

purchase**soft**



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Procurement Intelligence:

**The Bottom Line Value
of Purchasing Analytics**

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The ROI Engine of E-Procurement

Automated procurement technologies deliver tremendous value to businesses striving to cut costs and boost efficiencies related to processing direct and indirect purchases. Yet automating manual purchasing activities is only the first step in wringing additional value from procurement processes. E-procurement tools typically address only tactical buying decisions, those choices made about discrete goods or suppliers.

For maximum value, companies need technology that spotlights the impact of various procurement choices from the earliest parts of the buying process – the choice of what and when to buy, who to buy from, and how often to buy it. Decision support tools used this early in the procurement process provide executives with Procurement Intelligence, information that enables choices supporting strategic business goals.

The tools that enable Procurement Intelligence – and the remarkable value it delivers – are purchasing analytics. These tools help companies evaluate suppliers, allocate purchasing volumes across the supply chain, manage supply risk and assess supplier performance. By capturing and analyzing purchasing information in real time, purchasing analytics provide professional buyers with the intelligence they need, when they need it, to optimize purchasing activities and leverage their spending across the enterprise. This is the foundation for meaningful strategic sourcing.

The strategic sourcing process, which reaches across the enterprise to optimize the lifecycle performance of inbound goods and services, is best automated through the use of e-sourcing tools. According to the AMR Enterprise Management Application Report (2000-2005), the e-sourcing market will grow from \$191 million in 2000 to \$2.8 billion in 2005. The reason? Improving sourcing is the most effective way of enhancing the value of procurement activities. Despite the conventional wisdom, the most effective procurement strategy is not centered on low-cost providers; instead, the real value of strategic sourcing lies in the calculated selection of suppliers and goods that will positively impact the business or its entire supply chain. For this reason, AMR calls strategic sourcing “the real ROI engine of e-procurement.”

So how can business leaders embrace the most effective automated procurement technologies, develop appropriate sourcing strategies and thereby deliver optimal efficiencies and ROI? By understanding the mechanics of the procurement process, the role of purchasing analytics in improving that process, and the contribution that strategic sourcing makes to the bottom line.

The Challenge of Procurement Today

Purchasing is a fundamental process for companies of all sizes. Every business acquires some combination of indirect goods (such as office supplies, services and operating resources) and direct goods (such as raw materials and components) required to manufacture finished products or perform services. Purchasing organizations that handle these acquisitions must select suppliers, negotiate supply contracts, process transactions and administer supply reorder points.

But two recent developments have thrust this traditional back-office function into the spotlight. First, because purchased components are increasingly more critical to the makeup of final manufactured products, purchasing organizations process a higher percentage of a manufacturing organization's total spend. Not long ago, components comprised only 20 percent of manufacturer spending. Today, because purchased components make up a much larger portion of manufactured corporate products, purchasing organizations process between 50 and 70 percent of all manufacturer spending.

Second, the emergence of the Internet as a mechanism for transmitting procurement-related communications and the use of associated e-procurement tools is streamlining procurement transactions. Even simple e-procurement tools can rapidly generate measurable savings. As a result, procurement activities – and the automated tools that can streamline them – are demanding the full attention of corporate executives.

Together, these developments illuminate the value of effective supply chain management, efficient supply chain performance, and well-executed strategic sourcing on a corporation's business success. The challenge is clear: procurement activities must optimize all purchasing decisions, reducing cost and increasing efficiencies, while also considering the strategic implications of each choice. How can procurement executives best address these new challenges? Using the Procurement Intelligence that can only be provided through a new generation of technology: purchasing analytics.

Driving Strategic Sourcing through Purchasing Analytics

An effective strategic sourcing approach requires real-time capture and collection of comprehensive procurement data. Companies need information about buying issues such as product categories, cost, delivery, timeliness and quality. Once captured, this information must be automatically summarized and analyzed to provide buyers with the statistical support that enables intelligent decision-making.

Purchasing analytic tools deliver a wide range of information tools and reporting capabilities that enable procurement executives to fully understand purchasing activity and purchasing trends. The tools reveal critical information such as requisition patterns, buyer performance, supplier performance, pricing variances and pricing history. With this information, procurement professionals can select suppliers and goods based on total value, rather than just lowest price. For example, careful analysis might reveal that a low-bidding supplier also has a long record of late deliveries or product quality problems. Or, purchase activity reports may show employees skirting the formal purchase requisition process – buying the same item frequently at just below the individual spending limit – and increasing overall spending in the process. Purchasing analytic tools can also expose price variances for a particular item, highlighting an opportunity to negotiate a new contract that can lower direct costs.

By using purchasing analytics to discover discrepancies, relationships, and buying patterns, procurement managers and buyers can take the next step toward reducing costs and improving efficiencies.

The Flaws of Today's Procurement Solutions

Unfortunately, few corporate purchasing systems are designed or capable of producing the purchasing analytics needed to support sophisticated strategic sourcing. Most purchasing systems were designed to automate the procurement transaction process, generate requisition requests, transmit purchase orders to suppliers and upload purchase order activity to financial systems. Many purchase order modules in use today are simply add-ons to financial applications.

As a result, current purchasing systems have two fatal flaws that prevent them from supporting purchasing analytics, delivering Procurement Intelligence, and ultimately, enabling strategic sourcing:

- **Inability to capture sufficiently detailed data.**
Although most purchasing transaction systems capture and retain basic data, they were not designed to gather and retain enough detailed data to support meaningful analytics.
- **Lack of analytical algorithms that address procurement issues.**
Basic procurement systems may perform rudimentary low-price analysis, but they lack an analytical engine designed to crunch the purchasing data in ways that are most meaningful to buyers and procurement managers.

To rectify these problems, some businesses attempt to augment existing purchasing systems with homegrown analytic tools such as spreadsheets, data warehouses, business intelligence or data mining technologies. In the end, however, these organizations find themselves stymied by the same lack of detailed, procurement-specific data. Furthermore, businesses rarely have the in-house expertise to develop and support the complex algorithms required to support effective procurement analytics, or to generate Procurement Intelligence.

“Make no mistake,” writes Pierre Mitchell, research principal for AMR Research in the company’s recent AMR Research Strategies report, “Strategic Sourcing Gets an ‘E’.” “There is a level of innovation occurring in the e-sourcing market that is surpassing even the most sophisticated of corporations.... Leading edge corporations should consider using these types of vendors for innovative pilot projects.”

PurchaseSoft Delivers the Benefits of Procurement Intelligence

Enabling strategic sourcing requires Procurement Intelligence that can only be generated by powerful purchasing analytic tools. One of the few vendors with the expertise to deliver Procurement Intelligence is PurchaseSoft. With nearly a quarter century of purchasing expertise, only PurchaseSoft delivers the capabilities necessary to enable strategic sourcing while supporting robust procurement transaction automation. Using sophisticated data capture techniques and analytic engines, PurchaseSoft captures the Procurement Intelligence that businesses need to analyze purchasing trends, optimize spending leverage, and drive strategic sourcing.

PurchaseSoft's Procurement Intelligence delivers the following business benefits:

- **More effective strategic procurement decisions.**
With complete buying data, companies more effectively implement strategic sourcing activities that positively impact the bottom line.
- **Increased purchasing efficiency.**
Businesses streamline the purchasing process while providing managers with comprehensive oversight of spending activities.
- **Enhanced buyer productivity.**
Buyers identify and focus their efforts on purchasing areas and activities that will produce the biggest returns.
- **Reduced costs.**
Companies reduce purchasing costs through greater efficiency and productivity, enabling buyers to handle more suppliers and more purchases or concentrate on higher-level strategic sourcing tasks.
- **Improved spending leverage.**
Buyers receive insights into pricing history, anomalies and variances, allowing them to negotiate better prices and terms.
- **Reduced cycle times.**
The speed of overall procurement processes and tracking of supplier performance is enhanced.
- **Clearer understanding of technology's impact.**
Companies more effectively assess the impact of procurement technology, enabling managers to measure and monitor improvements in the procurement process.
- **Increased control over the sourcing process.**
Buyers and managers control maverick spending and effectively monitor and manage the entire procurement process.

The net result of the business benefits produced by PurchaseSoft Procurement Intelligence is direct bottom line improvement. Consider the cost savings generated by more intelligent procurement decisions: a \$1 million reduction in cost of goods purchased shows up as increased operating income. To generate that same \$1 million in profit from incremental sales, a company with a profit margin of 25 percent must increase sales by \$4 million. There is no other technology initiative that can generate equivalent business value.

PurchaseSoft Capabilities

Many procurement products help automate purchasing activities or collect limited purchasing data. PurchaseSoft offers a complete selection of powerful procurement tools that delivers true Procurement Intelligence, which can serve as the foundation for strategic sourcing. The following chart illustrates the comprehensive functionality engineered into PurchaseSoft's Procurement solutions:

Analytic Function	Description	Intended Use and Benefits
Requisition Analysis	<ul style="list-style-type: none"> Provides a snapshot of the status of requisitions and shows spending patterns. View requisition volume, requisitions issued, requisitions awaiting authorization and requisition rejected and received. 	<ul style="list-style-type: none"> For managers who need to monitor requisition activity by department or company-wide. Highlights bottlenecks.
Buyer Analysis	<ul style="list-style-type: none"> View of all buying activity within the organization. See negotiated and non-negotiated pricing. Analyze spending by commodity group. Analyze buyer ordering cycles and processing times. Track price negotiation levels by suppliers and commodities. 	<ul style="list-style-type: none"> Provides graphical representations and statistics for use by both buyers and managers. Drills down to commodity and pricing details to help the buyer in negotiate with suppliers.
Commodity Analysis	<ul style="list-style-type: none"> Provides spending information by commodity group. Identifies commodity spending by negotiated and non-negotiated spending. 	<ul style="list-style-type: none"> Used by buyers when negotiating prices at an industry level.

Analytic Function	Description	Intended Use and Benefits
Supplier Analysis	<ul style="list-style-type: none"> Provides spending information by supplier. Correlates spending with performances. Measures spending by negotiated and non-negotiated ordering. 	<ul style="list-style-type: none"> Used by buyers when choosing suppliers and negotiating prices and delivery timetables.
Pricing Analysis	<ul style="list-style-type: none"> Enables analysis of pricing by buyer, commodity and supplier. Provides details of individual pricing or summaries of all pricing. 	<ul style="list-style-type: none"> Used by managers to monitor and improve individual and group pricing performance.
Spending Analysis (department, charge, project)	<ul style="list-style-type: none"> Enables analysis of spending by department, charge and project. Provides details of individual spending or summaries of all spending. 	<ul style="list-style-type: none"> Used by managers to monitor and improve individual and group spending activity.
Supplier performance	<ul style="list-style-type: none"> Monitor and analyze the performance of top suppliers by price, quality, and delivery. 	<ul style="list-style-type: none"> For use by buyers and managers when evaluating suppliers for purchase decision or price negotiation.
Price Variance Analysis	<ul style="list-style-type: none"> Identifies purchases at prices higher than the best price. Generates exception reports. 	<ul style="list-style-type: none"> For use by managers and buyers to identify potential areas for negotiated prices.
Repetitive Ordering Analysis	<ul style="list-style-type: none"> Identifies demand for a given item. Shows frequent orders for the same item. 	<ul style="list-style-type: none"> Enables buyers and managers to identify attempts to skirt spending limits. Shows items that may be better placed in inventory.
Invoice Accrual Analysis	<ul style="list-style-type: none"> Identifies invoices for goods that have not yet been received. 	<ul style="list-style-type: none"> Assists financial staff with accounting and budgeting.

Real World Applications: PurchaseSoft Procurement Intelligence

Using PurchaseSoft Procurement Intelligence pays off in a variety of typical purchasing situations. Consider three common purchasing scenarios in which the use of PurchaseSoft Procurement Intelligence can produce a better outcome.

- **Requisition and Approval**

An organization establishes approved catalogs with negotiated rates for indirect supplies. Workers are authorized to place orders without the direct involvement of buyers, within defined limits.

PurchaseSoft Procurement Intelligence capabilities enable the company to analyze spending and repetitive orders. Buyers monitor the activities of workers, identify possible attempts to circumvent spending limits, and flag frequently purchased items that should be part of inventory.

Outcome: The company increases productivity, freeing buyers to focus on more complex purchases, while optimizing the purchase of indirect supplies through approved catalogs, negotiated rates and defined worker spending limits.

- **Direct Materials Procurement**

Manufacturing systems automatically create purchase orders for production materials. Often, the purchase contracts are set up once and never reviewed, despite vendor, economic or industry change.

PurchaseSoft Procurement Intelligence allows the company to review buyer, spending, commodity, and pricing analysis monthly or quarterly to ensure that existing purchase arrangements continue to provide maximum value. Price variance analysis alerts buyers to the need to renegotiate previously contracted prices.

Outcome: The manufacturer benefits from automated production system purchasing, while buyers efficiently monitor the activity and ensure the organization continues to receive the best prices and supplier performance.

- **Online Sourcing**

A business tries to leverage the Internet to take advantage of price and sourcing opportunities offered by reverse auctions. Buyers submit RFQs.

PurchaseSoft Procurement Intelligence provides price variance analysis and supplier performance analysis, which helps buyers identify the best price at the specified service level.

Outcome: The company effectively capitalizes on opportunities presented by Internet-based reverse auctions, procuring necessary commodity goods at significant savings.

Conclusion: Strategic Advantage through PurchaseSoft Procurement Intelligence

Strategic sourcing is not a new idea, but only now have tools become available to support the comprehensive data capture and robust analysis capabilities that can empower businesses to make more effective purchasing decisions. In addition to streamlining buying activities through automated procurement technologies, purchasing analytic tools reveal trends and patterns in an organization's procurement choices; understanding these patterns can help a company make more strategic decisions about suppliers, goods, and purchasing behaviors.

This understanding, also known as Procurement Intelligence, is available through the purchasing analytic tools offered by PurchaseSoft. With 24 years of purchasing consulting and software development experience, PurchaseSoft offers unparalleled expertise in procurement. PurchaseSoft helps companies drive down procurement costs with a practical, reliable solution for company-wide purchasing efficiency. Built to streamline all procurement processes, PurchaseSoft's procurement suite also offers real-time reporting and strategic insight into buyer performance, purchasing trends, supplier quotes, inventory levels and acquisition costs. Superior procurement functionality, high-speed implementation times, better customer service and significant ROI are the PurchaseSoft difference.

PurchaseSoft understands the strategic sourcing requirements of businesses and how to build the technology to address those needs. For companies that want true understanding of their procurement activities and real business benefit in their strategic sourcing solutions, PurchaseSoft is the vendor of choice.

To learn more about PurchaseSoft and how our innovative solutions can provide your company with the procurement intelligence it needs to successfully compete in today's rapidly changing marketplace, visit us online at www.purchasesoft.com.

Additional copy requests or comments about this white paper can be directed to: whitepaper@purchasesoft.com.

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