



# Procurement Solutions: What Might Work For You

*Procurement, known in the past as 'Purchasing', was once viewed as an unglamorous back-office function. It included negotiations with suppliers, procuring the parts and ensuring they were sent to the manufacturer of the products. Today, procurement's status in the supply chain includes a wide array of requirements, encompassing everything from determining client requirements, to a global sourcing strategy. Here is a look at how technology and its application can help improve your company's growing procurement practice.*

By Christopher D. Norek and Donavon Favre

## Background

One of the recent significant trends in supply chain management is the upgrade of the traditional purchasing process from its perceived status as routine and a "back office" function to a more strategic and visible area. Particularly, the traditional term of purchasing has been expanded and renamed procurement, which encompasses more than the tactical process of filling out purchase orders. Procurement includes determining customer needs, understanding the industry and the entire global supply base, determining a sourcing strategy, selecting suppliers and managing those suppliers over time. This article will cover the technology options to help your company improve its sourcing/procurement process and give executives some advice to consider while making these decisions.

## Procurement Solution Functionality

**Strategic Sourcing/eRFx/Reverse Auction** – used to standardize and automate the sourcing process

- *Supplier identification and industry analysis*
- Can set up a preferred supplier list in advance
- Can have an automated link into Producer Price Index (PPI)
- *Automated preparation and submission*



*sion of Request for Information (RFI) and Request for Quotation (RFQ)*

- *Online negotiation (Reverse Auction or online bidding)*
- *Supplier Selection and bid analytics (determining the suppliers with the lowest total cost of ownership)*
- *Contract Management*
- Repository for all contract information
- Tie contract negotiated metrics to day-to-day

**Transactional Procurement** – used to automate the tactical process of day-to-day orders to suppliers

- *Automated requisition and purchase order process*
- *Automated item selection from an item master or electronic catalog*

- *Automated receipt, approval and electronic funds transfer*
- *Electronic connection to supplier systems*
- Data Management** – used to manage and analyze procurement data
- *Content management – data cleansing, standardization and normalization*
- *Spend analytics – analysis of key spend categories and key suppliers*
- *Performance management – tracking of key performance indicators (KPIs) such as spend savings, supplier performance*

**Transportation Procurement** – using automated solutions to select carriers with which to negotiate and then choose the lowest rate for individual shipments

- *Allow transportation bids to be handled online thereby eliminating the paper bid process and speeding up carrier identification and qualification prior to face-to-face negotiations*
- *Within transportation management systems (TMS) lies the capability to automatically select and engage the lowest cost carrier for a specific shipment*

## Which of these solutions should you consider?

Strategic Sourcing solutions should be considered for any entity which has a significant amount of spending with outside suppliers (over \$50MM total).

The spend should also be segmented into categories (i.e., sheet steel, contractor services) and sorted in descending dollars so only the top dollar spend categories are candidates for a strategic sourcing solution (the number of significant categories will go up for firm's with a larger amount of spending). For smaller companies, a hosted solution (software run by the software company, behind their firewall) is less expensive and more manageable. For larger companies with higher usage, the software is typically purchased outright.

Transactional procurement systems are typically used to reduce the time and effort associated with the tactical aspects of procurement, such as requisition and purchase order creation as well as, the approval and payment processes. Companies with 10,000 purchase transactions or more per year should consider transactional procurement solutions. Companies with fewer transactions who don't purchase a solution outright can take advantage of supplier internet sites for business-to-business transactions – for example, ordering office supplies or work gloves directly from a supplier's website using a purchasing card.

Data management and analytics are valuable for medium to large companies with a large number of part numbers and supplier information. They are especially valuable for companies with multiple locations and/or divisions where data is not currently managed centrally. With data standardization, companies can find common suppliers and items across divisions and locations, allowing them to aggregate spend volumes and achieve discounts.

### ***What Executives Should Know and Do***

- *Have your team evaluate spending data from your procurement and/or payables department to understand your total annual spend*
  - Include all spending categories in addition to raw materials/component parts such as energy and information technology
- *Ensure that data has been standardized and normalized so that your items are described consistently across all divisions and locations*
- *Analyze your current strategic sourcing and transactional procurement activities for efficiency and effectiveness*
  - Aggregate all volumes to increase negotiating leverage
  - Look to upgrade and eliminate paper-based transactions in procurement
- *Trial a strategic sourcing solution with two or three strategic sourcing events before buying*

### ***Benefits of Improving Procurement***

Procurement has become very popular because most companies can realize savings between 5 and 15% on material and service cost reductions (including price, inventory, and payment terms). Additionally, a focus on procurement results in improved supplier management including measurement, continuous improvement, and supplier relations. Lastly, by using employing procurement automation, your employees can become more efficient and effective with more time available for strategic procurement activities. With millions or even tens of millions of potential savings available, procurement will continue to be an area of increased focus.