for any type of commodity could renew that contract at anywhere from 30 to 75 per cent savings. I'm not saying it's a blanket saving and go re-source everything...You have to do the analysis. But if you just got a 20 per cent increase in July of 2008, and then watched as commodity prices dipped 60 to 70 per cent, it's time to go back and negotiate."

At the same time, they should be exploring e-procurement. Though it might not seem like the right time to make a technology investment, purchasing systems are still popular, given their lower up-front cost.

"We recently conducted some research [and] surveyed 150 CFO types...Their focus right now is on cash management and cost containment. These are things that play to procurement's strengths."

Half the CFOs surveyed said they're putting projects on hold, unless they can show return on investment within the fiscal year. For that reason, e-procurement systems seem to be getting the green light.

"With the introduction of on demand, it is possible to get a return in a 12-month period on an e-procurement system," Bartolini says. "The speed to when you would go live is dramatically shorter, and there's no license fee. You're really paying as you go, so the upfront initial investment is significantly smaller."

Many of these software-as-a-service (SaaS) options are also performance-based, so buyers pay the vendor only when savings are realized. The web-based systems are relatively low-risk in a recession, compared to ERP (enterprise resource planning) systems that can take years to provide returns, he adds.

"Where we're seeing more of a focus from an investment standpoint is on the sourcing side because that's typically viewed as being the most direct path to bottom line impact and savings," he says. "Where the rubber hits the road...is on the negotiation piece of the source-to-settle process."

Travel challenge

Negotiation plays a huge role in another major spend category typically overlooked-

travel, adds Terry Wellesley, managing director of BMO spend and payment solutions, in Toronto.

"It's either number two or number three as a controllable expense line...and CFOs...just didn't seem to pay attention to that, even though it was the second or third major category."

With the downturn, CFOs are finally realizing the impact of travel on the bottom line. They're asking the procurement department to put policies in place, and bring some overdue discipline to travel spend.

"Most companies we deal with right now are going through a minimum 30 to 50 per cent reduction in travel," Wellesley says. "We have a policy now where we have to book two weeks in advance to get the best fares."

Keeping track of employee behavior is facilitated through corporate card programs, he adds. "The only way you can monitor that is with the card program and the usage reports that come out every month that say how many airlines tickets were purchased, and [if they] were purchased within the two-week time frame for the best available rates."

Corporate cards have built-in controls to prevent their use at specified merchant categories. They also encourage more moderate spending, adds Paul Cargnelli, director of product marketing with BMO.

"Someone in the past might have just submitted that [hotel] receipt for \$300, but with the card folio data that's coming in, you can now see X amount of dollars was for the movies, and so on. So all of a sudden, all of that visibility is making people think twice about misspending."

BMO is developing new tools for travel negotiation. One component looks at city pairings of airline flights, such as Toronto-Chicago, and compares the rates of the incumbent vendor to its competitors, Cargnelli adds.

BMO is also working on a single sign-on "hub," to tackle another long-standing challenge – disparate financial systems.

"I talk to a lot of these CFOs and they've got multiple systems...but they don't talk to each other," Wellesley adds. "There's a real push on integration."

The paper burden

The notion is resonating with vendors, who are closing the gaps in the procurement process. Basware Corp., an e-procurement firm based in Finland, just launched its Connectivity solution. While procurement systems traditionally tackle contract management and supplier enablement, they often allow accounts payable to continue

with paper-based processes. But the Basware solution automates the entire purchase to settlement aspect.

"Maybe 90 per cent of the invoices are still on paper, and...everybody agrees that 70 to 90 per cent can be saved if the paper is turned into an electronic format," says Esa Tihila, senior-vice-president of Basware's global operations.

"Once you receive the invoices electronically, you're able to match those to your purchase orders or agreements...and that means more cost savings, control and compliance of the purchase-to-pay process."

Recurrent payments can be set for automatic approval, along with blanket POs of open contracts. On the supplier side, Basware enables vendors to submit invoices electronically, and create and upload online catalogs. E-catalogs can be updated instantly, and they also interface with the buyer's internal system so the order is electronic right from the start.

"You're managing the process much better and capturing everything up front," adds Robert Cohen, director of marketing with Basware's US operations.

"It really enables you to work with the treasury to manage your cash more effectively because now you're understanding when [invoices] are coming in, what the terms are and you can say does it make more sense for us to pay net 30 or is it beneficial for us to do 2 net 10?"

With paper invoices, staff spend hours opening the mail, scanning the invoices, and manually matching them to POs. There's not as much time or visibility to revisit payment terms and examine actual spend against the forecast.

Organizing the contracts

Cutting the paper also saves time on supplier discovery, adds Vito Donatiello, purchasing manager with Houle Electric, a Burnaby-based engineering and construction firm. Houle signed on with Coupa Software, a provider of hosted e-procurement solutions, in the fall of 2007.

"With the web access you have an instant archive of information," Donatiello says. "It's ideal for companies that have more than one office...If you're trying to communicate to say, 20 or 40 different people, it's nice to be able to say 'this is where we're buying product from, and this is the history of all the purchases we've done'."

A colleague recently asked Donatiello to find him a loop detector-the device at intersections that triggers traffic signals. "Well, I had only purchased one of those in my life," Donatiello recalls. "I didn't remember where I bought it from but I typed 'loop' in to my system and sure enough, there's the supplier, and the price...So that process probably saved two hours."

There are also fewer incomplete POs, since staff are prompted to enter all the necessary data, such as the supplier's address and attachments. All the data resides in the same place, so users can find all the details they need with a few clicks. They can also look up suppliers' price history.

"It does save you time, and in a downturn economy like today, it helps you survive at the end of the day, knowing you can't buy any more efficiently than right now," he says.

Another advantage is the catalog interface. Many of Donatiello's suppliers are asking Houle to order from their web sites. The Coupa system has a punch-out capability that incorporates all the suppliers' different online catalogs, without the need to re-type the data, so it's seamless to buyers.

From electronic catalogs to invoice presentment, anything that will make procurement more efficient and transparent is welcome in an economic recession, concludes Rob Bernshteyn, CEO of Coupa.

"CFOs and CEOs are saying...We want to spend less, period. And how do we do that? We don't want to see it on the expense report after the fact, where the employee begs for forgiveness...and the reality is we end up paying it back. We want to see it approved in a chain."

E-procurement systems typically boost spend under management by 20 per cent, cut maverick purchases, and reduce the cycle time of procure-to-receive by 30 per cent, Bernshteyn says.

With less time required for the transactional burden, the procurement team can focus on renegotiating contracts, heading off risk, and consulting with internal departments to save costs. The skills of the procurement team have never been more in demand.