

Procurement in the Cloud Part Two: Executing with Cloud Business Solutions

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STRATEGIC PERSPECTIVES

MKT-791
SEPTEMBER 30, 2010
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Title

Procurement in the Cloud Part Two: Executing with Cloud Business Solutions

Summary

We recently provided an insightful look at specific Procurement functions and business needs to bring a new dimension to the discussion surrounding business effectiveness enabled by Cloud business solutions. In this follow-up *Strategic Perspective*, we dive into the evolution of Procurement toward an evolved mission focusing on Strategic Sourcing, as well as the various SaaS solutions that attempt to meet the needs of the procurement executive, as laid out in the previous *Strategic Perspective*.

So What?

The role, function, and influence of Procurement within the enterprise are rapidly changing. As a result, many traditional Procurement solutions are challenged to stay relevant, and in some cases are viewed as less capable than emergent Cloud-based solutions. Thus the role and influence of Procurement solution providers within user enterprises, and within markets, is changing.

Perspective

Earlier in September, we published a *Strategic Perspective* that focused on the evolving roles and responsibilities of Procurement executives, how well current systems meet their needs, and how well emerging SaaS and Cloud-based solutions can potentially fill the gaps (please see, "Procurement in the Cloud: Increasing Performance and Productivity with Cloud Business Solutions," MKT-781, published 17 Sept. 2010).

Here, we dig deeper into where and how the Procurement function needs to evolve (i.e., from Purchasing to Procurement to Strategic Sourcing). We also address how Cloud Business Solutions, specifically Software-as-a-Service (SaaS) Procurement, play a role in that evolution.

No doubt, like many core operational competencies, the Procurement function has continued to evolve over the past twenty plus years. During this time, its mission has broadened beyond just focusing on very tactical areas such as purchasing and invoice control, and instead increasingly focuses on managing supplier relationships in a more effective and cost-effective manner.

The ultimate end-goal of Procurement is efficient, strategic sourcing. Sourcing is no longer just about cost savings, but is now defined as a strategic component of the organization focused on driving maximum competitive advantage. *Strategic sourcing equates to getting the best products and services at the best value.*

The Building Blocks of Strategic Sourcing

Let us first identify the building blocks that constitute the bigger picture of Strategic Sourcing. These building blocks can be grouped in three tiers as presented in Figure 1 below. These tiers are represented by the following: a) Procure-to-Pay Processes, b) Spend Information Management and c) Supplier Relationship Management. We will address each of these building blocks or components by each of the tiers.

Think of the first tier (procure-to-pay processes) as the transactions and

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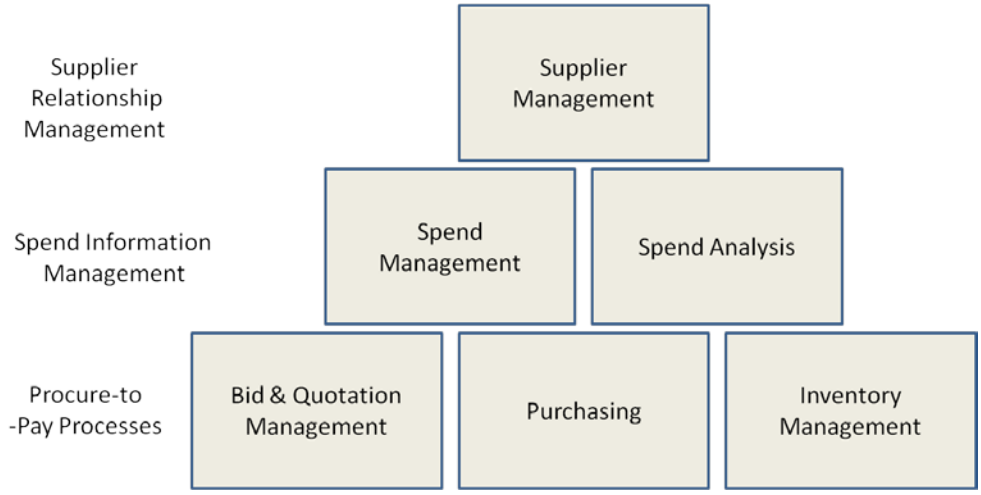
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processes that make up traditional purchasing and procurement functions. This tier is also often referred to as “source-to-settle” and can get very granular – potentially consisting of hundreds of blocks, or sets of processes. What is displayed in Figure 1 is a sample set of processes.

Figure 1: The Building Blocks of Strategic Sourcing



Source: Saugatuck Technology

The second tier, Spend Information Management, attempts to introduce the concept of addressing the question “What do we do with all of this information?” and virtually sits above the first tier (consisting of transactions and processes). In Figure 1, Spend Information Management is represented by, as an example, Spend Management and Spend Analysis.

Spend management is the way in which companies control and optimize the money they spend. It involves cutting operating and other costs associated with doing business. These costs are typically viewed as operating costs or SG&A (Selling, General and Administrative) costs, but can also be found in other areas and in other parts of the supply chain. Whether it is the money spent on goods or services for direct inputs (raw goods and materials used in the manufacture of products), indirect material (office supplies and other expenses that do not go into a finished product), or services (temporary and contract labor, print services, etc.), a company needs a mechanism by which they are not only able to save money but control costs. Spend Management is meant to represent a holistic view of the activities involved in the “procure-to-pay” (or "source-to-settle") processes.

If Spend Management is the holistic view of the procure-to-pay process, *Spend Analysis* attempts to put the proper perspective on the results of spend management and, much like business analytics, provides the necessary information to make effective business decisions relating to the procurement business processes. In an enterprise, we are seeing more and more instances of a role representing a “spend manager.” Since the spend manager could have a significant impact on a company's results, it has recommended that this manager have a senior voice in the executive leadership of the enterprise.

Going back to our building block analogy, sitting on top of these two tiers

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(Procure-to-Pay and Spend Information Management) is *Supplier Relationship Management*. This is so much more than managing the purchasing activities with traditional vendors. By viewing the suppliers across the activities and results of all of these procurement-related activities, there is a strategic approach available in managing suppliers – adding breadth and depth to the entire procurement business function and processes.

Supplier Relationship Management (SRM) is traditionally defined as a discipline of working collaboratively with those suppliers that are vital to the success of your organization, and to ultimately maximize the potential value of those relationships. This can only be done if the approach to better manage suppliers (and think of this as the complete breadth of suppliers, not just the primary vendors from whom materials are purchased) is executed as "sitting" on top of all of the other, previously discussed, building blocks.

The "stack" of building blocks gives us an effective picture of Strategic Sourcing that can achieve lower costs while still meeting organizational objectives.

Enter the Cloud

Earlier we mentioned that successful Strategic Sourcing is an ultimate end-goal for Procurement executives, as well as all organizational executives. *Procurement executives believe that Cloud business solutions can get them to this end-goal faster, and in a more cost-effective way.*

In *Strategic Perspective*, "Procurement in the Cloud: Increasing Performance and Productivity with Cloud Business Solutions," MKT-781, published 17Sept2010, we presented the results of Saugatuck's 2010 global survey research, which clearly indicated that Procurement executives believe Cloud business solutions (i.e., SaaS) can contribute in important ways to their success in better managing their key objectives (see Figure 2 below):

- *In the majority of instances, SaaS is seen as a means of significantly improving the ability of the Procurement function to meet its responsibilities.*
- *Current on-premise solutions fall significantly short of the requirements that Procurement as a function has to meet specific responsibilities.*
- *While SaaS may not bridge all of these gaps, it is seen as having the ability to deliver significant improvements in managing Procurement.*
- *Cloud business solutions also contribute to the success of the Procurement executive by helping to manage job responsibilities more effectively.*

There is more happening here than just dissatisfaction with current systems or a longing for improvements of current business applications. This is about rapid evolution and an ability to adapt to changing business and market factors. Spend management, for example, has dramatically evolved over the last ten years, as have regulatory compliance, corporate performance management and sourcing – all with an impact on the greater Procurement picture. As a result, Cloud business solutions now offer more capabilities and

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are honed in to the needs of today's Procurement departments and function, more so than traditional purchasing systems. Recent Saugatuck interviews with Procurement executives confirm this, as they clearly shared that they value and want to take advantage of emerging Cloud solutions as much as possible.

Figure 2: Procurement's Opinion on SaaS' Ability to Help Manage Evolving Functional Responsibilities

"Cloud-based solutions (or SaaS) can contribute to my success as a Procurement executive by helping me better manage my responsibilities in each of the following areas:"	**Respondents Agreeing**
Delivering an efficient and effective procurement process	**56%**
Managing Supplier Relationships	**55%**
Managing Spend on Services	**55%**
Negotiating contracts that contribute to competitive advantage of the organization	**52%**
Mitigating Supply Risk	**49%**
Managing Spend on Direct commodities	**47%**
Paying Invoices to optimize financial impact	**45%**
Reconciling invoices to orders	**43%**
Managing Spend on Indirect procurement commodities	**42%**
Benchmarking procurement performance against peers	**40%**
Increasing spend under management	**35%**

Source: Saugatuck Technology, 2010 Cloud Business Solutions survey, n = 109 Procurement executives

The difference between today's Cloud/SaaS solutions and previous, on-premise solutions is the wide array of offerings with emphasis across the tiers of the aforementioned building blocks of Strategic Sourcing. This assembly of Cloud Procurement vendors comes from a variety of origins, including integrated ERP suites (such as Oracle, SAP, Lawson, Infor, etc.), established best-of-breed solutions that have moved effectively to the Cloud (e.g., Ariba and Elcom), and Cloud-native players (Apttus, Basware, and SciQuest, among others).

Net Impact

Saugatuck's analysis of our research with Procurement executives indicates that *there exists strong and continuing demand for Cloud business solutions targeting the Procurement function.*

This demand is based in large part on their expectations that Cloud-based solutions can better meet the needs of a changing operating environment and resulting new business challenges in areas such as spend management, procurement process improvement, performance benchmarking, and supply risk mitigation. We expect that this demand will not be satisfied just by new or emergent Cloud-based solutions and providers. Consequently, we believe that traditional ISVs in the Purchasing / Procurement space will need to accelerate the transition of their offerings to the Cloud, or develop complementary new Cloud solutions that can interoperate with on-premise offerings.

Solution providers targeting Procurement should recognize and pursue the

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specific functional areas in which demand will be particularly strong for their offerings – but unless they aspire to niche status, they should also continue to broaden and extend the functional capabilities of their portfolio.

User organizations assessing Procurement solutions in the Cloud should ensure that the providers can adequately answer the following questions:

1. What is the provider's definition of, and functional offerings around, Procurement?
2. What is the provider's definition of Strategic Sourcing?
3. How do the provider's offerings match to that definition of Strategic Sourcing?
4. What is the provider's definition of Spend Management?
5. How do the provider's offerings match to that definition of Spend Management?
6. How does the provider view Spend Information Management?

Procurement executives should carefully monitor the growth of functionality covered by both on-premise purchasing systems and Cloud business solutions to determine which will better meet their needs. Saugatuck expects that Cloud business solutions will adapt and evolve more quickly to meet the changing and challenging demands of the Procurement executive.

About This Research
This independently developed research was published as a deliverable of Saugatuck's *Continuous Research Services* (CRS) subscription research program. Ariba, Inc. has been granted the right to reprint and electronically distribute this article through its website, through April 14, 2011.

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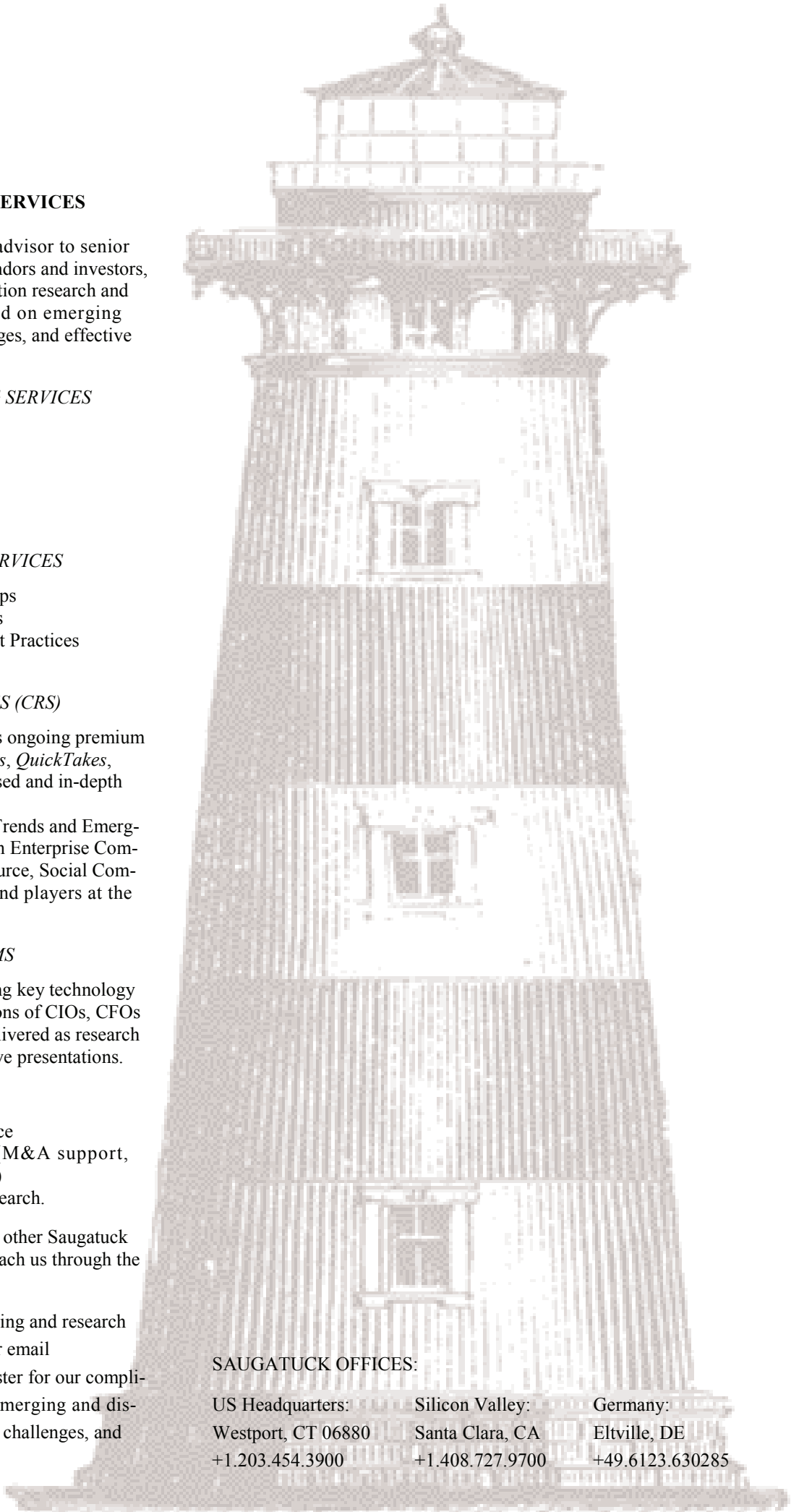
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