

Purchasing[®]

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Software reveals buying from too many suppliers

And helps companies like Merrill Lynch meet such goals as consolidating spending and cutting costs.

Purchasing of indirect goods and services at Merrill Lynch and many other companies was largely unchecked in the late 1990s. Most companies were taking in enough revenue to more than cover expenses. Management gave little thought to purchasing. Once the economy stalled, however, they began to take a closer look at their spending.

At the same time, companies started to think about moving as much business as possible to the Internet as a way to rein in rising costs. One activity they felt sure could be conducted online was purchasing—especially of such indirect goods and services as office supplies.

But they couldn't simply move purchasing online without first cleaning up some messy processes. At many companies, employees were placing orders for supplies with scores of local providers via phone or fax. When they tried to put buying on the Web they found that in order to gain efficiency and reduce costs from doing so, they had to streamline workflow and consolidate the supplier base.

Enter software that helps analyze and manage spending.

Merrill Lynch installed such software. "It became very clear and evident all the way up to the CEO of our organization that expense reduction is as important as revenue generation to the bottom line," says Neil Ostrower, first vice president and senior director, global purchasing services. "With the

expense reduction we've achieved, we've been able to maintain our stock price and the bottom line results Wall Street expects of Merrill Lynch given the economic environment." For 2002, his organization helped reduce purchasing costs by \$70 million on an annual spend of \$550 million.

In his post at Merrill Lynch, Ostrower, who has 22 years worth of experience at the New York-based financial management and advisory company, is responsible for all non technology products and services purchasing, the accounts payable (AP) group for North America and the United Kingdom and all technology related to the procure-to-pay process.

The objective of purchasing at Merrill Lynch is to rationalize the supplier base and leverage the company's immense purchasing power, says Ostrower.

While considered a best practice by many, few organizations have integrated purchasing with accounts payable. When Merrill Lynch was marrying the

two functions in 2000-2001, the company became interested in spend analysis/management. Purchasing then had some understanding of the company's spending activity but "it certainly was not what it is today," he says.



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At the time, the purchasing organization also was installing Ariba Buyer. Ostrower and his team introduced e-procurement to employees by first moving purchasing of office supplies online. Although the company had a national agreement with one office supplies provider, the more than 40,000 employees working at headquarters and the firm's 600 branches worldwide were placing orders with about 50 different suppliers at the time.

"We didn't use a top-down approach," he says of his organization's success at implementing e-procure-

ment. Contract compliance now is over 95%. "We won the day through sheer muscle on our part by shutting off other avenues (buying tools, suppliers) and demonstrating efficiencies of the new

software buyers guide

process." He and his team also showed management the cost implications of using new workflow and authorization processes and buying on-contract as opposed to off-contract.

Ostrower says that Ariba Buyer "had a place in enabling and enhancing purchasing's capability at spend management." Gathering and understanding the data was relatively easy, considering the fact that AP reported to him. "We did not have to manage across various organizations to get the data we needed. My organization did most of the legwork associated with putting overall spend analysis/management in place."

Purchasing has since implemented the entire suite of Ariba spend management products, including its e-sourcing application. "They marry up quite nicely with what we are trying to do in purchasing," says Ostrower, who sees spend analysis as the underlying data that allows buyers to purposely develop effective procure-to-pay processes. Spend analysis, in turn, provides the foundation or capability for a purchasing operation to effectively manage expenses (spend management). "We are excited about the control and ongoing reduction of our supplier base and costs associated with that."

Use of spend management software has shown that employees had been purchasing many indirect goods and services from far too many suppliers. Take, bottled water, for example. Employees had been placing orders for water from some 125 different suppliers. Narrowing down the supply base to one supplier and moving ordering of the commodity online has helped the company to reduce costs by \$800,000.

"It's a perfect example," says Ostrower. "We wouldn't focus on bottled water on our best day. But, the spend becomes more visible through analysis. When we dived into bottled water and saw that we were using 125 suppliers that told me instantaneously that there was a lot of opportunity to reduce costs."

As part of his strategy to better manage spending at Merrill Lynch, Ostrower and his team also are working to educate employees to be better consumers. "For example, we have made changes to the way we buy air courier service. Instead of purchasing next-day AM service, we've been able to shift some of that spending to second-day, third-day or ground service. Sometimes it's like turning a battleship in the Hudson River, but the behavior changes can be well worth it." He reports that Mer-

rill Lynch is now using its preferred supplier for nearly 100% of its air courier service purchase.

Looking ahead, Ostrower expects "to further leverage our e-sourcing capabilities," including increasing use of Ariba's e-auction tool. In the past six months, he and his team have conducted 15 events for such goods and services as temporary employment services, construction management, office supplies, waste management, print and fulfillment services and landscaping. They also plan to extend the reach of the purchasing operation to include more nontraditional services such as outside attorneys. ■

Ariba. Enterprise Spend Management software helps companies automate, integrate and streamline their entire purchasing process from planning to payment, resulting in, according to the company, "significant process efficiencies and sustainable cost savings that go straight to the bottom line." Ariba Spend Management consists of strategy, analysis, sourcing, procurement and supplier management applications and encompasses all categories of spend from direct goods to MRO goods and services. Tel: (650) 390-1000; URL: www.ariba.com.

