



PROCUREMENT AUTOMATION

THE CORNERSTONE OF MODERNIZING
PUBLIC SECTOR PURCHASING



A large city had a procurement budget of approximately \$15 billion, but complex, manual processes resulted in long cycle times, frequent reworking of contracts, limited spending transparency and poor overall service to the city. Officials knew it was time for a change, but two earlier attempts at procurement modernization had delivered disappointing results.

However, after implementing a leading cloud-based eProcurement application that integrates processes into a single electronic portal used by city agencies and approved suppliers, city officials believe they're on a path to success. The application allows vendors to create and manage accounts online, which enables the city to eliminate several paper-based procurement processes. When the project is fully implemented, officials hope to see other improvements, including time and financial savings and streamlined procurement operations.

This city isn't unique. State and local governments across the country realize legacy procurement operations, often dominated by paper-based processes, must transform to meet the demands of modern government. The resulting benefits — including shorter procurement cycles, more effective vendor risk and performance management, tangible cost savings and improved operational efficiency and regulatory compliance — often justify the efforts. What remains daunting for many organizations is how to achieve transformation without an expensive rip-and-replace of IT investments.

The answer for a growing number of governments is to layer state-of-the-art eProcurement capabilities on top of existing enterprise resource planning (ERP) and financial systems. This lets organizations continue to use their rich storehouses of data, while allowing best-of-breed cloud applications to accelerate the integration and adoption of digital source-to-pay processes. These applications support modern-day purchasing techniques, including strategic sourcing, contract management, guided buying and real-time spend analytics.

But technology transformation is just the start. To fully modernize, government officials must develop a multi-faceted plan that brings about process improvements, new skills and capabilities, enhanced operating models and better relationships with vendors, among other things.

This paper explains how cloud services can help overcome the top barriers to modern procurement, and discusses the necessary process and people improvements that must accompany technology upgrades.

KEY ELEMENTS OF MODERN PROCUREMENT

eProcurement applications will be a growth driver for the global procurement-software market in the foreseeable future, according to the research firm Technavio.¹ The increasing demand for eProcurement technology comes from a variety of factors, including the agencies' desire to create an end-to-end electronic process that handles everything from issuing RFPs and purchase orders to paying invoices and maintaining a central repository of approved vendors.

The best platforms create digital portals. End users can use these platforms to buy standard items from validated vendors and pre-negotiated contracts. Suppliers can register themselves and list the full range of products and services they provide to government agencies.

eProcurement systems also help governments transition from outdated, paper-based processes that make it difficult to capitalize on emerging best practices, such as category management.

Cloud-based eProcurement solutions yield additional benefits. Cloud services don't require upfront expenses for new on-premises servers, storage capacity and



hardware. Instead, agencies pay a predictable operating expense for tapping into the off-site application, which the service provider manages and regularly updates. Government organizations must still schedule time for implementation, data transfers from legacy applications to the cloud and testing, but the implementation cycles for services are often shorter than on-site installations.

Cloud-based eProcurement systems are part of a larger set of factors that government must manage to transform their procurement operations:

CENTRALIZED PROCUREMENT

The National Association of State Procurement Officials (NASPO) ranks centralized purchasing first among its top 10 priorities for state procurement.² Centralized purchasing plays a strategic role by helping states develop an enterprise vision for procurement. And because it helps leverage statewide spending, it enhances agency relations and communications and addresses risk management.

Centralized purchasing is NASPO's **No.1 priority** for state procurement.

INTEGRATED ePROCUREMENT/ERP SOLUTIONS

Integration is important on two levels. First, it determines the quality of the eProcurement system itself. Certain platforms include all necessary modules to support the full procurement life cycle, so agencies can run end-to-end processes without the need to stitch together various standalone components and potentially deal with complex integrations and/or incompatibilities.

Second, application programming interfaces (APIs) and other integration tools in the system enable the free flow of data between it and back end enterprise ERP and financial

systems. For example, if an agency already has an ERP system that's working well, it can bolt on a cloud-based eProcurement application, which speeds procurement modernization and ensures continued payback for legacy system investments. The best eProcurement platforms have a unified data model and can integrate with any number of ERP instances to ensure consistency and drive normalization of item and supplier master data. The viability of the integration tools also helps determine the ease and timing of eProcurement implementations.

MODERN SOURCING STRATEGIES

For successful transformation, governments need to adopt best practices that capitalize on strategic sourcing and category management. For example, strategic sourcing allows agencies to consider more than just the low bid at a single point in time and the ability of suppliers to respond and deliver products and services.

These criteria were enough when agencies primarily procured commodity products with well-defined specifications and pricing structures. The model breaks down, however, when government is procuring higher volumes of complex services, such as cloud applications and consulting expertise. Strategic sourcing moves away from a transaction-to-transaction approach and is a best practice for optimizing the procurement of high-volume, high-spend products and services.

"Done right, strategic sourcing is data driven, covering such areas as current and target spending goals," says Center for Digital Government Senior Fellow Dugan Petty, who also served in Oregon state government for 15 years. "Then when an organization goes into the marketplace, it can use this data to negotiate and get the best value over time."

Strategic sourcing is also valuable for rationalizing the supplier base. Instead of multiple departments buying similar items from a large variety of vendors, consolidation shrinks the supplier list to a minimum number of companies. Procurement professionals can then negotiate for better pricing and value-added services based on volume.

Progressive procurement departments are taking



strategic sourcing a step further with category management. This approach takes a holistic view of spending across the entire government organization.

“Agencies can look at where they’re spending money and the major categories where the most spending is occurring,” Petty says. “Based on market analysis, they can then determine how their spending compares to the rest of the market and if they are getting optimal pricing. By focusing on where the greatest spend is, government can buy more effectively.”

Agencies may also rethink the types of products being procured, leading to cost-saving opportunities. For example, they may decide end users and taxpayers are better served by switching some staff members from PCs to tablets.

Gathering the data and analyses necessary for category management is difficult if the procurement staff must work with spreadsheets. Instead, an eProcurement tool can aggregate day-to-day transactions, vendor performance profiles, project management tools and other key decision-making resources. When all data is in one system, the procurement staff can analyze the information strategically to optimize spending.

ENHANCED CONTRACT MANAGEMENT

Even the best eProcurement applications and awarding processes won’t guarantee successful outcomes unless contracts are managed closely throughout their full term.

“Contracts don’t take care of themselves,” Petty says. “Administering contracts is every bit as important as getting the bid right.”

Managing the performance requirements of contracts for IT systems and large-scale consulting or service integration projects — which have more moving parts and less quantifiable performance measures than traditional commodity acquisitions — can be especially difficult.

Some states address this challenge by fostering closer collaboration between chief procurement officers and CIOs. An additional option is to create a new office that’s responsible for directing contract administration and developing formal rules to ensure better outcomes.

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eProcurement applications also help. By centralizing all data relevant to services contracts, managers maintain a clear and readily available view of contract obligations. They can also help agencies better manage risks associated with a particular contract. For example, the systems can be set to issue alerts when spending, delivery dates or other important risk factors approach threshold requirements.

The resulting enhanced contract management helps ensure the right controls are in place, which improves compliance with negotiated rates and other terms and conditions.

PROFESSIONALIZATION OF THE WORKFORCE

Contract management can also break down because administrators haven’t received sufficient professional development and skills training. The reason: Rather than being managed by a central procurement office, services and consulting contracts are often the responsibility of the agency that’s funding the procurement.

Another gap is emerging as states move away from traditional waterfall management techniques, which are typically applied to long-term, multi-step projects with large budgets. This is prompting some organizations to adopt an agile procurement approach, which takes cues from software developers who create large applications in small, incremental steps. With an agile approach,

agencies can frequently assess progress and quickly adjust when unexpected problems arise. It also contributes to better assessment, planning and budget management.

“Agile procurement may help improve the batting average for large, complex projects, but as organizations move to modern approaches, the procurement staff need new contract management training,” Petty says.

CLOSE MONITORING OF PERFORMANCE VIA KPIs AND SOPHISTICATED ANALYTICS

Today’s leading eProcurement applications offer procurement professionals sophisticated analysis tools, including business intelligence capabilities. In addition to closely tracking expenditures, the applications analyze the performance data needed for strategic sourcing and category management.

By contrast, paper-based procurement environments make it difficult for organizations to assess something as basic as the spending that’s occurred within an ongoing contract. First, critical data about invoices, transactions, contract amounts and negotiated amounts must be gathered from a variety of databases. This information must be converted to a common data format and scrubbed of errors, redundancies and inconsistencies. Only then can it be pushed to a standalone business intelligence tool for the analysis to begin. The risks of inaccurate and incomplete information associated with manual data processes are high.

Instead, leading eProcurement systems aggregate real-time data from within the program and outside sources into a central database. The procurement staff can then process the information with one set of query, analysis and ad hoc reporting tools. This not only raises the trustworthiness of the reporting, but in some cases may take a fraction of the time required by manual systems.

A THREE-PRONGED PLAN FOR PROCUREMENT MODERNIZATION

With these technology, management and monitoring factors in play, it’s not enough to implement the latest eProcurement

PROCUREMENT TRANSFORMATION CHECKLIST



- ✓ Consider a cloud-based solution
- ✓ Integrate eProcurement and ERP solutions
- ✓ Evaluate modern sourcing strategies
- ✓ Take advantage of enhanced contract management
- ✓ Ensure procurement staff have the proper training
- ✓ Use sophisticated analytics to monitor performance



application and expect to overcome the many shortcomings of legacy systems. In addition to new technology, procurement modernization must include updates to acquisition processes and be guided by a plan for talent development. Here’s a detailed look at these critical areas.



Processes: Replace paper with end-to-end electronic workflows

Replacing paper-based processes with end-to-end electronic workflows enables more stringent risk controls while shortening sourcing and contracting timelines and increasing data visibility.

“These areas are time consuming in all organizations, but they’re even more visible in government enterprises,” says Bhargavi Kosaraju, director in the procurement and operations practice at the management consulting firm KPMG. “The business case for moving from paper to electronic is a simple one — it’s about time, better controls, transparency and the efficiency of having all necessary procurement capabilities located in one system.”

Moving from paper to electronic procurement isn’t the only process consideration. Also look for ways to better engage vendors through online accounts and streamlined processes. Together, these steps may attract more vendors to state or local agencies, which increases competition and expands the vendor ecosystem.

“When a supplier isn’t engaged electronically with the procurement process, government organizations miss out on valuable efficiency opportunities,” Kosaraju says. “Transformation of the procure-to-pay (P2P) function becomes more successful as more and more suppliers are engaged within it.”

Cultivating larger numbers of suppliers may be important, but agencies don’t have to shoot for a large uptake of vendors from the start. Instead, they can gradually expand their vendor ranks by starting with a simple step: Use electronic purchase orders to establish initial electronic relationships with a core group of vendors,

and then build to a full digital P2P engagement.

“Once electronic purchase orders are established, encourage suppliers to submit electronic invoices so eventually the whole process is automated,” she says. “This is becoming easier to achieve thanks to cloud solutions, which don’t require suppliers to implement any software in their organizations. They just go to a secure cloud site to pick up their purchase orders and submit their invoices.”

From there, the electronic relationship can broaden. For example, to create self-service opportunities for end users, an agency can encourage suppliers to provide product catalogs based on a contract that’s already been negotiated between the agency and supplier.

Creating electronic portals is another way for a government organization to make itself more attractive to vendors. Vendors can use it to electronically self-register as a qualified supplier for all the products and services in their portfolio. The next time a procurement need arises, sourcing officers can go to their central repository to see available candidates, which increases the chances the company will be considered. For procurement professionals, the central database reduces time spent on market research and provides insight into the track records of candidates, including how many times companies have worked with the agency and the success of those engagements. Easy access to this information results in faster and better-informed procurement decisions.



Technology: Evaluate procurement automation services

The effective integration of eProcurement applications with back end systems is essential to help critical data flow between the two platforms. The challenge is finding a cloud provider that can supply the entire package of eProcurement capabilities and integration hooks. Over the last five years, a number of new vendors have entered the growing eProcurement market. While solutions may



look impressive in demos, government officials must test potential choices using samples of actual data. This will help buyers gauge how well integrated each of the modules are within the application. The tests will also highlight any potential problems when integrating the cloud service with back end legacy systems.



People: Focus on talent and skills management and training

Procurement professionals must do more than learn how to navigate the eProcurement solution and perform basic tasks. They must also understand how electronic processes contribute to greater efficiency and cost savings, and be able to make informed decisions about procuring a particular category of services to get the best value for taxpayers.

“If the procurement staff is not trained to use an electronic solution, there’s a high risk they won’t update their practices, or they may even revert back to a paper-based process if that option is still open to them,” Kosaraju says. “Training must focus on achieving the full business benefit of the application, not just on learning to use it.”

In addition to the expertise of internal eProcurement evangelists, this deeper level of training is available from third-party consulting firms.

Don’t assume that bolt-on cloud services are automatically easy to use. Before signing a service contract, gather a representative group of end users to test the service’s interface to ensure the application can be adopted without extensive training. Legacy procurement systems have a reputation for being difficult to navigate, but modernization can overcome this hurdle and help people become more productive.

User experience is important for another reason. Staff members routinely use intuitive applications in their personal lives and have come to expect the combination of power and simplicity from business software. A good user experience requires more than clean, well-designed menu structures and icons. The cloud service should

offer role-based screens and menus tailored for various responsibilities — from issuing requisitions and procuring goods and services to handling finances, conducting internal audits and serving as a supplier. Finally, ease of use should extend across device types, so people can use the application as efficiently on a smartphone as on a laptop.

A positive user experience will help organizations achieve one of the most important and fundamental goals of procurement modernization — high user adoption rates. After all, an agency can implement new technology, update business processes and train personnel, but this becomes irrelevant if internal and external users don’t embrace the tools and help government capitalize on modernization.

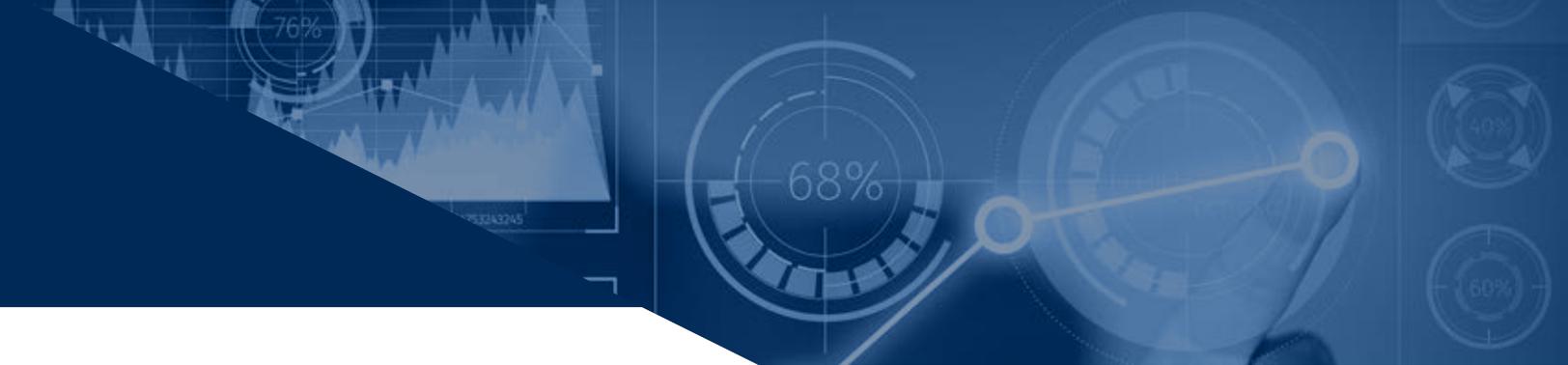
STRATEGIC PROCUREMENT

Most procurement departments understand the imperative to modernize. With the latest applications for end-to-end electronic procurement processes, cycle times shorten and agencies can centralize data and analytics to gain new insights into their operations. But achieving the full benefits of transformation can be daunting. Selecting vendors from a large and growing market requires due diligence and hands-on testing of potential services. And as with most large-scale modernizations, success hinges on more than just technology. With a comprehensive plan that also covers process re-engineering and new training for procurement staff, state and local governments can create a foundation for ongoing improvements that turns procurement into a strategic resource.

This piece was written by the Governing Institute Content Studio, with information and input from Ivalua and KPMG.

ENDNOTES

1. <https://www.technavio.com/report/global-enterprise-application-global-procurement-software-market-2017-2021>
2. http://www.naspo.org/Portals/16/TopTen/NASPO_2017TopTen_FINAL.pdf



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