Best Practices in Vendor Management, Strategic Sourcing, Procure to Pay and Discount Management to help drive Supplier Relationship Management ROI

Sundar Kamakshisundaram
May 15, 2013
Agenda

- Overview of Procurement Priorities and Challenges
- Organizational Considerations
  - Internal
  - External - Suppliers
- Key Challenges, Best Practices and Adoption Patterns
  - Spend Analytics
  - Sourcing
  - Contract Management
  - Supplier Management
  - Procure to Pay
  - Discount Management
- Key Take-away’s
- Q&A
Top Challenges for Procurement and Supply Chain

61% of you will have increased cost savings targets.

44% of these targets will be greater than 5%.

Creating procurement process efficiencies is the top priority for CFOs and CPO’s.

Source: 2012 CPO Agenda, Aberdeen Group
Sourcing and Contracting Today
Requires the ability to deliver savings results quickly

Are my Buyers meeting savings targets?

What information do we have on the supplier?

Where is the latest contract template?

I need to maximize cost savings!

Where is the supplier’s contract?

I must increase my spend under management!

How do I deliver a rapid time-to-value?

Am I missing opportunities to re-source or renew contracts?
Best-in-Class Procurement Organizations
Strategic Source-to-Contract Focus

Successful Companies Have Formal Sourcing Processes, Effective Contract Management and Supplier Programs

- Formal Sourcing Process: 71% of Best-in-Class organizations vs. 32% of others
- Contract Management: 61% of Best-in-Class organizations vs. 31% of others
- Supplier Program: 43% of Best-in-Class organizations vs. 18% of others

Source – Aberdeen, CPO’s Agenda
Why is an integrated source-to-contract process important?
Process Compliance
Avoiding Savings Erosion

Unless procurement infrastructure is properly designed to support strategic sourcing, the savings will erode over time.
Did you know?

XX% of a company’s identified cost savings is lost due to savings leakage?

Figure 4: Savings Leakage

- 5.4% Identified savings
- 3.2% Realized/implemented savings
- 2.2% savings leakage


Source: The State of Strategic Sourcing, Aberdeen Group
Connecting Processes isn’t Always Easy – But it Drives Results

- Sourcing: 39%
- Contract Management: 37%
- eProcurement: 36%
- ePayables: 20%

Denotes percentage of enterprises that have “no linkage” between two process areas

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Organizational considerations and best practices
Organizational Considerations

Internal

• Demonstrate Executive level commitment
• Align organizational objectives and metrics
• Build awareness and momentum through communications
• Develop Sourcing Pipeline and Savings Tracking methodology
• Nurture Early Adopters and Change Agents
• Training and Change Management

External

• Develop a supplier management strategy including Registration and On-boarding plan
• Provide training and support to the suppliers
• Ensure that suppliers understand that you are committed to the new processes and to the technology
• Maintain credibility and integrity with suppliers by being open and transparent for suppliers to win business
Spend Analytics

best practices
Effective Spend Analytics
Key Challenges

Disparate Data Sources
- Partial solutions
- Manual processes are expensive
- Multiple vendor licenses
- No consolidated and complete view of Spend information available

Dirty Data
- Can’t quantify buying leverage without knowing supplier parent-child
- Can’t identify aggregate volume by category of spend
- Can’t optimize for common purchases across departments

Difficult to Access
- Complex spreadsheets
- Reliance on IT for reports
- Complicated analysis tools
- Analysis not integrated to transaction systems
Spend Analytics
Best Practices

Data Integration
- Extractors
- Data integrator
- Self-service data management portal
- Pre-process validation

Data Enrichment and Classification
- Supplier Enrichment
  - Standardize content
  - Validate supplier data
  - De-duplicate supply base
  - Augment supply data
- Accurate Classification
  - Knowledge base
  - Multiple variables for extensive coverage
  - Data accuracy

Actionable Information and Ease of Use
- Web based interface
- Ability to analyze opportunities
- Information available to monitor KPIs and track compliance

Business compendium
Multiple master files
Transaction knowledge base
Multivariate analyses

GL/AP
P-Cards
Supplier data
Spend Analytics
Adoption Patterns

Automate data collection from:
- Disparate spend sources
- All spend categories – indirect, direct, services, T&E and P-Cards

Gain full spend visibility for faster insights

Provide self-service analytical capabilities for business users

Improve data quality via enrichment and classification:
- Enrich suppliers with correct address and other important data
- Establish parent-child relationships
- Validate supplier data against third-party content providers, watch lists, etc.

Classify transaction data into correct spend buckets

Rationalize suppliers
Identify strategic categories for savings opportunities
Pro-actively assess supplier risk
Identify business synergies across business units
Enforce contract compliance
Spend Analytics Implementation Best Practices
Recommendations and Observations

- Implementations are best done in an incremental phased approach with limited set of data
- Limit initial scope and build on success
- Build upon lessons learned before expanding too quickly
- Early success with limited roll-out drives momentum and adoption
- Identify sourcing categories and taxonomies early in Design Phase
- Address data challenges including master data alignment coming from multiple source systems should be addressed in Design Phase.
- Involvement of subject matter experts from Procurement/Sourcing and BI experts experienced with implementing analytical applications is key to success.
Sourcing
best practices
# Usage of Common Sourcing Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Do Not Use</th>
<th>Use Infrequently</th>
<th>Use Regularly</th>
<th>Use Aggressively</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Landed Cost</td>
<td>33%</td>
<td>27%</td>
<td>35%</td>
<td>6%</td>
</tr>
<tr>
<td>Optimization</td>
<td>34%</td>
<td>38%</td>
<td>26%</td>
<td>2%</td>
</tr>
<tr>
<td>Automatic scoring</td>
<td>45%</td>
<td>39%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Team scoring</td>
<td>26%</td>
<td>20%</td>
<td>42%</td>
<td>12%</td>
</tr>
<tr>
<td>Multi-attribute (use more than one factor to award contract)</td>
<td>23%</td>
<td>15%</td>
<td>38%</td>
<td>24%</td>
</tr>
<tr>
<td>Non-price factors</td>
<td>19%</td>
<td>13%</td>
<td>47%</td>
<td>20%</td>
</tr>
<tr>
<td>Payment terms</td>
<td>12%</td>
<td>25%</td>
<td>41%</td>
<td>22%</td>
</tr>
<tr>
<td>Matrix or tiered pricing</td>
<td>24%</td>
<td>37%</td>
<td>35%</td>
<td>4%</td>
</tr>
<tr>
<td>Scenario-based sourcing</td>
<td>42%</td>
<td>30%</td>
<td>26%</td>
<td>2%</td>
</tr>
<tr>
<td>Total Cost of Ownership</td>
<td>16%</td>
<td>18%</td>
<td>56%</td>
<td>10%</td>
</tr>
<tr>
<td>Reverse auctions</td>
<td>40%</td>
<td>32%</td>
<td>23%</td>
<td>5%</td>
</tr>
<tr>
<td>Multi-stage sourcing (i.e. eRFI followed by eRFP or eRFQ/Auction or other variation)</td>
<td>15%</td>
<td>27%</td>
<td>52%</td>
<td>6%</td>
</tr>
<tr>
<td>Make versus Buy</td>
<td>28%</td>
<td>46%</td>
<td>26%</td>
<td>0%</td>
</tr>
<tr>
<td>Collaborative sourcing</td>
<td>23%</td>
<td>51%</td>
<td>21%</td>
<td>5%</td>
</tr>
<tr>
<td>PLM (Product Design/Development/Engineering) tools</td>
<td>54%</td>
<td>24%</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>Supplier alternative bidding</td>
<td>39%</td>
<td>32%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>NPV or other financial modeling</td>
<td>43%</td>
<td>33%</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Commodity hedging</td>
<td>51%</td>
<td>27%</td>
<td>14%</td>
<td>8%</td>
</tr>
</tbody>
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Sourcing Project Management: Best Practices

- **Foster open collaboration with other business units**
  Provide business users outside of the Sourcing organization to request support for sourcing activities in a structured manner

- **Provide a centralized location for Sourcing-related documentation**
  Maintain a location that is accessible to all stakeholders

- **Develop a knowledge repository to maintain continuity**
  Ensure that sourcing strategies and processes are well documented to be leveraged by others as organizational change occurs
Supplier Information Management: Best Practices

Supplier data management
- Capture key attributes about your suppliers, such as diversity status and other key business classifications

Supplier repository management
- Create a repository that is searchable based on criteria that is important to your organization
- Allow suppliers to periodically maintain key company information so you have up-to-date data to work with

Supplier network
- Discover and vet new suppliers
- Leverage the power of the community to gain new insights about suppliers
Sourcing Process: RFX Best Practices

Use requests for information to understand and qualify suppliers

- Understand the supplier base to ensure you are working with the right suppliers for your organization
- Ask discriminating questions and use multiple rounds to reduce the number of suppliers considered as you move through the process

Use structured and objective questions

- Craft objective questions that can be more easily evaluated
- Set preferences and weights early in the process to reduce bias

Leverage weighting factors to determine total cost

- Use total cost capabilities to account for specific cost items to enable better “apples-to-apples” comparisons of price quotes

Reduce cycle times to obtain market pricing

- Use reverse auctions as the last step in the RFX process to quickly obtain market pricing with qualified suppliers and create opportunity for added savings
Sourcing Process: Auction Best Practices

Prepare, plan and anticipate
- Specifications should be well-defined, accurate, clear and complete
- Suppliers invited to an auction should be pre-qualified
- Terms and conditions should be agreed to prior to the auction
- A reverse auction should take place in a competitive (buyer’s) market

Consider the spend category
- Ideal categories should not have been sourced recently or be covered by an existing contract
- Ideal categories should be well understood in terms of cost drivers and the market
Contract Management
best practices
Determining Contract Management Priorities

Repository
- Contract portfolio assessment (active, expired; spend coverage)
- Reporting and visibility needs (for manual compliance as well)

Authoring
- Streamlining contract creation processes
- Minimizing risk relating to contract language

Compliance management
- Employee usage of the right contracts
- Automating pricing structure compliance

What is your company’s top priority today?
Specific Contract Management Processes
Level of Automation

<table>
<thead>
<tr>
<th>Process</th>
<th>Manual</th>
<th>Automated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis and reporting</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>Contract creation and authoring</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Automated workflow routing and approval</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Searchable repository (i.e. key word, clause, etc)</td>
<td>63%</td>
<td>38%</td>
</tr>
<tr>
<td>Automated notifications of key dates and events</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>Library of clauses, terms and conditions</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Library of contract templates</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>Electronic signatures</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>Auditing</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Negotiations</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>Risk assessment and analysis</td>
<td>96%</td>
<td>4%</td>
</tr>
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Contract Management: Typical Adoption Stages

Stage 1: Central Repository
- Easy to search
- Good access controls
- Contains header/structured data and all documents
- Automated alerts
- Reporting

Stage 2: Contract Authoring
- Use of clause and template libraries
- Integration with Microsoft Word and external collaboration tools/workflows
- Associated reporting

Stage 3: Integrated Compliance
- Structured item/pricing data
- Automated back end establishment/call-off
- Usage-based alerting
- Advanced usage reporting
Start with Pre-Implementation Steps

- Assemble an experienced team for the long term
- **Schedule a kick-off meeting well in advance**
  - Agree on project scope (locations, categories)
  - Decide between implementing “as-is” or re-designing your processes for best practice
  - Launch long lead time activities
- Get the solution up and running early in the process
- Complete initial software training *before* starting
- Get early agreement on the extent to which you will edit the legal language in use for the clauses/templates
Repository — How to Start

- How will you use the electronic contract repository?
- Find the legacy contracts
- Decide which legacy contracts to load
- Agree on which contracts to renew versus “re-do”
- Determine what contract data and files to load
  Plan for future legacy contract loading involving different contract categories or locations
- Will data loading be done manually or electronically?
  If manual, who will perform?
  Pay attention to master data in this process
- Plan for small scope test load to highlight import issues
Authoring — How to Start

- **Start with a kickoff meeting as a sub-project**
  - Gather current templates or commonly used documents (Word files)
  - Evaluation of current agreements against best practices
  - Agreement on “most common” clauses
  - Determine how much clause library will be utilized

- **Get key end users’ early involvement and buy-in**

- **Must have timely agreement on clause/template documents**

- **Determine if you want to leverage electronic signatures (buy-in)**

- **Manage scope tightly – start small but plan for future, particularly globalization of the initiative**

- **Initial work can be extensive but educational, and supports the long-term goals**
Compliance — How to Start

- Decide how much compliance do you want/need
  - Focus on biggest pain point categories/agreements

- How should the contract management system interact with back-end systems?

- Understand the out-of-box integration capabilities and constraints

- Plan any custom development projects required beyond out-of-box integrations and involve experts

- Plan for reporting to gain the most value

- Start small and leverage what’s working well
Procure to Pay

best practices
Procurement Problems abound without Networked Collaboration

<table>
<thead>
<tr>
<th>Internally</th>
<th>AND</th>
<th>Externally</th>
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<tbody>
<tr>
<td>• Unable to enforce contract terms</td>
<td></td>
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<tr>
<td>• Maverick spend</td>
<td></td>
<td></td>
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<tr>
<td>• Inefficient Workflow</td>
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<td>• Too much paper</td>
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<td>• High processing costs</td>
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<tr>
<td>• Effort to reconcile invoices</td>
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<th>Procure to Pay</th>
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<th>Catalog and Supplier Compliance</th>
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<tbody>
<tr>
<td>• Unable to enforce contract terms</td>
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<tr>
<td>• Maverick spend</td>
</tr>
<tr>
<td>• Poor ordering compliance</td>
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<th>Complex Services</th>
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<tbody>
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<td>• Unable to enforce contract terms</td>
</tr>
<tr>
<td>• Maverick spend</td>
</tr>
<tr>
<td>• Complex ordering</td>
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<table>
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<tr>
<th>And Many More...</th>
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</thead>
<tbody>
<tr>
<td>• Under-utilized eProcurement</td>
</tr>
<tr>
<td>• No network or collaboration</td>
</tr>
<tr>
<td>• Poor contract compliance</td>
</tr>
<tr>
<td>• Too much paper</td>
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Flight Plan

The approach and plan for Supplier management has to be defined, agreed to and executed against. This can be by spend area, category, geography, and / or some combination. A compliance strategy must defined as well to drive conversations and potential conflicts with suppliers.

Models / Templates

Standard business and technical processes should be the going in position. This includes PO and Invoice specs and transaction models such as Requisition to Invoice and Payment, Requisition to Pcard charge, Invoicing Against Contracts.

Catalogs / Contracts

Where possible, catalogs should be made available and promoted. This assumes that an agreement (contract) has been established with the Supplier.
Procure to Pay – Best Practices to Consider

Invoicing / Payments
Invoice / invoice exception rules should balance Buyer accounting policies (tolerances) with efficiency to payment.
Payment terms need to be rationalized and managed throughout

Reporting
Using Spend Visibility, key metrics such as spend per supplier, commodity spend, and catalog / contract compliance reporting needs to be performed on a regular basis
Optimization: Ordering

Quick Secure delivery and no more fax

- No more “lost orders” (about 2% of all orders are lost)
- Online and on-time status, cancellations and responses
- 2 days gain in lead times on average
Invoicing

Make sure the whole process stays “electronic”
- Invoices are created from a Purchase Order
- They are automatically matched
- No invoices without PO
- 100% paperless and can be legally archived
- Remittance Advice is the single most important benefit for the supplier of your p2p initiative

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7 Habits for a Successful Procure-to-Pay Program

1. Clarify how the system will de-risk whole P2P process
2. Have business buy-in from the start
3. Identify your metrics for success from the beginning
4. Think big picture: A strong system that is up to date and offers much. Will work equally well all finance systems.
5. Implementation team needs to be strong and support operations, to whom this will be new.
6. Be sure that Finance is on board
7. Plan for supplier set up efforts: Need to find right contacts in supplier organisation and support them in ‘enabling’ their business.
Discount Management

best practices
Why DIO, DSO, and DPO Matter

3 Keys to Unlocking Working Capital

- **DIO (Days Inventory Outstanding)**: Reduce $ Inventory $
- **DSO (Days Sales Outstanding)**: Reduce $ Receivables $
- **DPO (Days Payables Outstanding)**: Increase $ Payables $

**CCC (Cash Conversion Cycle)**: Reduce $ Working Capital $

**Goal:** Reduce Working Capital $\rightarrow$ Free up Cash

**Goal:** Maximize Return on Cash
Opportunity: Process Efficiency Is Key

e-Invoicing: the First Step to Maximizing Discount Capture

Reduce invoice approval cycle time to:
✓ Drive out cost while improving efficiency
✓ Increase visibility into payment timing
✓ Maximize early payment discount savings
✓ Mitigate supply chain liquidity risk

Example discount term: 2%10 Net 30
Best Practices for Dynamic Discounting
Getting the Most Out of Your Short-Term Cash

1. Align the strategic objectives of Finance, AP, Treasury, ... and Suppliers

2. Create the Opportunity for Dynamic Discounting

3. Open up Visibility to the right parties

4. Implement the Technology to take advantage of early payment dynamically
Recent studies show 50% of pre-negotiated discounts are never captured.

Outcome: Maximized Discount Capture
Making the Most of Your Short-Term Cash

3 Keys to Maximize Early Payment

Opportunity
Visibility
Technology

Capture missed discounts through Smart Invoicing
< 50% currently captured
Dynamic Discount Benchmarks
Ariba Network Average Discount Performance

- % Suppliers Participating: 20-25%
- % Discounts Captured: 95+%%
- Average Annual Return: 24.6%
- Average DPO Improvement: 4 Days

$2+ Million Savings per $1 Billion Targeted Spend
7 Key Points to Take Home

- Establish an Integrated Source-to-Settle Process with optimal Procurement infrastructure to prevent savings leakage
- Demonstrate executive level commitment and appoint a champion for the program
- Gain full Spend Visibility to drive all Spend Under Management
- Discover and vet new suppliers using Business Network to drive additional savings
- Link Sourcing and Contract Life-cycle to accelerate adoption and minimize compliance risk
- Automate transactional procurement and catalog management processes with Business networks
- Adopt eInvoicing and discount management to eliminate invoice errors and optimize working capital management
Thank you

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