Top 10 Reasons Why ERP Fails Procurement

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Constrained budgets, leaner workforces, do more with less and the necessity to report on value contribution are all increasing the need for technology to help drive procurement transformation. At first glance, Enterprise Resource Planning (ERP) systems get the attention of Finance and IT, but the realities of associated cost, project length and lack of necessary procurement functionality quickly become a harsh reality. Over the last several years companies are temporarily putting ERP systems on the back burner to make room for more nimble and leaner solutions, like eProcurement, that yield immediate results.

Companies are looking at the entire procurement ecosystem to drive quicker turnarounds on bids and easier communication between the company and their supply base to increase efficiency. Organizations need technology to enhance transparency, drive sustainable cost savings, gain more supply base value, reduce supply chain risk and influence innovation. Existing mainstream ERP tools have failed to deliver these capabilities and have notable gaps in proactively helping procurement deliver more value to the business.

Here are the top 10 reasons ERP fails Procurement:

1. Long implementations, stalled ROI and continued unmet needs

Finance-driven ERP systems are notorious for taking years to implement - a slight change in requirements and before you know it, ERP projects are behind schedule and facing months of needless delays. Long projects cause frustration and make it difficult to achieve fast ROI. Furthermore, almost all ERP implementations are conducted by ERP partners making the success and quality of implementation strongly dependent on the strength, expertise and allocated resources provided by an outside consultant. As companies continue to face financial constraints, attention must be focused on activities producing rapid return. eProcurement systems are implemented within months, not years, and the return on investment is evident almost immediately.

2. Spend visibility across the value chain

ERPs struggle to produce accurate spend analysis and visibility reports needed by Procurement in order to detect savings opportunities. Very often that urgent report requested from IT to see total spend with a specific supplier doesn't arrive in time to help leverage a more favorable contract renewal. eProcurement produces tangible spend savings through strategic sourcing, maverick spend reduction, and by identifying cost savings opportunities. Companies that have implemented eProcurement have experienced 1.5 - 2x savings.

3. Ongoing cost of ERP

In the beginning, any new ERP implementation project might seem doable, until you get a glimpse of the ERP price tag that can turn into the hundreds of millions. Economic conditions and time to value lend little flexibility to engage in long, drawn-out projects that by definition are more expensive. For those companies that have already implemented an ERP and continue to try to deliver capabilities needed by Procurement, the question is, "how much more money must be invested in the ERP platform to solve constantly evolving procurement needs when an eProcurement platform can deliver a solution out of the box and for a fraction of the price?"
At a fraction of the cost, eProcurement systems provide a faster rate of return. In addition, executives are also intrigued by the opportunity to drive substantial financial performance, minimize risk, develop organizational excellence and influence innovation.

4. Functionality

ERP is not a one-stop-shop to meet full enterprise needs, and procurement is highly neglected within these systems. In fact, "add-on" software products are often required to fill gaps in purchasing functionality. Common procurement add-ons include spend analysis, vendor portals, eCatalog, savings tracking and contract management systems. eProcurement specializes in accommodating all procurement processes integrated into one seamless application. When it comes to ongoing new functionality, ERPs deliver new features when there is a development budget. A SaaS-based eProcurement platform delivers upgrades with new features that specifically meet the needs of Procurement based on market trends and procurement best practices.

5. Controlling Procurement destiny

As organizations grow, changes in processes inevitably evolve or change with it. Everyone who is anyone knows that changes to functionality, configuration and maintenance must be made within IT instead of the business owners using the tool. Lines of business want to own and control the solution they use and not be dependent on IT to make desired changes. SaaS eProcurement solutions offer enhancements and modifications through simple configuration changes that can be done within days, not weeks or months.

6. Ease of use and end-user adoption

Simplicity for end users is a must. ERP is not designed with Procurement in mind. ERP systems have evolved into complex systems catering to the needs of the Finance and Accounting departments. Very few ERP systems have an add-on eProcurement module which support both Purchase to Pay and Source to Contract business processes. Furthermore, user adoption on ERPs is very poor due to non-friendly and over complex processes, generating non-PO maverick spend and reducing the procurement teams' efficiency, visibility, etc. On the other hand, an eProcurement system is designed specifically to meet Procurement's needs and greatly facilitates high user adoption through an intuitive user interface that caters to all types of users.

7. Collaboration

One of the crucial limitations of most ERPs is the lack of collaboration between internal business users and external suppliers. Very often communication and collaboration between Procurement, Accounts Payable and all of the Business Units is very poor and must be done outside of ERP and through email. This means constant exporting of documents/data from the ERP to send in an email to another user. This impacts transparency and fast time to problem resolution.

In addition, most ERPs are not accessible from outside the company's network, which means internal users and more importantly suppliers cannot interact in the procurement process in real-time. Most ERPs are not capable of allowing a supplier to submit a quote for an RFQ or view a new PO or invoice payment status, generating a very high level of phone calls to the Procurement department. eProcurement solutions actually focus on facilitating collaboration between internal users and external users and provide audit trails and workspaces for complete transparency and quick problem resolution.

8. End-to-end visibility

In most cases, supplier information is scattered across multiple systems or maintained in spreadsheets. This fragmented approach makes it near impossible to have access to critical supplier information that is necessary to minimize risk throughout the procurement process such as during a sourcing event and at contract negotiation. Leading eProcurement systems have a 360° view of suppliers to enable comprehensive access and transparency to accurate and timely supplier events throughout the entire procurement process.

9. Advanced procurement analytics and big data

In today's environment, the creation of data is at a tremendous proportion. Each activity, transaction, and movement generates data. Especially in the area of unstructured data such as social media, images, videos etc. These data types are mostly integrated and complex and require new ways of data management and a certain approach to storage and analysis in order to support information generation as well as decision making. ERPs are known to have inflexible data models. In addition, the data models are not designed around the needs of procurement. Although ERP is commonly called "the system of record", you have to ask, "which record?" Is it the record that will enable you to conduct advanced spend analytics or supplier benchmarks and performance management? Leading eProcurement systems have flexible data models designed specifically around procurement processes and are adaptable to change as new data elements need to be captured and managed.

10. Strategic procurement vs. operational procurement

In order to continue to deliver value to the business, procurement must evolve from being operational to strategic. Strategic procurement is a long term and holistic approach to acquiring current and future needs of an organization at the lowest total cost of ownership (TCO) and lowest risk to the supply chain. This process creates a closed loop between the customer and the supplier to ensure continuous improvement in quality, delivery, cost and service while providing the means to achieve optimal efficiencies in both customer and supplier organizations. There are various parts to strategic procurement such as spend analysis, savings tracking and supplier value management. Unfortunately, ERP focuses only on the operational process, which is transactional in nature that is reactive to purchasing materials and supplies using quick quote and order processes to support the production operations. Leading eProcurement solutions integrate both the strategic and operational (upstream and downstream) processes to provide visibility, accelerate performance and enable collaboration across all functions and roles.

If you were considering putting in place a proper procurement solution then a best-in-class eProcurement platform should certainly be on your list to evaluate. But, what if your organization has already made an investment in ERP? What can you do to enhance the capabilities that better serve Procurement?

➡ Implement an eProcurement system as a front-end requisition-to-order tool, maximizing user adoption through a highly intuitive and user friendly end-user experience. Best-in-class eProcurement solutions offer seamless integration with any ERP solution. This will guarantee adoption and compliance and enable end-to-end visibility.

➡ One of the problems of ERP solutions is maintaining suppliers and managing supplier risk. The way to address this is to front-end your ERP with a supplier portal which will establish and control the process of onboarding, qualifying and segmenting your suppliers. This will provide you confidence that your ERP solution has your preferred suppliers and has met your compliance regulations. The supplier portal also cultivates social collaboration by enabling your suppliers to communicate online with your procurement team. Not to mention more effective spend analysis

➡ Put in place a central repository to ensure contracts are used. Contract Management helps purchasing departments to increase both the proportions of spend "under management" and "on-contract" by supporting all the contract authoring, administration, and compliance needs of your business. This way they will not be lost to your ERP users.

Learn about JAGGAER ONE, the leading global strategic procurement platform that helps companies worldwide generate more value and increase efficiency by integrating procurement into the entire value chain for better visibility, insight, transparency and collaboration with internal and external partners.

- Spend Analysis
- Category Management
- Supplier Management
- Sourcing
- Contracts
- eProcurement
- Invoicing
- Inventory Management
- Supply Chain Collaboration
- Quality Management

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