RETHINKING
THE PROCUREMENT
VALUE EQUATION

JAGGAER
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While at first glance it may make sense to derive procurement’s value from the bottom up, in doing so, you miss out on the value created and captured due to overlap and integration between the functional areas.

**INTRODUCTION**

Each functional area within procurement provides benefits, be it hard dollar savings, reduced cycle time, or increased cash flow, and has a cost. If we think of the standard value equation as value equals benefits minus costs, it is relatively easy to conceptualize the value of accounts payable, for example. It may, therefore, seem straightforward to determine the value procurement provides to the organization as a summation of the values of each of its functional areas. Add accounts payable to supplier management, combine that with the value gained from purchasing, and so on.

Total Value of Procurement = Value of Accounts Payable + Value of Supplier Management + …

While at first glance it may make sense to derive procurement’s value from the bottom up, in doing so, you miss out on the value created and captured due to overlap and integration between the functional areas. It is only when you zoom out and look at the Source-to-Pay process as a whole that you can get a clear picture of the value you provide (or could be providing) to your organization.

This paper investigates the processes associated with the procurement value equation and argues that by integrating and automating the S2P cycle as a whole, you can maximize procurement’s value to your organization.
Procurement is often divided between the sourcing and buying processes, which is sometimes described as planning and executing, or “Upstream” and “Downstream.” These processes can be managed by the same team, but are more often managed by different teams with unique sets of internal stakeholders. Regardless, these functions are both critical to realizing procurement’s value proposition and represent the complete S2P cycle. When discussed in terms of the value procurement brings to the table, the S2P process can be represented in two stages: Upstream “Value Creation” and Downstream “Value Capture.”

Value Creation is the overall sourcing and vendor management process for identifying spend patterns, finding and qualifying active and potential suppliers, negotiating business terms that deliver the best value (i.e. lowest price, highest quality, highest reliability, most compliant), codifying those business terms in supplier contracts, and managing supplier content across the organization. Supporting automation solutions include Spend Visibility, Supplier Management, Strategic Sourcing, and Contract Management; commonly called “Source to Contract or S2C.”

Value Capture is the daily global procurement execution process that facilitates internal customers purchasing products and/or services from contracted suppliers in the easiest and most efficient way possible. The process includes the communications necessary to facilitate purchasing transactions and frequently includes invoice reconciliation and payment. Related automation solutions include Contract Management, eProcurement (Shopping from Catalogs), Requisition and Order Management, and Invoicing and Accounts Payable; commonly called “Procure-to-Pay or P2P.”
WHY CHOOSE A FULL SOURCE-TO-PAY SOLUTION

Implementing a comprehensive Source-to-Pay solution enables companies to strategically manage the entire process in a consistent and efficient manner, leveraging a common data set and user experience across suppliers, goods and services, and internal buyers for a majority of the goods and services they buy. Rather than piecing together multiple point solutions, a comprehensive integrated suite delivers a seamless process for visualizing spend across the organization, managing supplier data, incorporating that supplier data into eSourcing events, and translating eSourcing results into actionable contracts. Value is created by identifying the optimal allocation of spend across the ideal supply base— the right supplier, right price, right time.

Marrying Upstream and Downstream processes enables procurement teams to capture the value that has been created. Leveraging supplier contracts to encourage (or require) internal buyers to purchase their goods and services from contracted, preferred suppliers through a combination of eCatalogs, purchase requisitions and purchase orders delivers the savings identified during the strategic sourcing process. With a single, unified solution for your Source-to-Pay process, companies reduce process leakage and benefit from higher levels of Value Capture by managing the data, internal workflows, and all transactions with suppliers including the reconciliation of invoices.

Together Value Creation and Value Capture extend beyond savings to help the business recognize additional benefits including:

- **Reduced cycle time**: Facilitate finding, collaborating with, and purchasing from vendors thereby accelerating turnaround while reducing operational costs.

- **Strategic supplier relationships**: Create a strategic differentiator and increase revenues associated with product collaboration and innovation projects.

- **Reduced risk**: Mitigate vendor-originated operational and regulatory risk through greater visibility into the supply base.

- **Increased cash flow**: Free up working capital through contract compliance, invoice matching and accounts payable activities, reducing total spend and improving cash management for both cost savings and cost avoidance.
We support a comprehensive S2P solution through multiple software solutions built upon a common platform for efficient process automation and master data management, as well as supplier communication and transaction automation across the Upstream and Downstream processes. Figure 2 depicts our view of this as a non-linear process that more effectively delivers cross-functional utilization of common data sets throughout the Value Creation and Value Capture processes.

In many cases this is actually a closed-loop process involving iterative Value Creation and Value Capture cycles which drive incremental improvements as Downstream performance is measured and new opportunities for Upstream activities are identified. This enables procurement teams to generate even more value across their suite of solutions as multiple use cases for data sharing and analysis span the Value Creation and Value Capture process. For example, supplier information should be seamlessly shared across strategic sourcing, contracts, shopping, buying and paying. Spend Analysis should not be viewed as just a data feed for planning sourcing activities, but rather should deliver an ongoing view into purchasing activities to drive process optimization.
It is key to understand the trade-offs when considering the options available for automating your S2P process.

1. **ERP functionality, best-of-breed point solutions, or full S2P solution suites**: Industry analysts suggest an integrated S2P solution to create, capture, and then optimize savings.
   
a. Currently, a few large ERP vendors offer “complete” S2P functionality as modules within their larger business automation solutions; they suggest the ease of a single vendor implementation outweighs the greater financial benefits of purpose-built S2P solution.
   
b. Additionally, there are vendors who focus on best-of-breed point solutions that address a very specific activity with deep functionality. These vendors promote the advantages of best-of-breed at a sub-level, leaving integration concerns and ongoing technical support to the company or a system integrator.
   
c. In the final category, Source-to-Pay suite vendors offer solutions that cover all or part of the S2P process with varying degrees of functional depth and platform integration.
   
d. We are a combination of the latter two types of vendors, having compiled a comprehensive suite of best-of-breed solutions covering the entire S2P process into a fully integrated and unified platform.
2. Parameters affecting Return-on-Investment (ROI): Your S2P solution ROI should be measured against your business goals. When looking at S2P options it is imperative to define your short and long term goals as well as hard and soft metrics. This strategy will ensure you meet your continuous improvement targets. As noted above, S2P is a process, not a singular or linear activity. ERP vendors who include S2P solutions as a module within a large portfolio of solutions are therefore just skimming the surface on functionality and usability. Point solutions from multiple vendors are rarely able to fully leverage data from related automation solutions even when integration is offered, resulting in data management issues, more manual intervention by procurement teams, savings leakage between the Value Creation and Value Capture equation, and poor visibility and measurement of overall spend management efforts.

3. Questions to ask before investing in S2P: The biggest decision should not be whether to invest in S2P automation technologies, but whether to start with a best-of-breed point solution to solve a pressing need before expanding across the S2P process or to purchase a comprehensive S2P suite. A third, hybrid option is to work with a full-suite provider and to implement their solutions in a modularized fashion. This allows you to prioritize and focus on your most pressing challenges while planning for the future. Integrated solution providers should be able to accommodate and help you develop a roadmap for success. An ideal provider will offer the flexibility to start as big or small as you need and to grow and expand as your organization needs. A partial list of common questions is provided below to help determine where to start:

UPSTREAM (VALUE CREATION)
• Do you understand your global spend (including what you buy, from whom, and where?) and have targets for spend under management?
• How do you track active and potential suppliers, gather information about new suppliers, and maintain supplier information including all necessary documentation on their capabilities and attributes?
• Are your preferred suppliers under contract and do you have global visibility into their performance?
• What processes are in place to ensure you are getting the best value from your suppliers and engaging new suppliers in sourcing activities?
• What is your plan for initiating a closed-loop process to measure and improve upon spend management performance?

DOWNSTREAM (VALUE CAPTURE)
• Do you have full visibility into who is purchasing goods and services across your organization, how much is being purchased, and if the items need to be purchased?
• How are you managing rogue spending and off-contract buying?
• Are controls in place to ensure buyers are transacting with the right suppliers and that the right people are approving purchases?
• How are you managing contract compliance, from the purchase through invoice payment?
• How efficiently are you transacting with suppliers and who is managing supplier enablement to improve shopping and invoicing activities?
JAGGAER offers a comprehensive, unified Source-to-Pay solution that provides best-of-breed capabilities for managing your spend from Value Creation to Value Capture. Our integrated platform delivers a common user interface and master data model that facilitates process and data flow between the individual solutions. A universal supplier network manages all interactions and transactions with your suppliers and opens the door to supplier discovery for new Value Creation. We are able to optimize each solution individually and holistically to meet your VALUE criteria while providing a single integration scheme to connect into your ERP and other infrastructure systems.

SOURCES


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