



Optimizing Your Sourcing and Procurement: Five Simple Rules

Introduction.....	2
Five Rules for Deploying a Successful Procurement System	4
Rule 1: Choose the Right Software.....	4
Rule 2: Don't Get Caught Up in Vendor Standardization.....	6
Rule 3: Invest in Implementation	8
Rule 4: Frequently Update and Improve the System	9
Rule 5: Choose Software that Is Easy for Casual, Occasional Users	10
Conclusion	10

Introduction

According to Gartner, North American companies spent \$1.4 billion on sourcing and procurement applications in 2013.¹ For their investment, companies are seeking two fundamental benefits:

- Lowering costs for the goods and services they buy
- Making their employees more productive

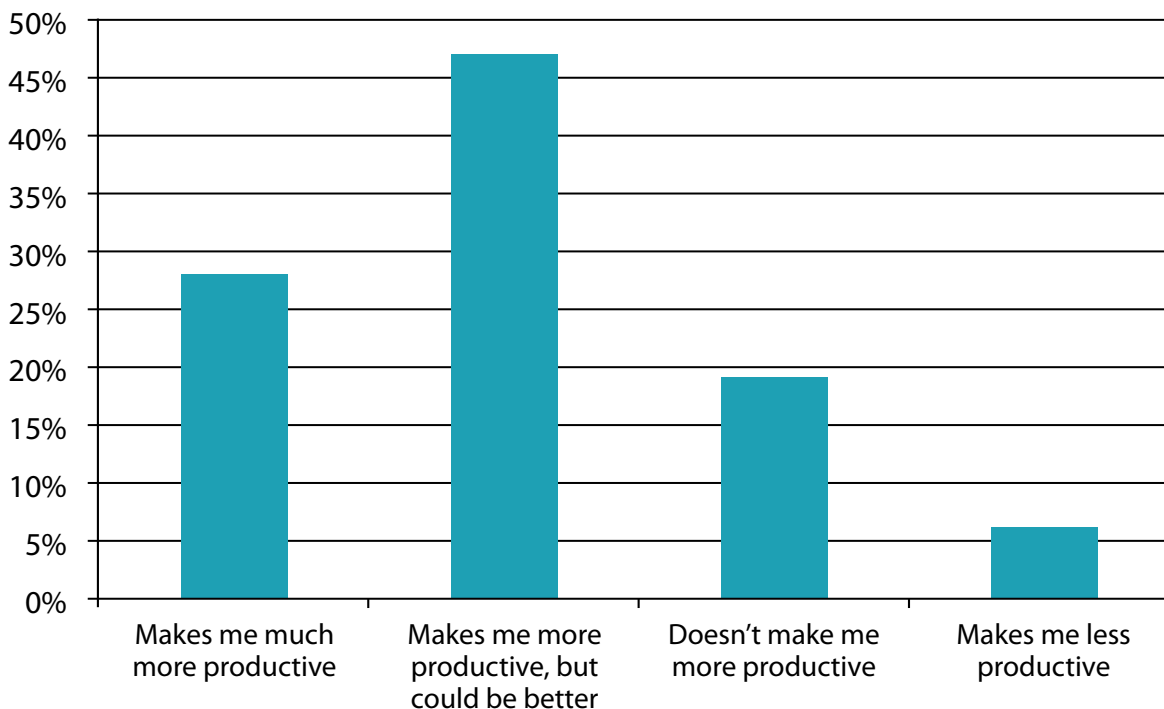
But are companies really getting their money's worth?

To answer this question, Topline Strategy Group conducted a study that surveyed 241 sourcing and procurement professionals at 201 unique US companies with \$500 million or more in annual revenue. These participants rated 426 individual deployments of sourcing and procurement systems across five application areas—Spend Analytics, Supplier Information Management, eSourcing, Contract Lifecycle Management, and eProcurement. Topline Strategy Group also conducted follow-up interviews with a subset of survey respondents to learn more about their experiences.

Key Findings: While some companies are getting their money's worth, a large number are only somewhat getting their money's worth, and far too many are not getting anything for their investment.

In fact, only 28% of survey participants indicated that their system made them much more productive. For the remaining 72%, survey responses ranged from their system makes them "more productive, but could be better" to their system actually makes them "less productive" (see Figure 1).

Figure 1. Only 28% of the Systems Rated Made Users Much More Productive (N=426)



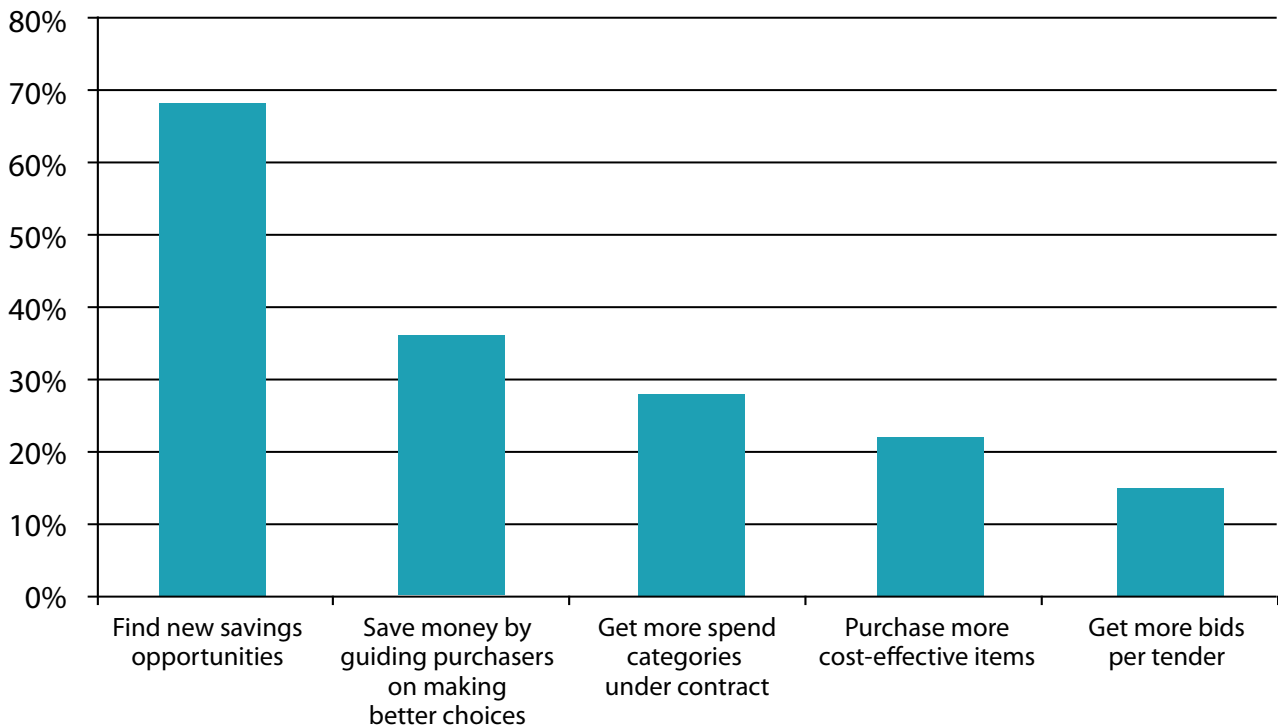
¹ Gartner Group, Forecast: Enterprise Software Markets, Worldwide, 2011-2018, 3Q14 Update, Year 2013, Region: North America, Segment: Supply Chain, Subsegment: Procurement

When measured in terms of lost opportunity, the cost to companies of not having better sourcing and procurement solutions—ones that make their sourcing and procurement professionals much more productive—is staggering. The 72% of respondents whose system did not make them much more productive reported that a better system would save them an average of just under 3.2 hours per week. That number totals 158 hours per user per year, nearly an entire work month. For these 204,000 sourcing and procurement workers in the United States and Canada, this translates into an eye-popping 32.3 million hours that are wasted in wrestling with or working around sourcing and procurement systems.²

Better procurement systems could save 32.3 million hours and \$1.5B per year.

When you consider what companies spend on labor, the 32.3 million hours cost them \$1.5 billion per year.³ However, even more is lost when you consider the kinds of savings strategies and process improvements employees whose systems did not make them much more productive could implement with that time. As shown in Figure 2, 68% of those employees indicated that they would use that time to find more savings opportunities. They would also use that time to guide purchasers on making better choices, to get more spend categories under contract, to purchase more cost-effective items, and to get more bids per tender.

Figure 2. What Procurement and Sourcing Professionals Whose Systems Do Not Make Them More Productive Could Do with the Time They Currently Spend Wrestling with and Working around Their Systems* (N=243)



* Respondents could select more than one answer.

² 72% of the 284,000 US and Canadian procurement professionals in companies with 500 employees or more. Procurement and sourcing professionals represent 39% of the 72.4M US and Canadian workers in companies with 500 or more employees. Source: Data.com, US Census, NYT: <http://boss.blogs.nytimes.com/2009/07/21/small-businesses-are-employing-less-of-the-labor-force/>

³ Based on the fully loaded hourly cost of \$45.42 for a purchasing professional. Source for hourly wage: Bureau of Labor Statistics. <http://www.bls.gov/ooh/business-and-financial/purchasing-managers-buyers-and-purchasing-agents.htm> Source for load factor as a % of wage: <http://www.nwstaffing.com/forms/TrueCostOfEmployee.pdf>

Five Rules for Deploying a Successful Procurement System

With so much at stake, what can companies do to ensure that the sourcing and procurement systems they deploy are successful? Topline Strategy Group’s study identified five rules that determine what made certain deployments much more productive compared to those that missed the mark.

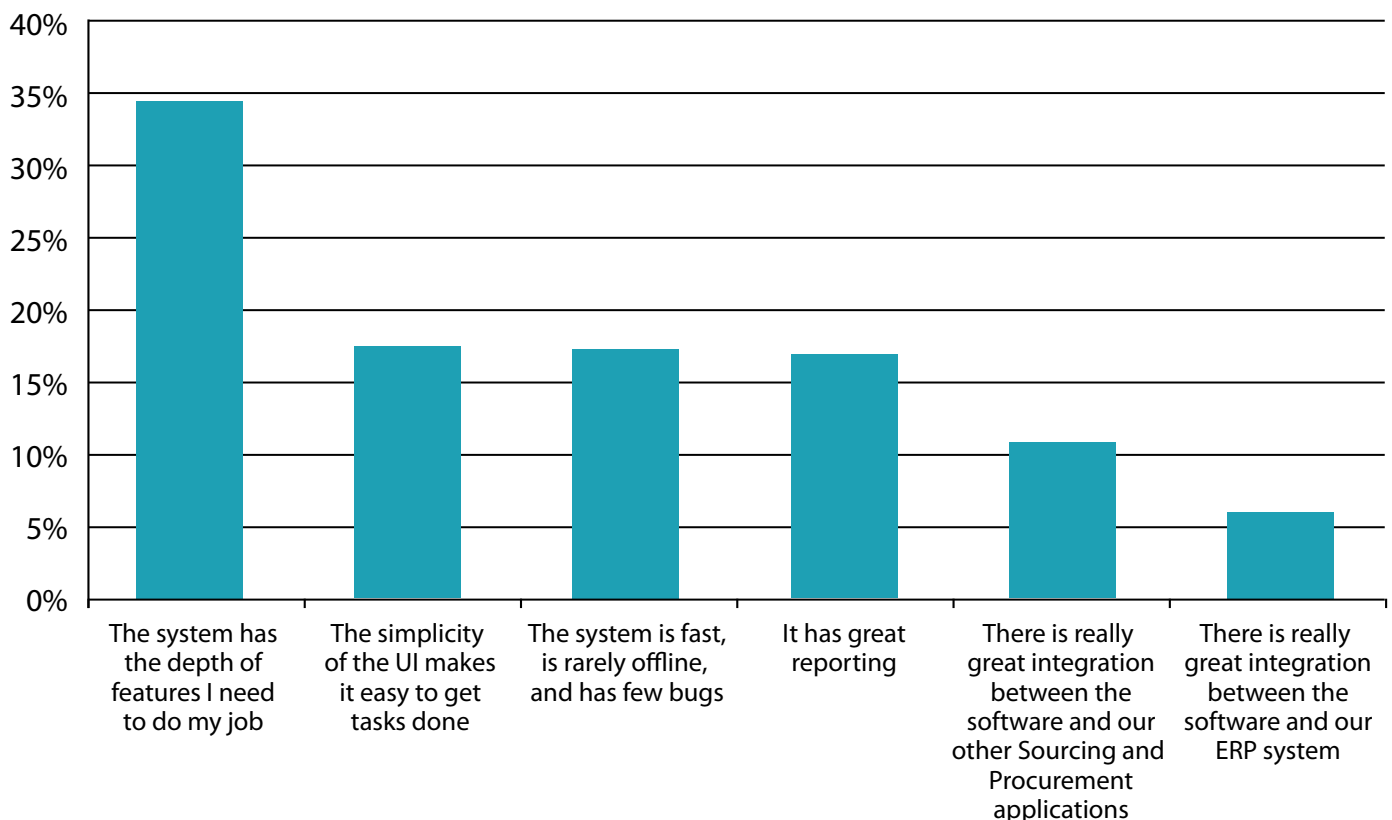
- **Rule 1:** Choose the right software.
- **Rule 2:** Don’t get caught up in vendor standardization.
- **Rule 3:** Invest in implementation.
- **Rule 4:** Frequently update and improve the system.
- **Rule 5:** Choose software that is easy for casual, occasional users.

Rule 1: Choose the Right Software

Choosing the right software can be summed up as “make sure that the software supports the automation of your key business processes and that using it isn’t too difficult.”

When the software aligns with real-world business processes, tasks that were previously time consuming, such as analyzing bids, drafting contracts, and approving requisitions, can be accomplished more quickly, making employees far more productive. In fact, survey respondents who were Very or Extremely Satisfied with their system rated “Has the depth of features I need to do my job”—the features they need to successfully automate their processes—as the most important reason for their satisfaction with their system (see Figure 3).

Figure 3. Reasons for Satisfaction of Very or Extremely Satisfied Users (N=163)



In contrast, increases in productivity disappear rapidly when employees have to manually work around the system because it does not have the features to automate the process. The experiences of one company Topline Strategy Group interviewed, who had rolled out new eSourcing software, capture the impact of the software not supporting the business processes.

When they purchased the system, they anticipated that they would be able to build the spreadsheets they were previously using to capture bid information directly into the system. In turn, this would drastically reduce the amount of time they spent consolidating and analyzing RFP responses. The customer stated that “when we went to do it, it wasn’t easy.” They do use the eSourcing system as intended for some basic commodities. But in most cases, they’ve reverted to gathering responses by “attaching the same spreadsheets we used before [we got the system]” and then compiling and analyzing the spreadsheets manually. In terms of productivity, the interviewee stated, “It’s no better than it was.”

“It’s no better than it was.”

—Interviewee describing the lack of productivity improvements of a new eSourcing system that was missing key features

While choosing the right software seems like an obvious driver of success, doing so is a challenge and many companies fail to achieve this goal. As summarized in Figure 4, the two most frequently cited sources for dissatisfaction were:

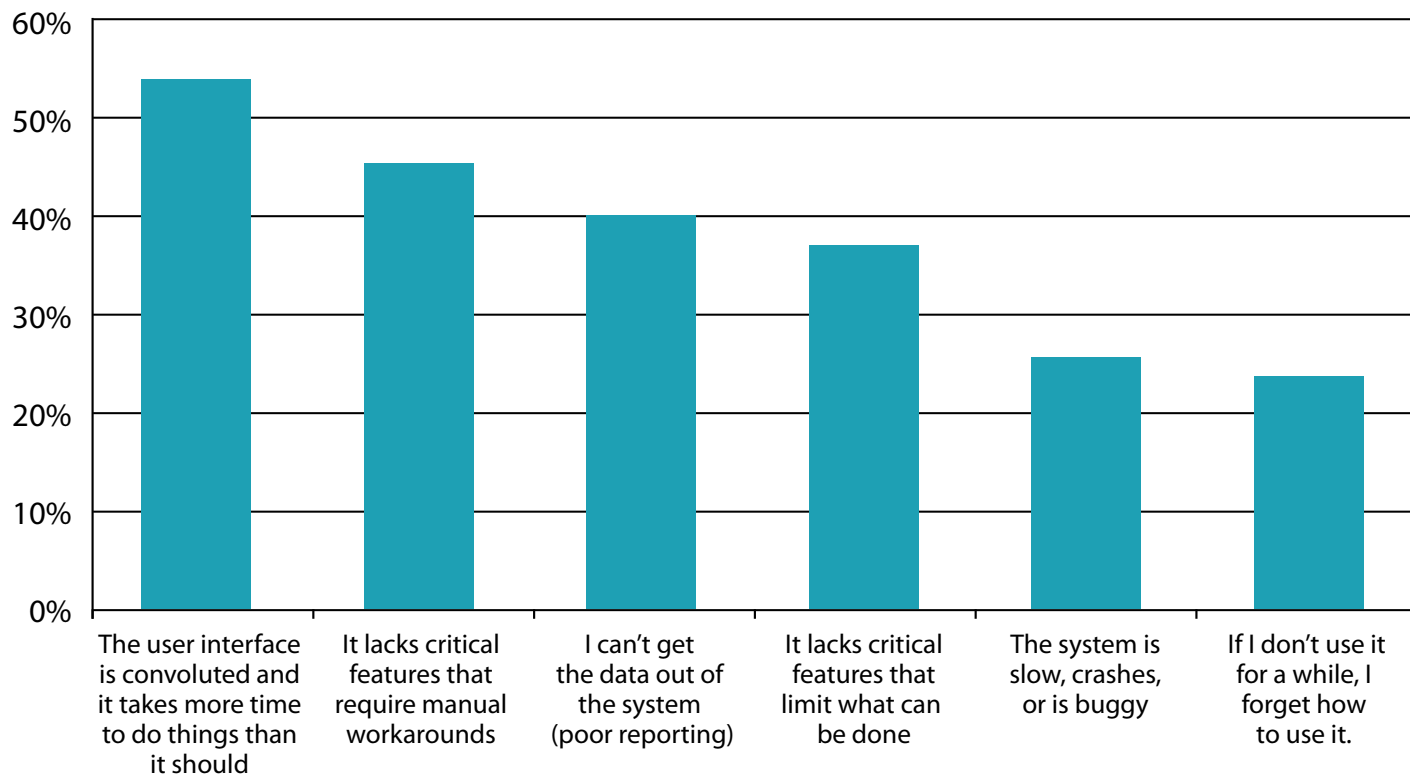
- “The user interface is convoluted and it takes more time to do things than it should.”
- “It [the system] lacks critical features that require manual workarounds.”

In follow-up interviews, respondents indicated that they value depth of features more than just ease of use. In other words, users would rather have software with the features and functions they need even if it was a little harder to use.

Together, these two findings suggest a best practice for successfully selecting the right software:

- Identify a small set of critical business processes and functions that the system has to support—the ones that will drive the greatest increases in productivity. Make those deal breakers. If the system cannot handle them, then they are off the list.
- Have the vendors actually demonstrate that the software can support those critical processes as part of the evaluation process. Then, run through them yourselves to learn quickly whether the user experience is “good enough.”

Figure 4. Reasons Why Somewhat Satisfied, Unsatisfied, and Very Unsatisfied Users Are Not More Satisfied* (N=252)



* Percentage of respondents agreeing; respondents could select more than one answer.

Rule 2: Don't Get Caught Up in Vendor Standardization

When deciding which sourcing and procurement software to use, companies very often choose to standardize on a vendor—to use the same vendor for all of their sourcing and procurement applications—rather than selecting the right software for each application. The most extreme example of this is companies that elect to use the sourcing and procurement modules of an ERP system. In this case, not only are the sourcing and procurement modules from one vendor, but so is everything else.

On the surface, there are compelling reasons to go with a single vendor—the simplicity of working with just one company, having a consistent UI across modules, and having the applications integrated out of the box.

However, if that single vendor doesn't offer the right solution for all applications, these companies often give up too much by going with one company. In Topline Strategy Group's study, of the 123 respondents who rated two applications from the same vendor, only 16% indicated that both applications made them much more productive. Another 20% reported that one application made them much more productive while the other made them somewhat more productive—a good outcome although not the best. But for the remaining 64%, neither application made the user much more productive (see Figure 5). This means that almost two-thirds of the respondents could have done better by selecting applications from two different vendors rather than standardizing on a single vendor.

Figure 5. Only 16% of Respondents Who Used Two Applications from the Same Vendor Rated Both as “Making Them Much More Productive” (N=123)

Productivity	% of Respondents
Both Apps Rated as Making the User Much More Productive	16%
1 Rated Much More, 1 Rated Somewhat More	20%
Both Rated Somewhat More	28%
1 Rated Much More or Somewhat More, 1 Rated No Change or Less Productive	24%
Both Rated No Change or Less Productive	12%

One customer who had purchased Spend Analytics and eSourcing applications from the same vendor exemplifies the typical downside of working with one vendor as opposed to picking the right software for each application. Where their Spend Analytics solution makes their team “much more productive,” their eSourcing tool “doesn’t make them more productive” at all. To quote the interviewee:

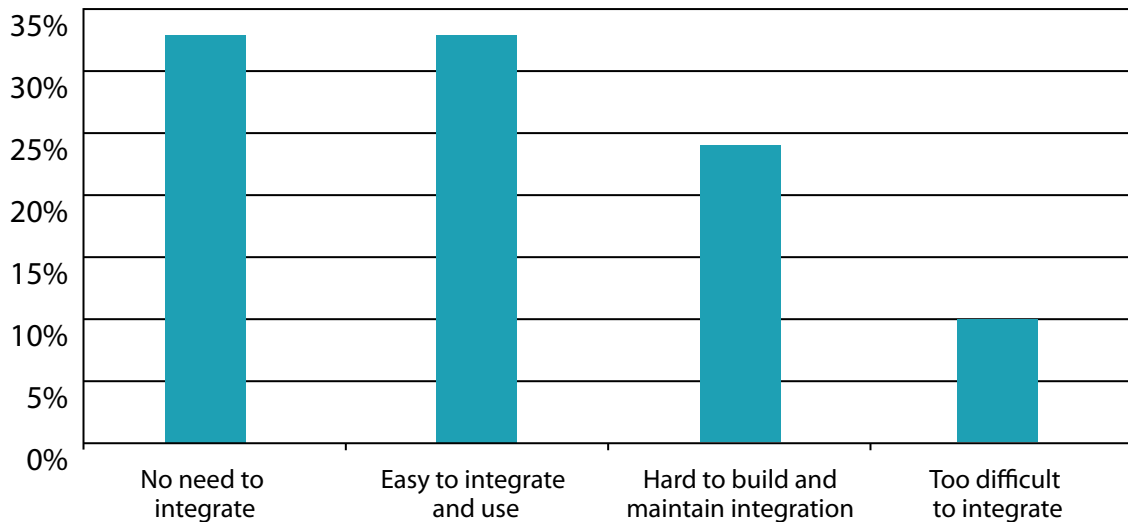
We were mostly looking for a Spend Analysis tool but also needed eSourcing and vendor management. We chose what we thought was the best Spend Analytics system and thought it would be easiest if we got the rest from the same company. Unfortunately, the eSourcing has been a disappointment. I don’t think [the vendor is] putting as much time and effort as they are with their eSourcing product with Spend Analytics. That is why we got what we got.

While Topline Strategy Group’s study found that there is often a considerable productivity downside when selecting one vendor instead of choosing the right software, the study also discovered that the single-vendor benefits are often smaller than expected:

- In theory, having a common UI across all sourcing and procurement applications seems to reduce training needs and simplify user tasks. In practice, applications like Contract Management, Spend Analytics, and eProcurement are so dissimilar that interfaces even from the same vendor are substantially different.
- The actual level of integration and UI consistency across modules, even for ERP vendors, does not quite live up to the promise. This is because most source-to-settle (S2S) suites have been assembled through acquisition.
- Many suite vendors have some applications that are best-in-class but others just round out their product offering.

Furthermore, as shown previously in Figure 3, integration, often cited as a major reason for going with a single vendor, especially for an ERP system, isn’t a primary driver of satisfaction. Integration was one of the least frequently mentioned drivers of satisfaction for users who were Very or Extremely Satisfied. In addition, most companies require only a relatively light integration between their sourcing and procurement systems and the ERP. According to the Topline Strategy Group study, 33% of total respondents reported that the ERP system did not need any integration, and 33% stated that it was easy to integrate and use (see Figure 6).

Figure 6. Difficulty of Integrating Sourcing and Procurement Applications with ERP* (N=21)



*Companies not using Sourcing/Procurement applications from their ERP vendor

Rule 3: Invest in Implementation

Another way to phrase this rule is “you get what you pay for.” In Topline Strategy Group’s study, who performed the implementation—internal resources, third party services, or vendor services—had only a modest impact on the ultimate success of the system. Based on the study results, the level of resources applied and the experience of the people completing the work had the most significant effect (see Figure 7).

Figure 7. Who Performed the Implementation Had Only a Modest Impact on Success (N=210)

	Internal Resources	Third Party Services	Vendor Services
Much More Productive	24%	24%	39%
More Productive But Could Be Better	52%	59%	46%
Doesn’t Change Productivity	18%	13%	12%
Makes Less Productive	6%	5%	2%
Total	100%	100%	100%

Regardless of how they implemented their system, interviewees were emphatic that how much the company invested in the implementation was a critical factor in both the initial launch and long-term success of the system.

“We paid a little more, but it was worth it.”

One company that is Extremely Satisfied with their system hired a third-party consultant at a cost of \$1.5 million to implement their system. The interviewee said: “We paid a little more, but it was worth it. You have to have dedicated staff who are committed to making it a success. We didn’t have 10 or 12 people internally to work on it so we had to go outside.” In terms of justifying the services expense, the interviewee stated, “We have \$400 million or \$500 million in spend a year. It doesn’t take a big percentage of savings to cover the extra services.”

Another company that did it themselves invested by dedicating people instead of paying for services. “The secret was that it became part of people’s jobs. They were assigned to the project 30%, 50%, 80% and then we backed down other priorities. We extended the timeline to take into account how much time they really had to work on it. We didn’t squeeze them on both ends.” While this company was successful using internal resources, this approach doesn’t work for everyone. It is difficult in the face of day-to-day pressures to keep team members focused on the implementation and not on other responsibilities.

While the type of organization that performed the implementation didn’t make a difference, how well that organization performed—which correlates highly with the level of investment—mattered a lot: 73% of the companies where the implementer “did a great job and added a lot of value” were Extremely or Very Satisfied with their system, while only 12% of companies where the implementer “didn’t set us up for success” were Extremely or Very Satisfied with their system (see Figure 8).

Figure 8. Performance of the Implementer Had a Tremendous Impact on Satisfaction (N=213)

	They did a great job and added a lot of value	They were okay	They didn’t set us up for success
Extremely/ Very Satisfied	73%	31%	12%
Somewhat Satisfied	24%	58%	59%
Unsatisfied/ Very Unsatisfied	2%	11%	30%
Total	100%	100%	100%

Rule 4: Frequently Update and Improve the System

One of the core truths of enterprise software is regardless of how good a job you do on Rule 1 and Rule 3, no system is perfect. There is always a long list of ways the system can be improved, and even minor improvements have the potential to drive substantial productivity improvements.

One customer who recently replaced an ERP-based Spend Analytics application with a new SaaS system described the value of regular improvements this way: “With our (installed) ERP system, we were always three versions behind and nothing ever got any better. With our new system, we are always up-to-date.”

To demonstrate the difference in the value of regular updates, the customer highlighted the productivity benefits of just one small enhancement: “One thing [our vendor] recently added which we asked for, was sharing report filters via email. There are a lot of high-level folks who don’t want to learn the software but do want to see the data. It used to take us a week and a half to get all of the reports out. With the email feature, that goes away.”

Whether the system uses SaaS versus installed software typically separates systems that are updated regularly from those that are not. While practically all SaaS systems are updated automatically by the vendor on a regular basis, companies with installed software can go years between updates (see Figure 9).

Figure 9. Companies That Regularly Improve Their System with New Features and Capabilities Are Likelier to Say Their System Makes Them “Much More Productive” (N=426)

	System Is Not Regularly Improved	System Is Regularly Improved
Makes me much more productive	16%	48%
Makes me more productive, but it could be better	51%	40%
Doesn't make me much more productive	25%	10%
Makes me less productive	8%	2%

Rule 5: Choose Software that Is Easy for Casual, Occasional Users

Rule 1 highlighted the dual requirement to “make sure that the software supports the automation of your key business processes and that using it isn't too difficult.” While this rule is critical when selecting a system for sourcing and procurement professionals, when it comes to serving the hundreds or even thousands of people who occasionally use the system to perform routine tasks such as making purchases, approving purchases, and reviewing reports, ease-of-use moves to the top of the list.

Negotiating and signing a great contract only delivers value if it is actually used. Topline Strategy Group's survey respondents strongly agreed that ease-of-use was a critical driver of how effectively users leveraged the tools that were available. They also mostly believed that there was considerable upside in this area: 81% of survey respondents agreed that “if our corporate procurement tools were easier to use, there would be less rogue spending” and 78% agreed that “if our corporate procurement tools were easier to use, our employees would find better deals.”

By selecting a system that is easy to use for the casual user, companies help ensure they get the most value out of automating their business processes and are able to drive savings over the long term (see Figure 10).

Figure 10. Making Systems Easier to Use for End Users Drives Greater Savings (N=241)

If our corporate procurement tools were easier to use, there would be less rogue spending

	%
Agree	81%
Disagree	19%
Total	100%

If our corporate procurement tools were easier to use, our employees would find better deals

	%
Agree	78%
Disagree	22%
Total	100%

Conclusion

With billions of dollars in employee productivity and cost savings on the line, the findings of this Topline Strategy Group study are ones that every company should carefully consider when acquiring, deploying, and managing sourcing and procurement systems.

Today, most companies are not receiving all of the value they can from their investment in sourcing and procurement systems. Far too many are not obtaining any value at all. The good news is that by just following the simple rules discussed in this white paper, companies can ensure that they get their money's worth.

Some of these rules, such as investing appropriately in implementation, seem like common sense but are too often ignored. Others, especially selecting the right software for each application rather than going with one vendor, go against the grain of conventional wisdom.

In the ideal case, companies would be able to get the right software for multiple or even all their sourcing and procurement applications from a single vendor. However, as the findings from this study show, if companies are unable to find a vendor that delivers this best-of-both-worlds option—the right software for several/all applications—the best decision is to go with the right software for each application.