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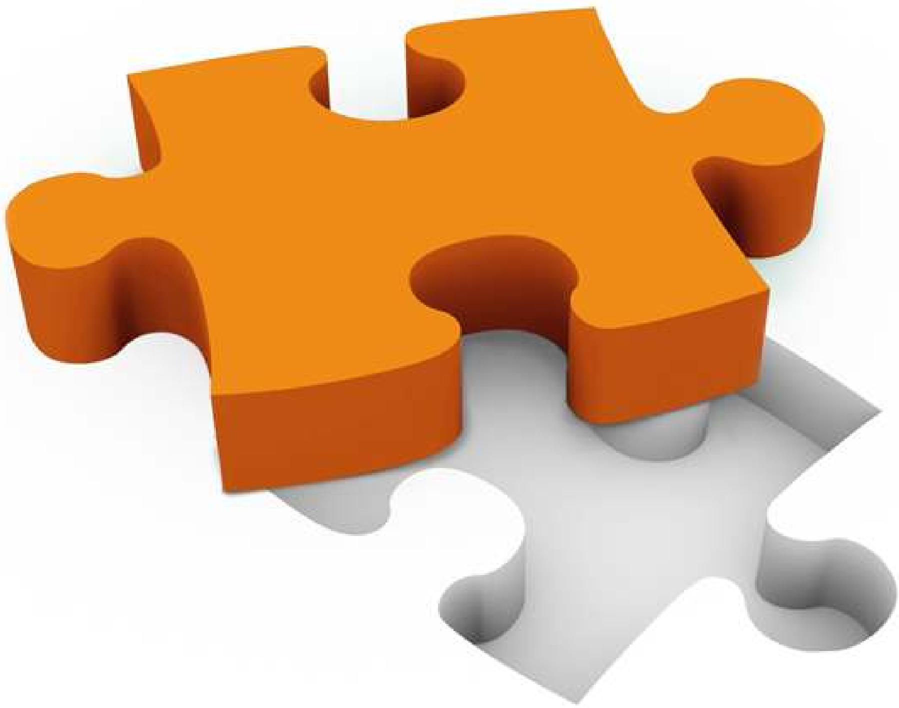

One Size Does Not Fit All

Procure-to-Pay Outsourcing

Including Independent View from TPI

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Procure-to-Pay Outsourcing

One Size Does Not Fit All

There has been a lot of hype around procurement outsourcing for some time now. The management processes within and around corporate spend – whether direct or indirect – have been a tantalizing cost target for clients and providers alike. Touted as the "next big thing" for aggressive cost reduction for almost five years, the promise of a stream of benefits far in excess of the cost of service looms large on the sourcing strategy roadmap.

Most companies testing the procurement outsourcing waters start with procure-to-pay processes (P2P) rather than encompass the more strategic source-to-pay continuum. The premise of this insight is that a one size P2P outsourcing solution does not fit all. Granted, the industry literature abounds with a range of approaches focused on:

People: Augmentation or arbitrage through business process outsourcing

Technology: The implementation of corporate-wide platforms or enabling tools such as portals

Spend: The use of spend analytics to isolate cost savings through intelligent negotiations.

Research reports further expound upon the size of the market, potential streams of benefits from productivity enhancements, the typology of providers, and the trend toward convergence with finance and accounting, also help define the parameters of the market. However, these approaches and data points are merely tools in the arsenal of the P2P outsourcing strategy – they do not suggest how, when and in what sequence they are used. Looking at the industry, and the successes and failures of the decision to outsource procurement, it is apparent that there is a relationship between organizational characteristics and the most optimum solution, yet there is virtually no examination of the best strategy to obtain value from procurement outsourcing given the particular characteristics of the organization, including a degree of globalization, drivers of growth and status of technology.

As much as the outsourcing industry – and the clients we serve – strives to industrialize solutions, each company comes to outsourcing procurement processes based on a differing hierarchy of needs. Some look to standardize and harmonize processes, while others seek to finance and move to next-generation technology under the guise of outsourcing. Some look to augment their teams or access better skill sets, while others seek to use an outsource relationship to elevate controls and ensure compliance. As stated earlier, some companies define procurement outsourcing end-to-end from source to pay, while others start with contract administration, vendor and catalog management or spend analytics, or cost creation through the payables cycle. All of these needs are valid — fundamentally, the definition of procurement outsourcing is elastic. But the governing imperative is, quite simply, reduction or containment of cost.

This paper sets forth the premise that the characteristics of an organization suggest the tenor of the solution a company should adopt when implementing procurement outsourcing, assuming the first and foremost driver is **getting cost out fast**. It is the first in a series — which analyzes the needs which procurement process outsourcing typically must meet, stratified by the type of organization, setting forth a straw man approach for starting down the path of accelerated value recognition – leveraging three vital levers: Technology, compliance and controls, and process automation – regardless of the actual scope of the service.

The Multi-national Organization

- Disparate technologies and processes by business line or geography
- Unrationalized platforms due to growth by acquisition
- Substantial volume concentration - two to five countries which produce the lion's share of the transaction volume
- No centralized procurement policy. Inability to standardize catalogs due to the sheer breadth of country presence

This classification of company has a predilection to approach any business process transformation, first and foremost, as a systems program, embedded into the DNA, as evidenced by continuous ERP implementations, refreshes and upgrades. Procurement transformation is often first evaluated as a technology challenge, calling for a solution which invests in either a system, or global standardization of platforms, and wrapping a BPO solution around a capital and people-intensive systems implementation. It is the embodiment of pursuing the 100 percent solution, when the burning premise for procurement outsourcing is, quite simply, reduction of costs.

Firstly, this approach is **linear** by nature. The majority of multi-nationals that have adopted full-blown procure-to-pay outsourcing in a sequential manner, the prevailing belief being that systems consolidation is a prerequisite to successful transformation of procure-to-pay processes. As a result, obtaining a steady-state stream of benefits takes a minimum of two to three years if the cutover goes well, and often several years if the scope involves a systematic deployment across all geographies and business lines, regardless of the transaction volumes, extent of spend under management and ROI in scope.

Second, the pursuit of the latest, standard technology seems to take on a life of its own. This approach represents a wholesale **replacement** of all platforms and tools in order to move to a single platform. The driver is not the leverage of a substantial investment in engines

P2P Lessons Learned by Multi-nationals

The business case for outsourcing procurement must not be made on labor and process improvement alone.

The benefits from outsourcing procurement are generally as follows: 75 percent emanate from sourcing, 20 percent come from enforcement of compliance, and approximately 5 percent come from reduced procurement process costs. Given these ratios, multi-nationals spend an inordinate amount of time focused on the categories of benefits with the lowest return. While improving the “plumbing" – straight through processing, invoice reconciliation, exception management, and payment is important, the big prize comes from focusing on sourcing.

Procurement outsourcing forces enormous investment in change management.

It is second in impact to HR outsourcing based on the number of users and stakeholders involved. The ultimate benefit comes from changing consumption patterns and process compliance to create scale. This has substantial implications for the implementation of and adherence to policy. In a multi-national organization where change affects multiple geographies and business lines, all of which have their own entrenched ways of working, minimizing resistance by limiting the amount of change lends substantial intrinsic value to levels of compliance.

Analytics as a component of procurement outsourcing is key; most outsourcing focuses on technology and lowering the cost of labor.

It is difficult to change business unit or geographic consumption – which drives spend reduction – and execute savings strategies unless the BUs have the facts. This is especially true in an organization with sovereign geographies or business units; driving compliance with the facts is a core strategy in the change process.

and tools, focusing on the fix, filling in the processing gaps, but rather starting from scratch and replicating 80 percent of the functionality available in one or more of the existing platforms.

Approaching procurement outsourcing as an ERP-driven endeavor brings into play the need to **re-engineer.** Not only is the development of new business rules and workflow a corollary of the systems approach, akin to major surgery, but it is complicated by the fact that the organization is multi-national in structure. In the drive to obtain buy-in and integration, re-engineering requires the participation of a whole host of stakeholders from geographies and business lines, requiring substantial investment in resource, and further delaying the process in the effort to promote adoption.

Another predilection of multi-national companies is to implement a **pilot** before full-scale deployment, also delaying the stream of benefits. This strategy is adopted in the quest to avoid organizational dissonance by developing a proof-of-concept. Generally trialed in smaller geographies with low volumes and simple processes, the test often does not work out the problems associated with scale, regulation, volume, process complexity and change management. The lessons learned from the pilot may not apply to high volume geographies with a large range of vendors, users, company codes and non-standard processes.

The simple fact is that this P2P outsourcing approach involves extensive up-front capital expenditure, lengthy deployment, a substantial investment in internal program management, all of which are disruptive to the core business. Cost savings and process improvement are sequenced post the consolidation, generally resulting in a two to three year delay in benefits realization, if realized at all. In effect, the system change becomes the focus of attention as a prerequisite to fixing 80 percent of the gaps – which emanate from high levels of human intervention in several core functions.

WNS's experience is that there is a simpler, faster path to value for multi-nationals pursuing P2P outsourcing solutions. Also, given the need for the acceleration of returns without incurring extensive capital investment and the disruption accompanying systems change, the best route would be to follow an 80:80:80 strategy, that is: Focus on 80 percent of the volumes, pursuing 80 percent of the “gaps” deterring the value in order to obtain 80 percent of the total return – all achievable within an accelerated time-frame.

The elements of this value-based approach are simple

Approach

An alternative to replacing systems is **selective enhancement** whereby rather than wholesale replacement, existing tools and platforms are optimized. Truth is, procure-to-pay processes are in existence, albeit on a range of platforms. They may be seen as sub-optimal, but they do work. Most often, the problem comes from upgrading interfaces and changing workflow to increase compliance rather than base operability. The cost involved in full-scale platform replacement or consolidation may be avoided by leveraging existing assets. The mantra for selective enhancement is 'fix what is broken and optimize the rest', based on where the most immediate return can be obtained.

Process

Rather than invest time and resources in comprehensive re-engineering of P2P processes in the effort to build consensus by adopting best-in-breed across the multi-national landscape, a more rapid path to value is through evaluating processes in the geographies with the highest complexity and most significant volumes, and **replicating** the workflow that most closely enables a desired end-state. The focus is on the gaps between processes that increase expensive and time-consuming human intervention, such as handling of all transactions rather than only exceptions, and bringing together the best practices in the form of harmonization rather than re-invention. Specific areas of focus that can be addressed leveraging agnostic, integrated solution alternatives include:

- **Requisition Process** – Typically, the requisition process for both PO and Non-PO based purchases is cumbersome, incurs high degrees of errors and exceptions, and requires extensive mid / back office support. The ability to initiate, route / approve, and manage requisitions, either PO or Non-PO based, utilizing automated, self-service based capture and workflow solutions, can be accomplished through use of platform-agnostic automation toolsets.

- **Invoice-to-Pay (PO / Invoice Management / Reconciliation)** – The ability to support the invoice management, reconciliation / matching, exception management and payment decisioning is a significant opportunity. Typical ERP platforms are transactional in nature with limited workflow and / or automated means in which to match invoices accurately. Automated reconciliation and payment decision engines via rules-based thresholds are readily available.
  The aggregation of requests through the use of portals and universal worklists, enable the user community to easily access approval requests without resident knowledge of the back-end ERP platform.

- **Time and Expense, P-Card Support** – Similar to the overall Invoice-to-Pay process, the Time and Expense (T&E) and P-Card automation levels are typically disparate relying mostly on manual means to submit, route / approve, and manage exceptions. Highly automated solutions exist that enable all P2P functions such as requistion creation, contract compliance, approval reconciliation and exception management, some of which are otherwise labor-intensive.

- **Transaction Controls, Compliance and Measures** – Due to the disparate systems and the heavy use of manual solutions, visibility into the life of a transaction across an enterprise along with the operational controls / measures necessary to ensure / enforce consistency and compliance is difficult to ascertain. Through the use of automated workflow and rules engines, these constraints are removed, providing a clear path for adoption, enforcement and audit.

P2P Lessons Learned by Multi-nationals

Scale and leverage are critical.

Small-scale pilots in multi-national organizations typically cannot be justified in a business case. A global approach to procurement processes promotes control and compliance, driving down costs.

Outsourcing solely to gain operational efficiency is not justifiable.

Technology is a very important enabler but change primarily results from the implementation of policies, which are informed by better cost and consumption information.

Improved vendor compliance and accurate billing are drivers of outsourcing value.

Reducing duplicate payments, unapplied discounts, and misapplied tax rates, especially in cross-border supply chains and adhering to unit pricing impact spend.

The challenge of getting stakeholders on board should not be underestimated.

The corporate 'sale' cannot be made on process streamlining alone, or as a path to greater efficiency. The business case cannot be driven centrally, and must respond with "what's in it for me?"

The next generation of procurement transformation must be designed for tax advantage.

Leading multi-nationals are looking at locating buying offices in tax advantaged locations, and developing hybrid insourced / outsourced structures.

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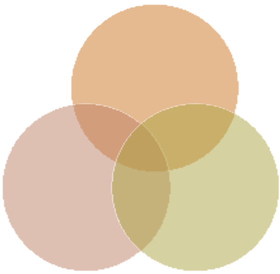
Deployment
The traditional linear deployment – systems implementation, followed by a pilot, then staff migration concurrent with change management – is time-intensive. An alternative strategy is a **parallel** approach – lift and shift 'as-is processes' concurrent with replication and optimization of platforms and tools, along with change management – here the immediate focus is on compliance, policy and consumption. Any starting point for deployment should focus on the 80:20 rule – the business line or geography with the most volumes, to move more quickly to value.



Investment
In an era of tight corporate budgets, capital availability for large-scale, traditional platform changes – even if they are stepped over time – is virtually impossible. Whether the first stage in a P2P journey is platform standardization or full replacement, the program is capital-intensive. A better option is a **self-financing** option, one where the immediate savings from labor arbitrage and eliminating process gaps provides immediate benefit.

In addition to the value-based approach to operational transformation achieved through leveraging the global operating models, process improvement and automation within the gap areas, focus can also turn to spend analytics, categorization and benchmarking in the pursuit of higher values from the actual procurement functions.

Different Characteristics of the Value-based Approach

	Traditional Strategy	Value-based Approach
Approach	Systematic	Selective Enhancement
Process	Re-engineer	Replicate
Deployment	Linear Approach	Parallel Approach
Investment	Capital Intensive	Self-financing

No two clients are alike, indeed neither are two multi-nationals developed in the same way with the same structure, spans of control or leadership principles. When implementing P2P outsourcing, especially in these challenging economic times, the latitude to follow a traditional approach starting from wholesale systems change, no longer exists. Looking to link together the best available options, filling in the gaps, focusing on 80 percent of the volumes and delivering almost immediate savings through a value-added approach is the name of the game.

Why Outsource Procurement?

How to convert a procurement operation into a strategic competency

Bill Huber, Partner, TPI

More effective management of procurement can drive a significant impact to a company's P&L, including on average a four percent reduction in spend, equating on average to a 1-2 percent overall reduction in a company's expenses. Additionally, effective alignment of a company's supply and services chain can be a catalyst to higher levels of productivity, faster speed-to-market, greater flexibility and improved quality and innovation. However, most companies struggle to properly align procurement, focusing internal resources on tactical and non-differentiating activities, and limiting resources committed to strategic planning, alignment and improving the overall effectiveness of the supply and services chain.

Based on results achieved in the marketplace, it is clear that outsourcing procurement processes can yield impressive results. Service providers can bring deep market insights into common spend categories, commit talent to critical analytics, and execute efficiently on operational procurement activities. Industry research (from Aberdeen) reports dramatic improvements such as these in procurement efficiency and effectiveness:

- 28 percent increase in average savings from sourcing (typically equating to a 1-2 percent increase in savings as a percentage of spend)
- 18 percent increase in spend under management
- 31 percent improvement in contract compliance
- 32 percent increase in suppliers enabled

Procurement outsourcing can also reduce operational costs by 15-20 percent through process improvement, standardization, staff right-sizing, labour arbitrage and realization of economies of scale. Accordingly, procurement outsourcing should be treated as a tool to improve capabilities and effectiveness by accomplishing more for each dollar invested in procurement capability.

Unlike other areas of business process outsourcing, procurement outsourcing is not an 'all-or-nothing' proposition. Most organizations aim to create the optimal mix of internal and external resources for maximum spend coverage, compliance and performance. TPI recommends that all procurement outsourcing should be approached within the context of an overall procurement strategy. Those companies who embark on procurement outsourcing simply to reduce their cost of procurement often miss the larger opportunity to transform their procurement operation into a strategic competency. A plan of action for companies interested in procurement outsourcing should include these steps:

1. Understand the range of service provider capabilities currently available in the market and the experiences that other companies have had with procurement outsourcing
2. Define strategic objectives for procurement and the role that both outsourcing and procurement technology can play in attaining these objectives
3. Educate your company leadership on strategic options and the benefits and risks associated with procurement outsourcing and develop a high-level business case.
4. Conduct a market analysis and competitive sourcing project to select the best solution for your company. Ensure that the sourcing project incorporates a contractual statement of work and service level structure that will provide clear accountabilities and meet your strategic objective.
5. Develop an implementation plan, change management strategy and governance program to ensure the success of the project.
6. Ensure that all of these are in place, with appropriate funding, prior to executing an agreement with the service provider.

About WNS

WNS is a leading global business process solutions company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including Travel, Insurance, Banking and Financial Services, Manufacturing, Retail and Consumer Packaged Goods, Shipping and Logistics, Healthcare and Utilities. WNS delivers an entire spectrum of business process outsourcing services such as finance and accounting, customer care, technology solutions, research and analytics and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including Costa Rica, India, the Philippines, Romania, South Africa, Sri Lanka, UK and US.

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