

Wax Digital: Calculating eProcurement Returns



OVERVIEW

For the past 10 years Wax Digital has been supplying Source-to-Pay solutions to large multinational companies. Sapphire have now brought Europe's leading enterprise class Source-to-Pay solutions to the mid-market.

Wax Digital's powerful Purchase-to-Pay solution delivers a world class on-demand solution for Procurement. Designed specifically to meet the needs of businesses, Wax Digital eProcurement is an easy-to-use solution that doesn't require the need for training.

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At its simplest level eProcurement describes the business-to-business purchase and sale of supplies and services over the Internet. From access to online product and catalogue information through electronic payment services, the Internet facilitates seamless exchanges in support of electronic commerce.

Properly planned and executed, an eProcurement system will reduce the time required to complete transactions, prevent maverick purchasing, and capture information that allows management to scrutinise buying patterns. It also prepares the buying organisation with statistical tools to better negotiate new contracts.

Tangible benefits from the use of eProcurement include:

- Reduced cost of purchases through improved sourcing on indirect and direct commodities
- Reduced operational costs through elimination of manual processes
- Rationalisation and optimisation of supply chain
- Reduction or complete elimination of maverick spend
- Reduction in order errors and returns
- Decreased cycle times
- Comprehensive, automated auditing and tracking
- Increased and more sophisticated reporting

Intangible benefits include:

- The ability to introduce or improve commodity and supplier management
- A stronger relationship with preferred suppliers
- Reduced turnaround and improved throughput
- Improved trending of cost-centre spending
- Improved visibility of price changes
- Improved spending controls and employee compliance

Any Return-on-Investment (ROI) calculation has to take into account the costs and benefits of eProcurement system implementation.

Calculating the tangible elements of ROI for eProcurement is fairly straightforward, for example:

Compliance Savings: Eliminating maverick spend by restricting buyers to contracted suppliers and leveraging the opportunity provided by eProcurement to implement an eSourcing strategy creates an average saving of 13.2% in goods and services, according to research by Aberdeen Group.

Labour Savings: Gartner Group states that manual procurement is, on average, an 11-step process with administration costs to process a purchase order requisition ranging from £25 -£40 depending on the cost of a company's resources. Through approval workflow and administrative efficiencies, eProcurement can reduce this cost by as much as 80%.

It is more difficult to accurately account for the intangible benefits, but their organisational impact can nonetheless be great and they should therefore be factored into any business case.



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Building a Business Case

It is important to understand executive management's goals for the company and make sure that initiatives are in line with their objectives. Any business case should align with the organisation's corporate goals and objectives.

- 1 Set clear and concise project goals and objectives. What is most important to the company – to lower costs, find revenue creators or simplify business processes?
- 2 Measure business objectives, costs and risks.
- 3 Complete an ROI analysis using best and worst case scenarios and clearly state the expected results.
- 4 Use quantifiable data to measure what returns can be expected.
- 5 Determine how management will measure the project a success (eg lower operating costs, supplier rationalisation, lower purchasing costs etc). The ROI calculation should not include too many drivers or factors or it will make it difficult to track and measure going forward. Prioritise the two or three drivers that will bring the greatest benefit to the company.

eProcurement Drivers

After determining priorities and objectives, it is critical to evaluate and document current process costs against expected benefits and cost savings from eProcurement. For example, if the key objective or driver is to increase the use of preferred suppliers and established contracts then the baseline for calculating ROI is to determine how many contracts are in place and what percentage of spend goes to those suppliers.

A calculation of compliance benefits can then be estimated

- If contract spend is £2,500,000
- And off contract spending on average is 20%
- And the average contract price is 25% lower than the retail price of the off contract spend
- The potential savings would be $(2,500,000 \times 20\%) \times 25\% = £125,000$

A labour cost analysis should also measure the affect eProcurement will have on your personnel costs. An assessment of the number of employees participating in the procurement process and the percentage of their time that is spent on procurement, should be measured against the salary and benefit costs for these personnel. Can headcount be reduced or personnel reassigned due to the automating and streamlining of the procurement process?

When calculating ROI it is also necessary to determine what percentage of the current services or indirect spend will be addressable through the new procurement solution. Different savings opportunities can then be calculated, including savings from:

- Reduced transaction processing costs
- Increased contract effectiveness
- Improved inventory management

An ROI calculation must also include all the hard and soft costs required to support the project. Costs to consider include software, hardware, implementation, training, user help-desk support, and ongoing application maintenance and support.

Calculating Order to Invoice Returns

Industry estimates can vary widely, putting the cost of processing a manual paper-based invoice anywhere from £25 to £40, a cost that can be significantly reduced through process automation.

Web EDI solutions such as Wax Digital Transaxions can seriously reduce the cost per document by removing direct costs, such as paper, printing and postage, together with indirect costs, such as data-entry, data-correction, dispute management, requests for duplicate copies and the approvals process.



ABOUT SAPPHIRE

Sapphire Systems plc is the number one partner for SAP business One in EMEA, Global No.1 SunSystems Channel Partner and 2009 Partner of the Year for Professional Advantage. During the past 20 years, Sapphire has built a team of technical and services personnel who have led some 2,500 system implementations - from single-user systems to large, multi-national finance and ERP applications.

Sapphire has global rollout capabilities that are available across all continents, and that are backed by a large team of software specialists. With consistent, double digit revenue growth over the last several years, Sapphire joined the ranks of the Deloitte Fast 500 EMEA Technology Providers in 2005.

Headquartered in London with UK offices in Manchester, Edinburgh and the Isle of Man and US offices in New York & Los Angeles, the group today provides solutions, services and support to over 600 companies worldwide.

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Additional benefits beyond cost reduction include better cash conversion through the reduction of Debtor Days, automation of invoice approval and payment that match defined business rules, clearer visibility of the entire financial supply chain and enhanced interaction with suppliers (and customers too).

Also, the issue of Legislative Compliance needs to be addressed in any business case, with web EDI greatly assisting in meeting audit and control requirements such as those imposed by the Sarbanes-Oxley Act.

In hard cash terms there are some ready reckoners that are useful, outlined:

Ordering

Sending a Purchase Order

The standard process for distributing Pos involves printing an order onto paper, incurring ink costs and paper costs, especially where a branded (pre-printed) order paper is required. Manual processes involve folding orders and stuffing envelopes - a monotonous and lengthy process. Once the envelopes have been sealed they need to be franked or, in the worst-case scenario, stamped manually.

Costs Summary:

Ink, paper, envelopes, postage, labour. Total Cost: **£1-3 per order**

Tracking an Order

Order delivery by mail or fax has no audit trail – the order is submitted but how long it takes to get there depends on a number of things: are there any postal delays, is it a public holiday or weekend, how busy is the sales department you are ordering from? Without an audit trail you have no idea about the status of your order: has it arrived, has it been opened, is it being processed? This makes supplier performance measurement and forecasting very difficult. Manually chasing suppliers to uncover the status of an order can end up a game of lengthy phone calls and endless trips to the filing cabinet. If you fall victim to the “lost in the post” excuse then you will need to start the process again by dispatching a new order and incurring further charges.

Dealing with a dispute

Your order has arrived and is being processed. However, if any of the details (especially price) on the order are incorrect then you are about to incur considerable additional cost. Order disputes are normally handled inefficiently, involving more lengthy phone calls and trips to the filing cabinet.

Costs Summary:

Time, phone calls, labour, paper, envelopes and postage. Total Cost: **£30 per order**

Invoicing

Processing an Invoice

Having received a paper invoice, the data needs to be keyed into the financial system, triggering a number of cost issues. Firstly it is very time consuming, especially when your accounts payable department receives hundreds or thousands every day. Secondly, it is a monotonous task, leading to lack of concentration and thereby errors. Data entry errors are not uncommon and they are one reason for many disputed invoices, which can be very costly for businesses. Finally, paper invoices need to be filed and archived, which takes up time and space.

Costs Summary:

Labour, space - **£4 per invoice**

Disputing an Invoice

Trying to get to the bottom of an invoice dispute takes time, often with considerable phone costs and the real potential to harm business relationships. If you hold off payment too long, you may also incur late payment charges.



Wax Digital web3

Wax Digital web3 delivers unparalleled ease-of-use with uncompromising functionality in a flexible package that can be configured to meet the precise needs of any organisation.

It comprises a series of discrete modules that are applied in combination to offer a truly market-leading platform for aggregating and measuring spend, driving purchasing compliance and trading electronically with suppliers.

Underpinning all Wax Digital solutions, Wax Digital Enterprise Service Bus delivers any-to-any systems integration and forms the basis for a flexible service-oriented architecture.

It delivers rapid integration to disparate back-office systems and other IT assets as required, as well as seamless collaboration with trading partners regardless of the number and nature of their IT systems



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Costs Summary:

Time, phone calls, labour - **£7 per invoice**

Total Cost: **£11 per invoice**

Add it all up and you have a potential cost running to over £40 per transaction (order and invoice).

Web EDI can eliminate, or at the least greatly streamline, almost all of these processes and thereby generate cost savings at >80%, especially where disputes, price file issues or errors are involved.

Planning for Success

A procurement strategy is intended to provide a roadmap to savings enabled by technology. It should begin with an understanding of total spend and result in a strategy for each significant category that is then integrated into a comprehensive implementation and execution plan.

While ROI savings related to eProcurement can be quantified and substantial, organisations need to develop realistic plans for implementation and deployment to reap full benefit. Any of the following challenges, if not properly addressed, can result in a project failing to meet its anticipated ROI:

- Unrealistic implementation plans
- Low user adoption rates
- Lack of executive sponsorship
- Poor rationalisation of the supply base
- Supplier enablement and catalogue management difficulties
- Lack of ongoing management and support resources

Finalising the Business Case

Once current practices and baselines have been documented, hard costs and savings calculated, the mechanism for meeting corporate goals identified and project implementation scenarios developed, the business case can be signed off.

The completed case is likely to address the following:

- 1 Description of the current problem and need for solution
- 2 Description of the solution to the problem
 - a What happens if the request is not approved?
- 3 Presentation of overall costs and anticipated savings
 - a Hard ROI calculations
 - b Timeline for implementation and payback with best, worst and expected scenarios
 - c Utilise industry benchmarking data to support assumptions
 - d Value of investment
 - e Lower costs
- 4 Identify revenue creators
- 5 Supplier presentation
 - a What are the benefits to the selected supplier
 - b What is the anticipated payback analysis for this supplier

At the time of implementation, communicate to all users and key stakeholders the reason the solution is being deployed as well as the goals, benefits and anticipated cost savings. For continued support, report results throughout the lifecycle of the project to management and key stakeholders.



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Wax Digital web3 delivers unparalleled ease-of-use with uncompromising functionality in a flexible package that can be configured to meet the precise needs of any organisation.

The individual Wax Digital solution modules that can then be combined to deliver a complete eProcurement and eSourcing solution include:

Wax Digital Purchasing allows buyers to build complex product and service requisitions from multiple vendors and facilitates all aspects of approvals, budgeting and purchasing process management.

Wax Digital Master Data Management facilitates the collection, storage and management of large volumes of data. Tailored data views can quickly and easily be created for presentation to users and/or third party systems.

Wax Digital Reporting delivers a broad suite of configurable standard reports and powerful ad-hoc reporting facilities to provide clear and comprehensive information about spend patterns, down to individual user and vendor level.

Wax Digital Transaxions is a highly effective mechanism for electronic document exchange with large supplier communities, offering a range of engagement options to suit different trading profiles and IT capabilities.

Wax Digital Forecasting provides buyers with the tools to predict product demand and ensure continuation of supply through timely stock replenishment.

Wax Digital Invoice Matching enables the capture of data from paper invoices, with sophisticated matching engines to verify invoice accuracy and comprehensive workflow and audit tools for rapid and efficient discrepancy resolution prior to payment.

Wax Digital Contract Management delivers total control for any type of contract or business agreement and, by exposing data to other modules within the eProcurement solution, provides the foundation for fully automated supplier performance monitoring.

Wax Digital eRFx delivers a buyer toolset to streamline the tender process, allowing buyers to electronically create, distribute, collect and score tender documents. The eRFx module makes building multi-line proposals and quotes simple and fast with flexible forms, templates and wizards.

Wax Digital eAuction closes the procurement circle, utilising the data gathered on enterprise spend to consolidate purchasing and negotiate best value through real-time reverse auction events.

For more information on eProcurement please call our Product Advisory Team on +44 (0)20 7648 2000.