

Getting “best value” from eprocurement

by Richard Bray

Analytics software turns data into intelligence

A NEW GENERATION of eprocurement software has the potential to link business processes across government organizations and make buying goods and services a strategic asset.

From sourcing to contract negotiations, from suppliers to catalogues, from purchase orders to payment, automation can do much more than simply make existing processes smoother and faster. Timely information about procurement can allow cost control, reallocation of resources and more strategic management.

Integrating the ‘upfront’ work – supplier management and contracting – with the ‘back end’ – receiving and settlement – means that every person and every business process sees the same information in a consistent way, reducing error and increasing visibility. Automating the workflow as much as possible frees up high value employees for high value work.

The key strategic benefit flows from analytics, the software applications that take raw data and turn it into purchasing insight.

Good information allows procurement offices to identify the best suppliers and negotiate the best terms and conditions, said Greg Rippstein, Oracle Inc.’s director of Reporting and Analytic Strategy. “Which supplier provided the best product quality or shipment reliability?” Managers can look at how much business any one branch or the entire organization spent with any one supplier. “That gives us a certain amount of leverage when we’re going into the negotiation process,” he said.

Successful negotiations can lead to supplier enablement, bringing vendors right in to the procurement database to manage their own catalogue information and monitor their

From pencils to people: eprocurement can help

Pencils are the standard example of an easily automated commodity purchase. The difficult end of the automation spectrum is people, the contractors and temporary professionals who are increasingly critical to government operations. Software solutions may never take the human factor out of professional services procurement but they are taking the mystery out of a rapidly growing government spending category.

Professional services is probably the most difficult category to bring into an eprocurement solution and the problem starts with definitions. As Michael Webb, a senior product strategy manager with Oracle Inc. said “The big thing about services procurement is, what is a service?” Because there are many different kinds of lawyers or accountants or IT specialists, and because their fields of expertise are constantly changing, a professional service today will not necessarily be the same service tomorrow.

A recent survey showed that more than 60 percent of professional services invoices are inaccurate, and procurement offices probably manage only about half of professional services spending. Controlling those processes means a huge opportunity for savings, and procurement professionals know it; they identify services as a top priority.

Adding more complexity to the procurement, professional services almost always draw in other branches of the organization. Professional services are often required for urgent work, but bringing someone in does not always happen fast. Human resources becomes involved because bringing people into the organization creates rights and obligations. The legal department becomes involved, because the contractor will be working within a structure of existing contracts and agreements.

Evaluating outside contractor performance is another challenge. Who decides how well they did their work? As Webb explained, “The actual definition of these approval mechanisms becomes a fairly significant challenge because they are not repeatable, like pencils or computers. How do you measure the activities as complete and how well have they been completed?” Performance measurements are often subjective and a number of people need to participate in the evaluation.

Even though most professional services contracting is predominantly paper based today, relevant information must come across organizational silos. Standard contracts and billing errors can be controlled but on the job realities can distort the amount on the invoice. For example, what happens when a high-priced consultant does a lower-paid consulting colleague a favour and does their work for an afternoon? “You get billed \$300 an hour for something that should have been billed half that amount,” said Webb.

The services side typically has more complex contracts and payment systems, so the field is ready for automated solutions. Automating services brings a range of benefits. Simple forms can allow better definition of service categories and the types of information that are necessary to procure those categories. Deliverables can be allocated to individuals within the organization for monitoring and supervision.

Business processes in services procurement that can and should be automated include billing statements and compliance management around terms, conditions and service level agreements. A common approvals engine can prevent cost over-runs. Payment details can be formalized, defined and enforced.



customer communications. According to consultant Suzie Simpson. "You really need to look at different ways of working with your suppliers," she said. "Does it come at a cost? Yes it does, but you will get the pay off at the end of the day."

Better partnerships with suppliers mean better and more reliable documentation and the elimination of a great deal of paper work. No matter what the software application, enabled suppliers bring cost savings. When they can log in and look at purchase orders, or see when payment is expected, "That will reduce phone calls to your AP clerks and your buyers," Simpson said.

Managing your buyers

"We have contracts in place for a reason," said Rippstein. "It helps us drive down costs." Analytics allows management to monitor maverick or off-contract buying. The latest wave of eprocurement software and even some existing packages offer dozens of reports and literally hundreds of 'drill paths, or ways to look deeper into the data.

Those reports enable managers to set up performance feedback and ensure contract compliance, ranking both the performance of individual suppliers and their performance against competitors. Ash Verma, an Oracle supply chain strategist said, "There are ways to take KPIs [key performance indicators] from different reports to come up with an overall supplier rating. You can combine all these into one composite key performance Indicator."

Customers want to be able to create their own reports and dashboards. "You could have ten thousand reports right out of the box, but the customer would still be looking for the four we don't have," Verma said. The way to cater to customer or client uniqueness is not through unique products or even unique customizations but through careful and creative use of existing features.

Implementation

This is a time of change in eprocurement. The big ERP (enterprise resource planning) vendors are consolidating: SAP bought Business Objects, IBM is buying Cognos, and Oracle absorbed PeopleSoft and Siebel. At the same time, vendors are constantly enhancing their eprocurement modules. Eprocurement customers must be clear about

their requirements and vendors' real ability to meet them, now and in the future. The challenges don't end when they do acquire or upgrade a system because users must be able to use the new implementation.

At the City of Miami, explained Assistant Purchasing Director Michael Rath, "We had to look at our city code and amend some of our sections to allow for electronic commerce." Setting up templates for standard business processes like contract creation, he said, is time-consuming. "It needs to be well thought out before you start putting data in." The result is worth it, he said, in terms of well-structured contracts and saved employee time. "They just go in and delete the clauses they don't need instead of adding things, and they don't forget things." As well as issuing consistent RFX documentation, Rath continued, "You don't have these rogue clauses that some buyer wants to put in there."

Suppliers as well as city employees are going through a learning curve. "We don't accept paper in purchasing any longer," Rath said. "We've got a trash can by the front door and you might as well throw it away. We're only going to lose it anyway." That said, Miami does plan to hold supplier workshops to take vendors through the nuts and bolts of maintaining their online catalogue items. "Our buyers have been on the front lines of that, walking suppliers through a new experience."

Existing procurement software can lead to challenges in the implementation of a new system, Rath said. "Change management was a very large issue. We were coming from a legacy system that basically created a purchase order. That created an issue in the first few months because buyers were used to buying whatever they wanted at whatever price they wanted."

The best way to beat 'maverick' or non-sourced spending is to make sourced spending the better option or even the only possible choice. Oracle procurement product strategist Marc Cagigas believes procurement can deliver real strategic value to an organization but only if buyers have what he calls "freedom without choice." The goal is to make sure buyers have a limited range of action. "Drive them to the place you want them to buy, at the price you want them to buy," he elaborated. That requires building some flexibility into the eprocurement system, so that buyers

can change the parameters of a purchase without going all the way back to square one. "It's all about exception processing, rather than change order processing," he said.

The complete package

Once an organization has a single supplier list, online catalogues, self-service for employees and suppliers, and a functional contract management system, the procurement system can provide value through business intelligence. The result can be greater visibility and management control, and better accountability to taxpayers. As Terrance Wampler, vice president of financial applications product strategy at Oracle said, "Now I can run intelligence reports; I can look for leakage and maverick spend and I can aggregate items right up to the program I am trying to deliver, so I can give feedback to citizens in public forums." ■■■

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