SirionLabs | WHITE PAPER

Hunting Mice While the Elephants Run Wild

Procure-to-Pay and Supplier Governance are both key to effective procurement management

For procurement executives engaged in driving optimization through automation, it is important to recognize that Procure-to-Pay (P2P) tools do not provide a one-size-fits-all solution that they are hoping for. On average, more than 50% of the enterprise procurement budget is spent on services which need to be actively managed during the in-life phase. In some cases, considerably more. In addition, the majority of the spend is typically with a small percentage of large contracts. With P2P tools offering limited in-life management functionality, there is distinct need to consider combining P2P deployment with a specialized supplier governance tool. But which of the two should be deployed first? This paper helps answer this important question.

Over the past decade or so, several enterprises have undertaken procurement optimization initiatives to respond to the need to reduce cost and risk and improve control over third party spend. Until recently, outsourcing procurement processes to a specialized provider was the default optimization approach. A more recent trend has been to deploy Procure-to-Pay (P2P) automation tools to standardize and streamline the procurement function. There have been several advantages to this approach: amongst them are driving price discipline in the supply base, ensuring consistent sourcing processes and enabling a central contract repository of all suppliers to drive visibility and manage risk.

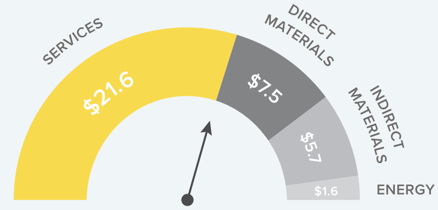
However, there are serious drawbacks inherent in this approach that too often go unrecognized. This approach makes two assumptions that are simply never true. The first is that the supplier base is homogenous. The second, that there is no difference between tactical and strategic suppliers. By placing the smaller, tactical and simpler to manage goods/commodities supplier arrangements (the ‘Mice’) in the same bucket as the large, strategic and complex services supplier engagements (the 'Elephants'), such procurement optimization efforts may deliver savings on the front end (pre-signature) but a significant part of these savings is lost at the back-end (in-life). At SirionLabs we have a name for this strategy. We call it "hunting the mice while the elephants run wild".

To understand this better, let's first look at the composition of today's enterprise procurement landscape.

WHAT DO ORGANIZATIONS BUY TODAY?

Figure 1 shows the various categories of procurement spend by enterprises globally. It is evident that services dominate the enterprise global procurement portfolio today.

FIGURE 1

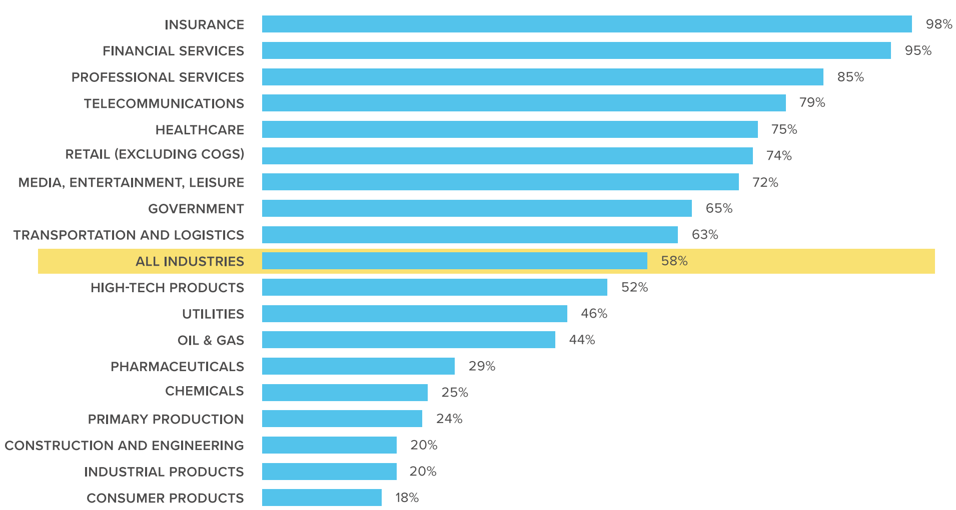


GLOBAL BUSINESS PURCHASES ($T)

As seen in Figure 2, this trend is consistent across industries. The latest data from Forrester research shows that on average across industries, services represent 58% of the aggregate procurement spend. And there are several industries above the average with an even higher representation of services in their procurement mix.

FIGURE 2

PURCHASED SERVICES AS A PERCENTAGE OF PURCHASED INPUTS

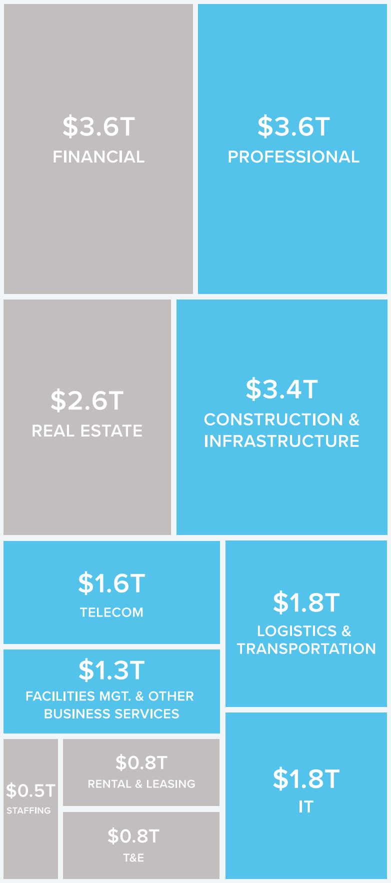


SOURCE: FORRESTER RESEARCH

Further, as illustrated in Figure 3, the services purchased by enterprises vary in scale, type and complexity. While services are generally more complex to manage than goods, within services there are some categories that require even higher levels of effort to manage complexity (highlighted in blue).

FIGURE 3

GLOBAL BUSINESS PURCHASES



WHY ARE SERVICES MORE DIFFICULT TO MANAGE?

Services are fundamentally different and more complex to manage than goods due to the following reasons.

- Tracking value delivered is notoriously difficult since there is no simplistic "receipt for services"
- Service delivery models are complex with multi-layered service levels, KPIs and obligations bound together, with numerous interdependencies
- Pricing structures and payment terms are complex, whereas goods payments only require a simple PxQ (price*quantity) computation
- Collaboration management (actions, issues, claims, disputes) is critical
- Contracts change throughout the engagement (typically 3-5 years), requiring a significantly deeper level of contract and change management
- Decentralized management across enterprise silos necessitates integration and enhanced collaboration between enterprise functions

Additionally, the fact that 80-90% of the services spend is usually concentrated with 10-20% of suppliers raises the complexity of managing services suppliers even higher. It is imperative that for any procurement management strategy to be effective, it will need to address the specific requirements of these large and complex services suppliers.

As a result of the above complexities, services suppliers, unlike goods suppliers, need to be granularly managed during the in-life phase to generate the desired outcomes. There is rich industry data available from IACCM, KPMG, ISG, etc. that shows that ineffective supplier governance in services causes over 20% of the services spend to be lost due to a combination of hard and soft value leakage. Given the scale of the spend on services the potential impact of value leakage to an organization's bottom line is significant enough to cause lasting harm.

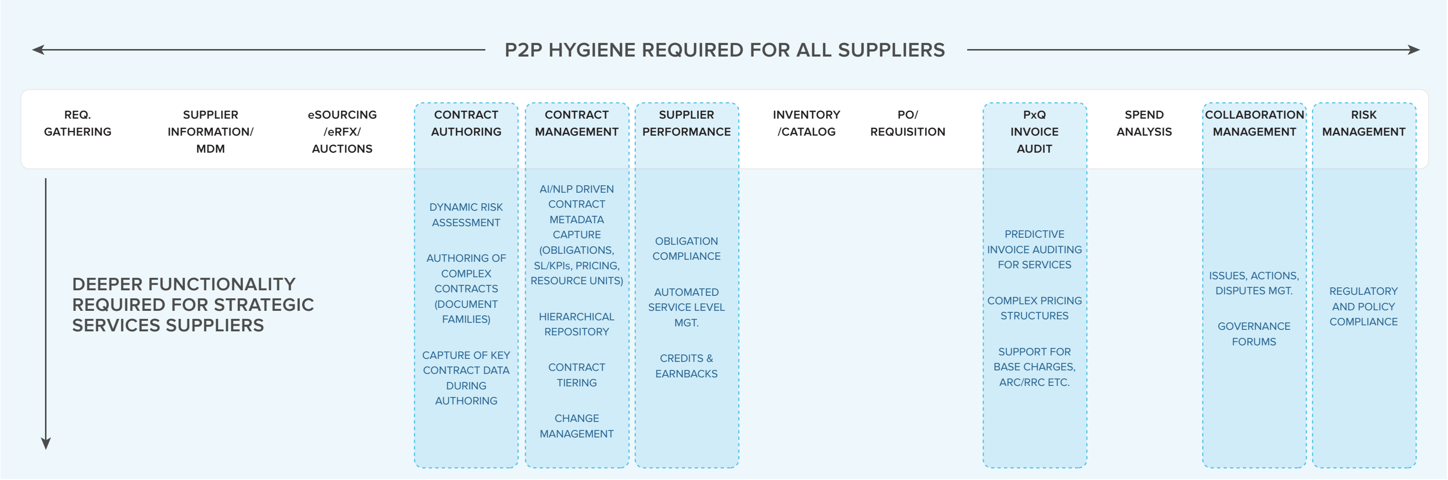
In addition to the above value leakage, the cost of managing services contracts effectively is significant – usually 2 - 6% of the annual contract value. Driving this ongoing cost down through automation should be a key consideration in an enterprise's procurement technology strategy (Sirion's supplier management technology brings this cost down by as much as 60%).

P2P TOOLS DO NOT ADDRESS THE MANAGEMENT OF SERVICES EFFECTIVELY

P2P tools were primarily designed to handle goods procurement. These tools may be adequate for the broader supplier base, but are not designed or equipped to manage strategic services suppliers. The reason for this is simple. Their fundamental design objective is to impose a standard pre-signature discipline for all suppliers and by definition (i) that cannot be varied to accommodate the special needs of services suppliers and (ii) does not offer deep-enough supplier governance functionality during the in-life phase to manage services engagements effectively.

Figure 4 below illustrates the specific areas where P2P tools need to be supplemented with a specialized supplier governance tool to cater to strategic services suppliers. In our experience, enterprises that try to force fit overlay the P2P solution onto services procurement and management processes quickly witness the above-mentioned shortcomings. As a result, these processes are forced to go 'offline' and adopt a combination of significant manual effort and isolated technology islands that do not talk to each other. This causes significant value leakage in services engagements effectively neutralizing the savings generated in the tactical supply base.

FIGURE 4



THE SEQUENCING CONUNDRUM

Given today's services heavy procurement landscape, an integrated combination of a P2P system with a specialist supplier management tool like Sirion is the optimal way to address the divergent needs of both supplier types i.e. getting control over all suppliers at a basic level and ensuring value retention for the strategic services suppliers.

One of the most common traps large enterprises fall into is the myth that they need to first instill basic procurement hygiene before they can address the management of strategic suppliers. The strategic suppliers, though small in number, account for a large percentage of the dollar spend and this is where the majority of the value leakage tends to occur.

What does this mean for large enterprises? It means that if they continue on the typical path of fixing the larger supply base first, it may take them several years to circle back to their strategic suppliers, by which time most of the anticipated value in those strategic engagements will have already been lost. Both need to be addressed in parallel. In fact, for the industry verticals above the average in the services distribution chart (see Figure 2), it is advisable to deploy supplier governance ahead of the supply chain optimization effort for the general supply base.

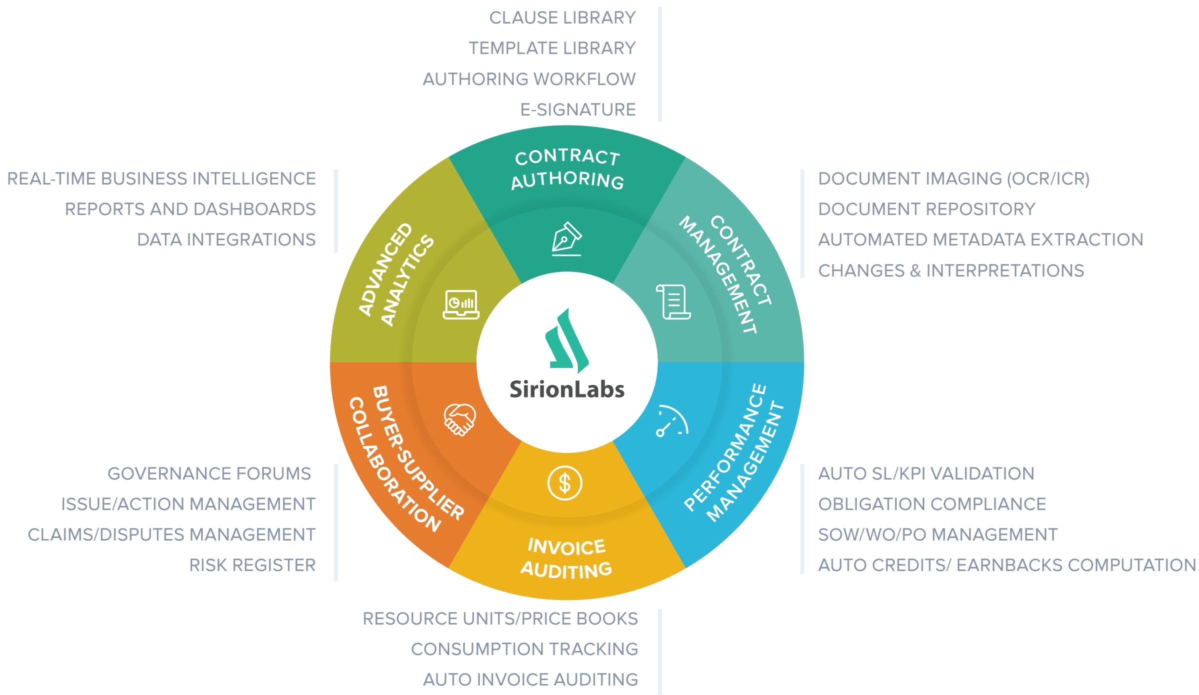
The argument - which continues the myth - is always that the organization does not have sufficient resources to simultaneously address the needs of the generic supply base and the specialized needs of the complex suppliers. This is simply not the case. We have tracked several leading enterprises over the past two decades that have successfully addressed both of these needs in parallel. This has allowed them to attack value leakage of their top contracts in the short term while the long-term project continues. The result was significant savings to the bottom line and increased control over the key suppliers in the short term without compromise of the longer-term initiative.

SIRION'S COMPREHENSIVE IN-LIFE FUNCTIONALITY MAKES IT AN IDEAL SUPPLIER MANAGEMENT TECHNOLOGY FOR SERVICES

Sirion is specifically designed to manage the in-life phase of strategic supply arrangements that tend to be complex in nature and contain hundreds of embedded obligations. Tactical supply arrangements, by contrast, have a much lower obligation density and rarely require this level of attention.

Sirion offers unmatched supplier management capability during the in-life phase (see Figure 5) by integrating the key supplier management disciplines of contract, performance, invoice auditing, and buyer-supplier collaboration on a single platform. P2P tools, on the other hand, are designed to manage the bidding and sourcing of non-complex products (primarily commodities), and the subsequent spend analysis and management for those products and focus primarily on the pre-signature phase.

FIGURE 5



A quick comparison between the in-life management functionality of Sirion and standard P2P tools (see below) explains this point in detail.

SIRION	P2P TOOLS
Hierarchical document tree capture parent-child relationships between contract documents (MSA, SOWs, WOs, etc.), integrated document viewer	Static document repository
Automated data extraction and metadata creation (obligations, service levels, milestones, rate cards, base charges, etc.) from any type of contract, reducing manual labor by as much as 75%	Metadata creation for contracts authored in the specific contract management system with limited metadata extracted for other contract documents
Contract segmentation, allowing varying levels of scrutiny for strategic contracts vs. smaller ones	All contracts treated alike
Common end-to-end data across all disciplines. Both horizontal and vertical transparency (such as linking invoicing data to performance data, and ultimately to its contract data)	Vertical drilldown into silos of data, for example, drilldown into invoicing data without direct comparison to obligations in the contract
High level of process integration for complex sourcing environments across all disciplines (financial management, contract management, etc.)	Processes performed in silos, limiting integration between disciplines
Auto-validation of service levels against raw performance data, and algorithmic computation of credit and earn-back	Little or no service level tracking
Auto-validation of invoices based on complex service libraries and charges	Simple PxQ invoice computation
Deep, real-time comparison of contract, performance and financial data across suppliers, regions, or contracts, by using uniform taxonomies to normalize all contract data	Limited comparisons possible across suppliers, regions, or contracts, as data normalization is limited to contracts authored in the software's built-in contract management module
Capability to objectively manage and measure relationship and governance process health	Not designed for relationship and governance process health management
Advanced analytics to describe, investigate, predict, and prescribe events and behavior	Standardized retrospective graphs and reports

ABOUT SIRIONLABS

SirionLabs is transforming the contracting engagement between enterprises by bringing contracting parties closer together across the full lifecycle of the contract – from authoring to performance to closure. Sirion's award winning platform serves as a single source of truth for both parties across all key disciplines – contracts, performance, invoice auditing, and buyer-supplier collaboration.

This collaborative and holistic approach materially reduces the friction between both parties, improving transparency and trust, driving tangible value while reducing the cost of governance by 60%.

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