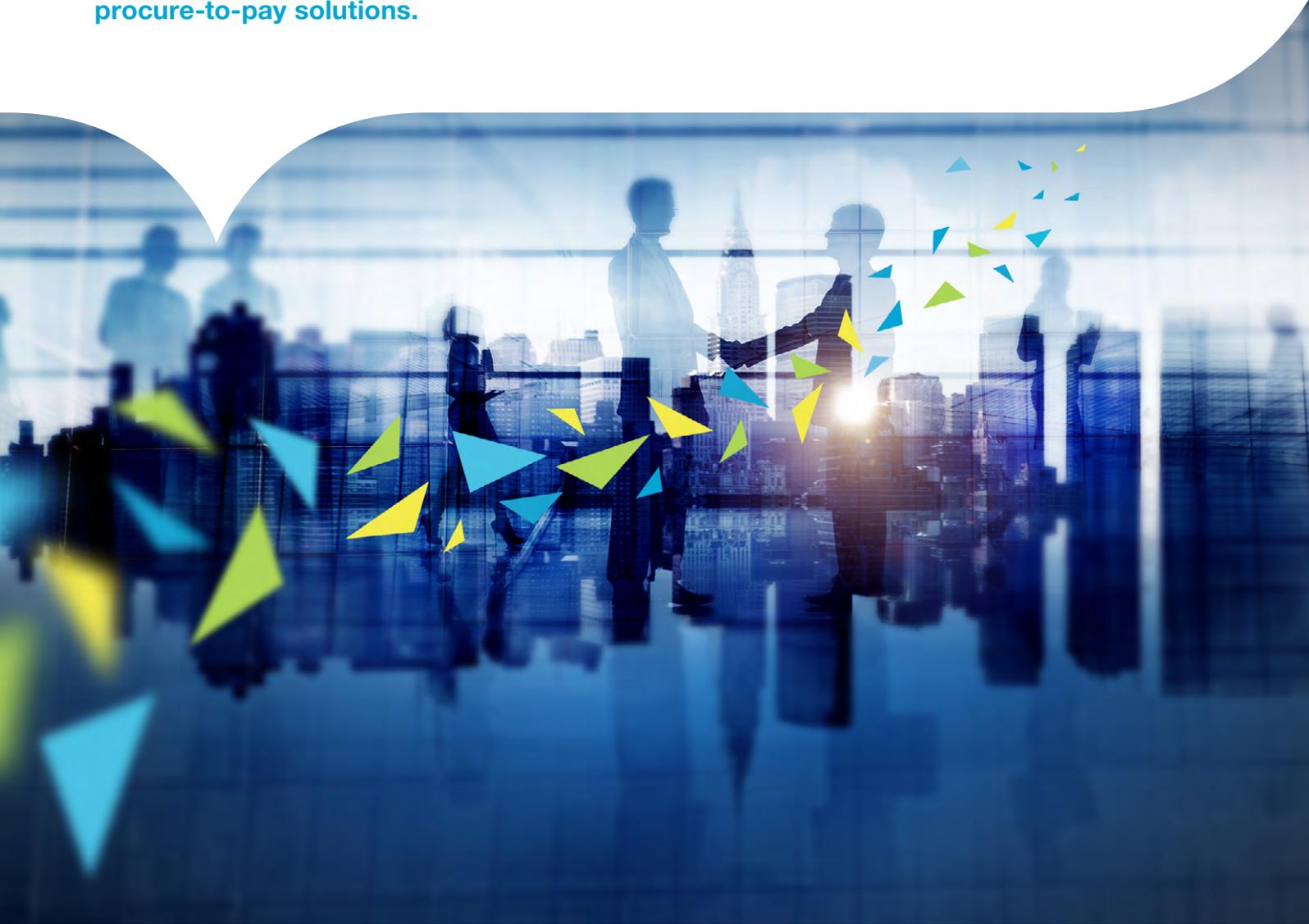


How to Build a Business Case for eProcurement Investment

Use the right drivers to help build a convincing business case in favor of investing in procure-to-pay solutions.



Many organizations today possess more maturity in procurement and accounts payable. However, the initial business case for procure-to-pay solutions remains difficult to fully justify.

The main challenge for most large organizations results from the fact that the initial business case most often finds its basis in assumptions rather than more reliable predictions; this makes it difficult to sell to risk-averse CEOs. In order to begin developing the electronic procurement technology of a business, it can be useful to understand the following five key drivers that offer measurable predictions.

Increased compliance

Although increased compliance on purchasing from contracted suppliers is the first and most frequently discussed driver, it is important to be careful not to overestimate the potential contract compliance savings in the business case. Not all non-PO-related invoices are maverick spend. Many categories – typically 40% of spend – are correctly ordered through other buying channels rather than with a classical purchase order.

Thorough spend analysis should be done for the business case to get a proven spend baseline per subcategory in order to measure spend decrease due to higher contract compliance. Depending on your spend ramp-up plan, which refers to your buying channel strategy, and on your supplier and contract onboarding process, you can define your additional spend under control and assess the related savings. Conservative benchmarks of 4%–6% of additional spend under control can be measured as contract compliance savings.





Efficiency and effectiveness

Compared to contract compliance, efficiency and effectiveness offer more predictable results. Nevertheless, businesses should conduct a detailed investigation with benchmarking to ensure an aligned setup of the procurement organization.

Most organizations are reluctant to carry out such investigations or lack the mandate to adjust processes and organizational structure based on a technology-supported setup. These businesses tend to stick to old models with the belief that just using new technology with legacy structures and processes will result in a positive business outcome. However, this belief often leads to disappointment; to drive a business case, organizations need to rethink the size and skill level setup in their operational procurement department. Furthermore, controlling unmanaged tactical spend provides a significant opportunity to drive bottom-line savings.

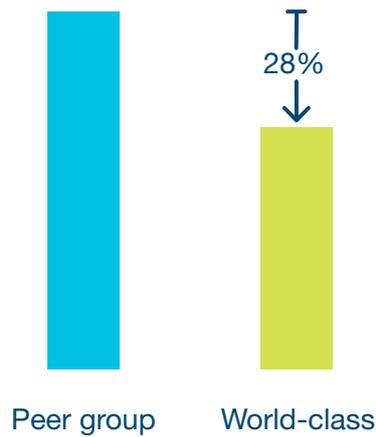


Figure 1: Number of FTEs per \$ billion of spend
 Source: *Procurement Functional Benchmark*, The Hackett Group, 2016

Buying channel strategy

In order to drive efficiency, businesses have to take care in choosing the correct buying channel strategy. This means defining the way an organization makes purchases by spend as well as the amount of transactions per subcategory, country, or business unit.

While eCatalogs play an important role in automation, they will not completely support your agenda. This requires more intelligent buying channels, such as supplier forms, price check requests, and configurable eForms. In many cases, large organizations face different maturity levels per country. While contracts are in place in some countries, in others taking control of spend is an acceptable first step. As a result, the buying channel mix depends on the regional maturity level of an organization's buying behavior as well as on categories.

To support organizations with the right starting point for a buying channel mix and mid- to long-term buying channel strategy, eProcurement providers such as IBX Business Network have created benchmarks based on their clients. Benchmarks enable organizations to find the right setup of buying channels early on, which also provides the basis for supplier activation planning. The automation impact can be calculated if the buying channel strategy and related supplier onboarding project per country are defined. The business outcome can then be estimated by comparing the existing level of automation with the automation and efficiency rate per year as an outcome of the buying channel strategy. A typical automation rate goal is between 70% and 90% depending on your starting point.

Leaner operational procurement

When attempting to focus relieved resources on higher value tasks such as tactical sourcing, leveraging a leaner operational procurement setup as an outcome of automation will prove essential. This means a shift of skill level from pure requisition handling to tactical sourcing and spot buy.

As much as 30%–40% of spend on average remains untouched because of a lack of resources or lack of interest from strategic sourcing departments in low-value purchases. However, an industrialized spot buying process can create bottom line savings of 7.1% on average through addressable long tail spend, which can be measured and used as an essential driver of the overall business case.

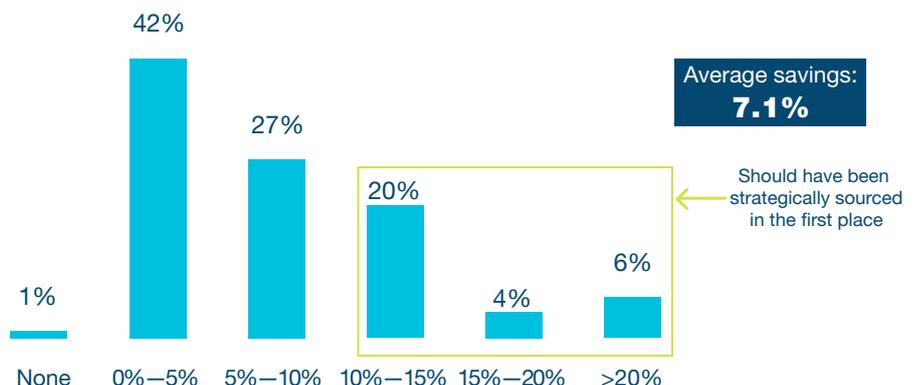


Figure 3: Estimated savings achievable through better management of tail spend
Source: *Key Procurement Issues Study*, The Hackett Group, 2016

Higher purchase order quality and accuracy

Although the impact of higher purchase order quality and accuracy to accounts payable is the least utilized driver, it should still play a key role in constructing a convincing business case. Key data for calculating efficiencies in this area is provided by the analytics on invoice exceptions, queries, and blocked and parked invoices. By categorizing invoices into typical purchase order quality-related clusters such as wrong prices, wrong article number, and missing information, you can calculate the impact of increased purchase order accuracy over a period. Then, it is possible to determine the related impact on invoice handling time and therefore invoice handling volume per FTE.

What can your business case deliver?

If you can demonstrate that your business has:



This means a potential for:

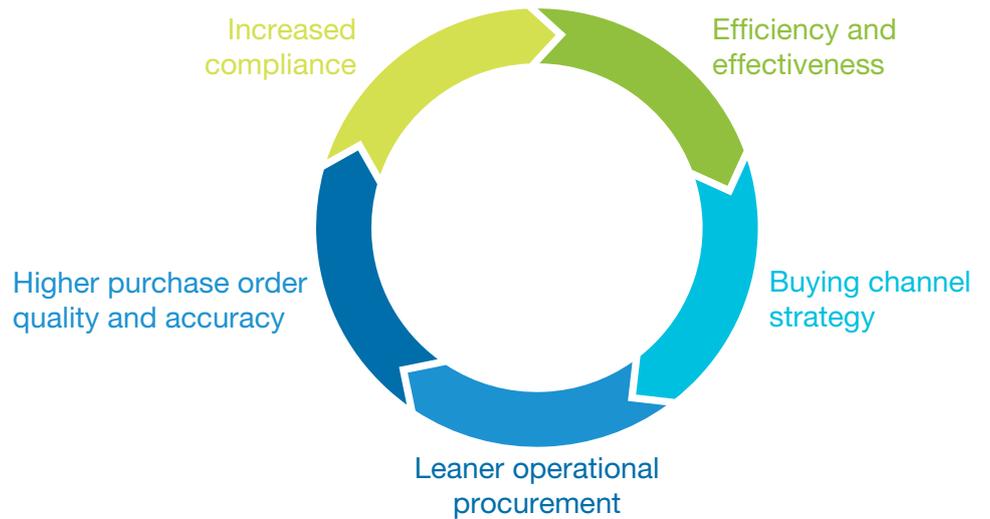
- \$6.5 million** contract compliance savings in the second year plus additional savings in the following three years
- 19 FTEs** in efficiency gain within the procurement process
- \$2.4 million** yearly savings due to an industrialized tactical buying process
- 7 FTEs** in efficiency gain within the accounts payable process



Summary

Contract compliance, efficiency and effectiveness, buying channel strategy, leaner operational procurement, and the impact of higher purchase order quality and accuracy on accounts payable together form a proper business case for purchase-to-pay. However, to create a viable and measurable basis, assumptions need to be reduced to a minimum. This can be achieved with benchmarks and industrialized processes with which providers like Capgemini IBX Business Network can supply you.

If you take the right approach and make the effort, you will be surprised how quickly you can gain buy-in and support within your organization for any cost-saving eProcurement initiative. With the right math as well as effective focus on good execution and follow-up, you will find your key stakeholders pleasantly surprised by the final result.





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I help large organizations transform their business processes with focus on sourcing, procurement, and payment functions that translate to cost savings, impact growth and profitability, and improve compliance. I have extensive experience in P2P technology and procurement outsourcing and have been working with some of the largest and the most innovative companies in the world.

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About IBX Business Network

The IBX Business Network is part of the Capgemini Group, one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2015 global revenues of EUR 11.9 billion. Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Connecting over 350 large buying organizations, 550,000 suppliers and providing services in more than 140 geographies, the IBX Business Network is a cloud-based eProcurement platform that optimizes user experience, enables superior spend management, while exacting lower total cost of ownership. A complete ready-to-run procurement service, the IBX Business Network supports the entire closed-loop source-purchase-pay process and results in lower costs and faster ROI, increased spend visibility and transparency, increased control and compliance, and improved supplier quality.

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