



Are you looking at procurement as an end-to-end process?

Need for Source to pay transformation

Digitization / Automation is the need of the hour. Many companies in pursuit of improving their purchasing function are acquiring e-procurement technology. But often times it is seen that companies fail to ensure the effectiveness of technology usage ; Result – the technology is either dumped converting the huge investment into sunk cost or an inefficient technology is pushed on to the users, making the users 'prisoners of the system'. They are forced to come up with many manual 'work-arounds' to get the daily work going. The reason why this could happen is "Not looking at source to pay as an end-to-end process", a process encompassing sourcing, procurement and payment activities. This not only nullifies or negates the initiatives taken by the organization for improvements, but also incurs expenses which are not justifiable by the stakeholders.

Some of the possible reasons for the failure of an e-procurement system or any other procurement initiatives could be;

1
Not getting the entire spend of the organization under procurement purview

2
Non standard policies and procedures across the organization

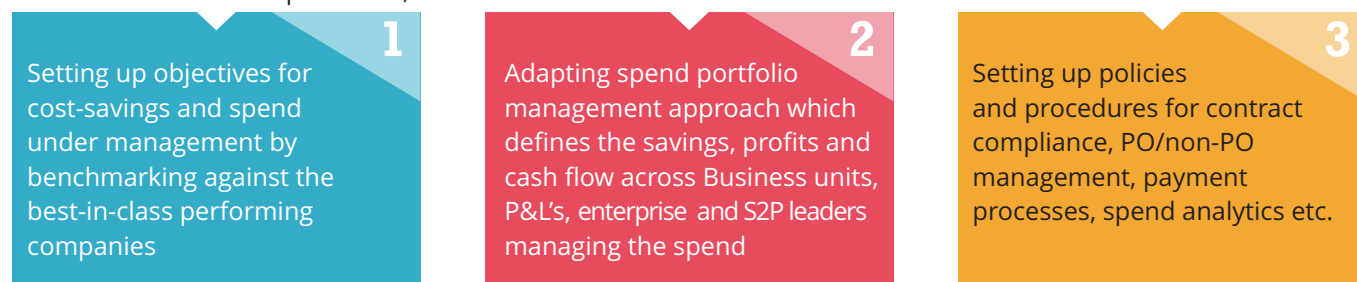
3
Improper change management and training strategy

Technology implementation was just one example to elaborate the importance of looking at S2P as an end to end process. There are many such instances where companies compromise with sub-optimal results due to lack of comprehensive view. A company with a spend of \$1B can unlock an amount as high as \$150M~\$200M by integrating the sourcing – procurement – payment processes. For instance the contract terms negotiated by the sourcing organization may not percolate into transactional systems making, the negotiated terms restricted only to the strategic teams. Further, payment terms are not referred to by the procurement teams and more so for non-PO invoices, not only incurring losses in purchases but also violating the contractual terms and conditions. Payment teams are generally common teams, across A/P and A/R functions, and work pre-dominantly towards clearing backlogs.

'Payment' part of the S2P cycle is a sub-function wrongly considered to be out of the purchasing team's purview. As a matter of fact, this is the most impactful part of the S2P cycle directly influencing spend, through discounts and by freeing up working capital. Companies can negotiate better terms of payment and also better pricing discounts by having a good track record of payments such as on time payment, full payment, advance payment etc. This is something most of the peer companies would not have explored.

Levers that companies can use for improving procurement function

Companies can use mainly three levers either in combination or individually when they are exploring transformation in S2P processes;



Best in class procurement organizations, typically are manufacturing based or supply chain focused e.g. GE, caterpillar etc., and hence some of the levers are very well implemented as improvement initiatives. It calls for the non-supply chain organizations specifically in sectors such as insurance, banking, hospitality, airlines etc. which are quite intensive on the indirect spend to economize on some of the levers and benchmark with the best-in-class.

Our Framework / Approach

From our experience, these are typically the following phases to procurement transformation journey;

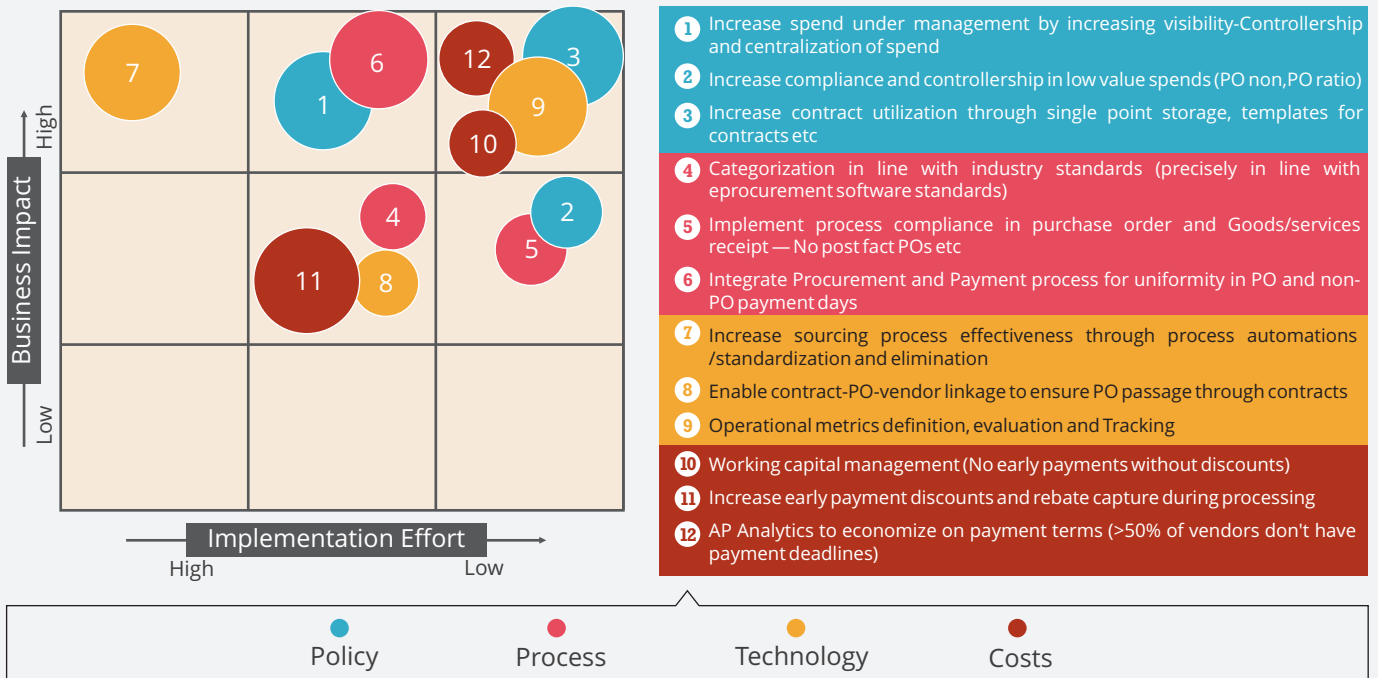
1 Procurement Maturity Assessment
A strategic analysis of the current procurement performance of the organization is undertaken. A proven and structured hypotheses based questioning approach is used to extract information on the basic needs of the procurement system. This gives a set of results which form the "procurement maturity" of the client's As-Is procurement scenario. The procurement maturity assessment evaluates an organization's procurement function for procurement organization's Strategic Fit, Governance model, Clients, Supplier Relationship Management, policies, procurement Process, Tools used, Performance management etc. As an output of the procurement maturity analysis, the client's procurement function is ranked as one of the 5 levels - beginner, basic, competitive, leader or world class. This process gives the service provider a view of what to look for in diagnosing the procurement function of the client. There are different improvement strategies for each level of procurement maturity of the client's organization.

2 Building the initial business case for transformation

Following the procurement maturity analysis, a 4-5 week diagnostics, covering the processes, systems used, organization structure etc., is carried out to come up with the As-Is situation analysis. Other parallel track that runs is the spend evaluation and the potential savings that could be realized. The spend analysis forms the basis of the savings that could be extracted through various interventions and improvement initiatives. This 4-5 weeks activity results in a business case created for the transformation. The spend analysis gives a view of the ballpark estimate of the sourcing savings that could be generated through a set of process, technology and organizational initiatives / interventions over a period of time.

3 Prioritized initiatives and Planning for the transformation:

The diagnosis in the business case building phase leads to a set of prioritized initiatives from process, technology, policies and organization angle which are plotted on effort Vs impact matrix. There are some quick wins (low hanging fruits) which can be immediately implemented for instant benefits. Others span across a time frame and require longer time to see the benefits.



Having prioritized the initiatives, the procurement leadership teams and executive sponsors need to be “bought in” to design and plan the transformation in detail. The transformation plan addresses the priority improvement opportunities identified. Many a times the transformation mandates upgrading the current systems through further automations or implementation of the new system altogether. Apart from the tool or technology implementation, there are many other interventions such as policy revamps, data rejig and analytics etc. which are to be carried out in the implementation phase.

4 Implementing the transformation:

Once the initiatives are prioritized, the implementation of the same can either be given to a service provider or can be taken up by the internal procurement team. As mentioned earlier, the quick wins can be immediately worked on for instant benefits. Other initiatives take longer time to see the benefits.



Best Practices, Maturity curve, Policies and Processes

Organizations have to constantly benchmark themselves against best in class to evaluate their performance and progress.

Best-in-class sourcing and procurement organizations achieve performance levels that are at a minimum 2-3 times higher than average organizations. For typical \$5B Company, this can mean a total spend reduction of US\$100-150M. In terms of cost savings, it translates to a savings of around 10% of the addressable spend.

In a recent business case that we built for a US based insurance company with an addressable spend of half a billion \$, without any significant investment on technology –by using process standardization, simple automations and analytics levers, we could project a cost savings of around 5% of addressable spend. We recommended a set of prioritized initiatives which were as simple as segregating PO / non-PO based purchases, Procurement – Accounts payable communication flow management, vendor rationalization, contract compliance etc. to arrive at this significant saving which was immediately implemented by the management. With slightly higher investment in cost, time and effort the savings could be more than double of this. This is over and above the intangible benefits of better visibility and controllership across the organization

Best-in-Class source-to-pay operations also emphasizes the role and impact of the ‘pricing’ and ‘non pricing levers’ of the source-to-pay process, like adherence to contracts, PO compliance, effective demand management, PO Management (P2P), Supplier Performance Management and spend visibility and transparency, to elevate end to end source-to-pay organization performance.

Our Recommendation

For companies which are looking at enhanced S2P performance, there are two possible options;

- The first option is to invest in acquiring capable sourcing and procurement professional people and technology, integrating best practices, implementing performance metrics and establishing clear savings targets through a detailed spend analysis.
- The alternative is to partner with a third-party service organization that is experienced in all of these areas and can begin delivering savings in the shortest possible time.

Many organizations do both, investing in their direct or core spend categories and leverage service providers as partners to manage indirect spend categories that are not core to their business success.

More often than not, companies outsource the indirect spend management to third party service providers (ship and fix model) but a thorough end-to-end transformation roadmap needs to be in place (fix or diagnosis) before outsourcing the transactional procurement (ship) to a third party provider This approach will enhance an organization capability and bring in S2P transformation at the earliest possible time.

About Authors

Sundar Kumar S is a principal consultant in BCG group of ITC Infotech. He is responsible for source to pay initiatives and solutions. Sundar has over 11 years of experience across sourcing, procurement, payables, after-market-services, master data management etc. He has consulting/ process reengineering and project management experience spanning across industries such as automotive, aerospace, pharma, insurance, etc. He was instrumental in multiple transformational initiatives bringing substantial cost reductions, operational efficiency and effectiveness improvement. He has created several process and metrics framework enabling organizations track and monitor progress.

Sundar holds a Master's degree in Management from Indian School of Business and a Bachelor's degree in Mechanical engineering from Visveshwaraiah Technological University.