

# Third-Generation eProcurement Solutions

## Driving Value Throughout Your Financial Value Chain

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## 1 Executive Summary

While there is always a strong need for organizations to focus on procurement, it becomes even more critical during a recession and tough economic times. It is imperative for companies to know where and with whom they are spending their money, how much is being spent, and where the opportunities are for savings and efficiencies.

Unfortunately, this is often harder to do than it sounds. Previous generations of procurement technology were rigid and difficult to use. This, coupled with the human tendency to shun new processes if they are not easily implemented, made getting true visibility into an organization's procurement practices seem like a pipe dream.

Fortunately, a new generation of advanced eProcurement tools based on third-generation technology is enabling organizations to easily achieve true visibility into their spend and control over their financial supply chain. These solutions are easy-to-use and intuitive to drive user adoption on desktops throughout the organization. At the same time, they are robust, providing advanced functionality to increase the level of automation and efficiency. Because third-generation technology is business-rules driven based on the policies and priorities of an organization, it enables companies to implement their procurement goals.

Best-in-class practices are emerging globally that take advantage of this third-generation eProcurement technology to deliver key savings, ongoing value through continuous process improvement and the ability to transform procurement functions to deliver critical value to the business.

## 2 The Need for Change

In many companies the procurement process is just not working. Maverick buying has become a de facto standard at many organizations and has resulted in the purchasing department's loss of visibility and control. The maverick, non-PO or unrecorded purchases become unrecorded liabilities, leaving a company unaware of the impact this on its bottom line and with no way of knowing the degree of its exposure.

Another issue companies are facing is that they can't fully benefit from volume discounts or contracts without visibility into and control over the spend and procurement process. For example, when it comes to indirect purchases, if 100 employees go outside of a company's procurement process to purchase equipment from the same vendor, the company loses out on volume purchases or other contractual agreements it has negotiated. Additionally, if many employees purchase the same equipment or services from different suppliers, the company loses the opportunity to consolidate purchases to achieve the best prices and to negotiate the best service level agreements. In addition to making it practically impossible to manage spend against budget, companies cannot effectively implement strategic procurement practices. How can a company leverage its contracts, maintain supplier quality, and ensure its selected suppliers meet company standards under maverick buying conditions?

In addition to the need to consolidate spend and the desire to save costs, companies are realizing that they need to ensure that the suppliers they work with deliver the value they need. At a basic level, companies need reliable suppliers who can meet deliveries and delivery times, and provide high quality goods and services. At a higher, but equally important level, companies want to be sure that the suppliers they work with meet their corporate values and will not do anything unethical or dangerous that will damage their reputations. They may expect their office supplier provides recyclable copier paper. Clothing companies would want to make sure, for example, that their overseas factories are not employing child labor and toy manufacturers would need to know that there is no lead or other harmful substances in their products.

Procurement professionals need to have visibility into spend and the time to work more strategically so they can identify the best suppliers and select related products and services that work together synergistically to provide added business value. When companies find suppliers that provide the best value along with fair prices, they need to nurture these relationships to further the goals of their businesses.

### 3 Advanced eProcurement Solutions Solve Problems and Create New Opportunities

The limitations of previous generations of eProcurement technology, made it extremely difficult for procurement professionals to gain visibility and control over procurement processes. First-generation solutions, which were developed solely for use by procurement professionals, were inflexible and extremely hard to use. The automated workflow that these tools provided was very limited – only able to manage predetermined transactions. The second-generation eProcurement solutions tried to reach broader end-user audiences by leveraging web-based technology. However, they never achieved broad adoption – and ironically because they were so inflexible and difficult to use – they ended up encouraging the maverick buying they had been trying to prevent. People are creative and when a system is rigid they will find ways to work around it.

Both first and second-generation tools also sorely lacked process and systems integration. Procurement was seen as a separate silo or entity divorced from other integral processes such as accounts payable. These systems were outdated, based on old technologies and approaches. The previous generations of technology also suffered from the lack of organizational commitment because at the time these technologies were introduced, the majority of companies were not ready to address purchasing issues in a strategic and comprehensive way.

Because there was not broad enough employee buy-in and adoption to truly analyze the spending habits and enforce procurement policies, companies were not able to achieve visibility or control over their processes.

By contrast, third-generation eProcurement solutions available today provide the ease of use and flexibility to encourage usage on every desktop throughout an organization. These new solutions incorporate the needs of all the stakeholders who are using the system and consider the needs of employees and casual users to be just as important as those of purchasing professionals and other power users. Developers of advanced eProcurement solutions have focused on creating an easy-to-use experience and intuitive interface. They realized that using an eProcurement system has to be easier and faster than picking up the telephone to place an order (In fact, using advanced eProcurement solutions takes only about a third of the time it takes using manual methods). Otherwise, companies would not be able to achieve the broad usage needed to deliver the visibility into spend and the control they needed.

By encouraging widespread employee adoption of procurement systems, third-generation eProcurement solutions are enabling organizations to finally be able to capture the majority of their spend, gain control, and maximize cost savings and efficiencies. These systems take a holistic approach to financial functions and are highly integrated throughout the financial supply chain. All related information can be accessed through the eProcurement system, so visibility and financial management across the financial functions is optimized. For the first time, businesses are able to see how their actual spend invoiced compares to contracts and purchase orders. Now companies can truly analyze and manage their spend, have control over their purchases, maximize savings and become fiscally accountable.

## 4 Real-World Success Stories

Advanced eProcurement strategies are delivering significant benefits to organizations. In the public sector, Helsinki, the capital of Finland, illustrates a world-class implementation of eProcurement. Helsinki purchases approximately EUR 1.6 or US \$2.5 billion annually from more than 10,000 suppliers. The city's procurement center cooperates closely with the city's Financial Shared Service Center (SSC). To control its spend more strategically, improve processes and save money, the city decided to implement a third-generation eProcurement solution. Using the solution, Helsinki has undertaken a massive initiative to create and send all orders electronically. Users can buy contract-based items that are maintained in easy-to-use electronic product catalogs, or select flexible free-text purchases.

Using business rules and contract-based matching, the city is able to achieve an order matching rate greater than 80%, saving time and eliminating inefficiencies. Additionally, it uses the eProcurement system to promote the municipality's core values, which include selecting suppliers that can provide the greatest value in terms of high-quality goods and services, in addition to the best prices, and ensuring that the city purchases from small and local suppliers. This is handled through built-in business rules that implement and enforce these policies. Under the new system all purchase orders are created electronically so purchases are automatically routed to the proper approval process at the order stage, and the system automatically inputs all necessary basic data such as cost centers and accounts. Now employees only need to address exceptions. Additionally, because the solution is delivered in a Software-as-a-Service (SaaS) model, the city can better manage its IT resources and expenses. It avoids making an up-front investment on IT or tying up internal resources to run or maintain the system, which in the SaaS model is all handled by the software vendor as a service. In addition, the city of Helsinki is using services like catalog management and supplier activation provided by Basware that has been critical to the success of its procurement operations.

The new eProcurement system also provides tremendous visibility, enabling the city to know what, from whom and how much it is purchasing. Additionally, it can identify any problem areas as well as opportunities for efficiencies, cost savings, and improvement.

The city of Helsinki now will be able to benefit from volume discount purchases and ongoing spend analysis and realize significant savings. The city of Helsinki plans to use its eProcurement system to expand its competitive bidding capabilities through online sourcing. This will enable the city to further optimize savings.

Another example of advanced eProcurement is the Pan-European Public Procurement On-Line (PEPPOL) initiative, a major eProcurement effort, which is still in its early stages. PEPPOL is managed by a consortium of 14 participants, which includes government ministries, cities, universities, etc. and several subcontractors from nine European Union nations. This collaborative program plans to build an integrated electronic platform to facilitate an easy, reliable and secure channel for business documents (e.g., goods received, catalogs, invoices, etc.) to be exchanged across Pan-European countries and departments for selling and buying goods and services.

## 5 Technology Innovations

Many global companies recognize the strategic significance of IT compliance, governance and the alignment of IT and business goals, and are focusing their technology initiatives in these areas. Third-generation eProcurement technology supports these initiatives, enabling companies to achieve gains in these key areas.

New technology advances enable third-generation eProcurement solutions to deliver the critical value that companies need. These solutions use the Rich Internet Applications (RIA) model to create easy-to-use and intuitive user experiences that drive adoption. The Rich Internet Applications enable eProcurement solutions to hide the complexity of the back-office business support systems, and only show users the specific information that is relevant to them. For example, only the account codes applicable to a specific user would be presented. By promoting widespread adoption, these systems enable companies to gain the visibility and control they need in procurement.

New business-rules-driven technology in advanced eProcurement systems also supports broad usage because it makes the systems easy to use and promotes efficiencies. The third-generation technology is driven by business-rules based on the policies and priorities of an organization. Examples of an organization's business rules might include: buying from suppliers who maintain certain criteria, such as green values; compliance with bookkeeping standards, legislation, contracts and best practices; and real-time monitoring of spend compared to budget based on the procurement plan. The business-rules functionality automates many of the processes so employees are not wasting their time entering transactions, but rather, only dealing with exceptions.

Advanced eProcurement systems enable organizations to connect seamlessly and holistically with other processes in the financial value chain by using sophisticated integration technology. These systems use a type of service-oriented architecture (SOA) that is highly parameter driven using pre-defined methods so key functions are built-in, in contrast to the traditional SOA approaches that require a great deal of programming. SOA is a type of architecture that packages business processes as services that can be combined and reused to create applications, and easily integrate with one another. Because third-generation eProcurement solutions are parameter-driven using pre-defined methods, they offer a simpler, highly reliable way to implement SOA.

Another technology innovation these advanced eProcurement solutions provide is the ability to support any virtualization environment, so what appears to be multiple computing environments can actually be a single server. This delivers IT security benefits, and promotes energy savings and reduced administrative costs through resource consolidation.

## 6 Strategies for Making Advanced eProcurement a Reality in Your Organization

World-class companies are establishing advanced eProcurement practices in their organizations. Following are some of the strategies they are using:

- Focusing on the processes. Technology alone won't provide the answer – these organizations are focusing on improving their processes. Companies need to establish flexible processes that can be scaled and adapted to changing requirements. Many products built today may appear to use new technology but still use old design processes such as workflow, which supplements existing manual processes with computerized ones. However, if an organization has poor processes in place, computerized workflow just speeds up the rate that problems occur. As AMR Research founder and CEO Tony Friscia notes, “You have to fix your organization and processes before you automate. If you have messed up accounting processes, all computers will give you is an automated mess.” Conversely, automation – or using technology to design rules-driven processes – makes these operations more effective and efficient. It allows companies to work smarter and better as well as faster.
- Striving for continuous process improvement. Improving operational efficiency is a major challenge for organizations today. Best-in-class financial organizations today are building on short-term ROI results to further continuous improvement.
  - Set your baseline. The first step in establishing a program of continuous improvement is to see where your organization is today. Then you can measure it against industry standards as well as your own internal targets.
  - Define your goals and strategy. Understand what your organizational needs are and set your goals and strategy for achieving them. When you set your sights make sure you are looking far enough ahead.
  - Identify top KPIs (key performance indicators). World-class organizations are implementing key performance indicators in Purchase-to-Pay, measuring current performance against goals and benchmarks to identify their strengths as well as opportunities for improvement. According to The Hackett Group – a strategic advisory firm specializing in enabling executives to achieve world-class performance by providing advisory, benchmarking and transformation services – finance departments that intensively measure their performance show significantly better results in decreasing costs and improving the productivity of their operations. They also benefit from improved quality and enhanced customer service.
  - Make incremental changes and learn by doing. In contrast to the traditional approach of designing monolithic IT projects that are costly and time consuming, best-in-class organizations realize that the most effective approach is to work toward a larger blueprint, but make small incremental progress. The traditional approach could take months, if not years to implement, and typically has a high failure rate for meeting project objectives. When and if the re-engineering project was completed, the needs of the company, the industry environment and other key requirements often have changed and the project is no longer relevant. By contrast, the approach of “Think Big, Start Small” enables an organization to achieve benefits from the start, and facilitates innovation. As you implement advanced eProcurement practices, you will learn more about your organization, and gain insights into your spending habits and potential problems. This will enable you to uncover new ways to improve your processes, save money and transform your procurement operations.

- Pick new KPIs – When you achieve your KPIs or as your needs change over time, you will want to select new goals. Then you can continue to innovate based on what you have learned and where you want your organization to go.
- Build in flexibility. As the Gartner Group espouses in its “Design for Change” philosophy, the approach you take should have the flexibility to not only address your needs today but also be able to accommodate potential needs you may have in the future. As noted in SearchCIO, “A new economic reality is forcing some companies to look more broadly at their business processes and move from a “build-to-last” approach toward designing business processes that are built for change. That was one of the take-home messages in the opening keynote at the Gartner Business Process Management Summit at Caesar’s Palace in Las Vegas...”<sup>1</sup>

Since you can’t always anticipate changes in the industry, customer demands or your organization, the best way to plan ahead is to have flexible technology and systems that can evolve along with your needs. Strive for “next practices,” which are the best practices of tomorrow – those yet to be identified.

- Take a holistic approach. Procurement fits within the larger system and should be integrated within an end-to-end process. This financial supply chain includes all the money related “flows” and processes in the company. Third-generation tools enable processes and data to be seamless integrated across functional boundaries throughout the financial supply chain. One of the important added values the holistic Purchase-to-Pay approach brings is the full transparency and visibility to all commitments and outbound payments, including cash visibility for treasury and compliance with Sarbanes-Oxley (SOX) and other regulations.

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<sup>1</sup> “Business process management focus shifts to people, change,” By Linda Tucci, Senior News Writer, Feb 6, 2008, SearchCIO.com

## 7 The Benefits of Strategic eProcurement Practices

Organizations that have implemented advanced eProcurement practices are able to elevate procurement to a more strategic level. Following are some of the ways they provide value:

- Enhanced supplier performance management. Strategic procurement focuses on identifying and managing the quality and performance of suppliers to optimize their value to the company and ensure that procurement practices are aligned with business objectives. In addition to having good visibility into their suppliers, companies are making sure that their supply chain is agile and able to respond to changes in supply and demand, and swiftly execute against threats or opportunities.
- Re-defining the best suppliers. While the goal was to look for price as well as value, in reality companies typically selected vendors primarily on price. Forward-thinking organizations are now emphasizing the value a vendor delivers as equally, if not more, important. Each organization has to define what this “value” means to them. For many, it’s reliability and quality of goods and services. It also increasingly includes corporate responsibility values and green initiatives. According to Gartner “ ‘Going green’ is no longer just a phrase. Future suppliers will need to be certified green just to remain on shortlists for enterprise consideration. The green movement will pick up steam in 2008 and change the way businesses approach environmental conservation. Strategic Planning Assumption: By 2011, suppliers to global enterprises will need to prove their green credentials via an audited process to retain preferred supplier status.”<sup>2</sup>

AMR Research states, “Making money and saving the world at the same time is the next frontier. The supply chain revolution is making all of this possible—and profitable.” Its new book, “Supply Chain Saves the World” presents “the opportunity for supply chain and technology professionals to make a difference for their companies and for the world.”<sup>3</sup>

- Supplier optimization. Best-in-class procurement departments are consolidating their spend with suppliers, gaining volume discounts, improving their payment processes, and making better use of working capital by knowing how much they need to pay, and when. This provides many benefits including better and more accurate financial forecasting. Forward-thinking organizations are enabling suppliers to get networked with the buyers, to improve the level of operations and create new opportunities for innovation, enabling contract compliance with tools such as contract matching, contract management, catalog management, and punch-out catalogs.
- Creating value networks. It’s important that organizations build and nurture their strong supplier relationships. Some organizations are establishing a network where their related suppliers can collaborate to grow their businesses. For example, an advertising agency, Web design firm, and printer might work together to pursue new business opportunities.
- Gaining fraud protection. With the high-level of visibility and control that they offer, advanced eProcurement solutions help protect against fraud. Built-in approvals, and matching purchases against business rules provide real-time control, and the analytics enable real-time monitoring and auditing of details.

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<sup>2</sup> “Gartner, Inc. “Gartner’s Top Predictions for IT Organizations and Users, 2008 and Beyond: Going Green and Self Healing,” by Daryl C. Plummer, Charles Smulders, Leslie Fiering, Yefim V. Natis, Simon Mingay, Mark Driver, Jackie Fenn, Laura McLellan, Debbie Wilson, January 8, 2008.

<sup>3</sup> “Supply Chain Saves the World,” AMR Book Series, AMR Research website.

## **8 Transforming the Financial Value Chain**

Organizations are feeling the pressure to be competitive, and at the same time, be able to do more with less. By developing world-class e-Procurement operations, they will be able to achieve a high level of visibility and control and all of the benefits that ensue, including: opportunities for cost savings and efficiencies, and the ability to boost brand image by identifying and developing suppliers who truly provide the most value as well as those that align with the organization's corporate values. By implementing strategic procurement practices based on third-generation eProcurement solutions, organizations can continuously improve, innovate and truly transform their practices. They will be able to provide added value to their businesses and reap the benefits throughout their financial value chain. This is a proposition that no organization can afford to lose.