

Myths, Pitfalls and Realities around Services Procurement

Executive Summary

Over the past decade, an explosion of eprocurement solutions has come on the scene. With them, companies have diligently addressed the leakage problem of their negotiated savings as well as streamlining their procurement process. Organizations have seen anywhere from 4.4%ⁱ to 7.3%ⁱⁱ or more savings with the implementation of eprocurement to address indirect spend, but very few have implemented a solution that looks at their services spend. With the crunch to cut costs, analysts are predicting interest in services procurement solutions will grow dramatically over the next few years. But before you launch into the world of services procurement applications, there are a number of potential pitfalls you should be aware of.

This white paper looks at some of the myths and pitfalls that have prevented companies from pursuing this fertile area for savings along with the realities and guidance. There's even a Buyer's checklist to help select a solution that best fits your organization's needs.

Here is a summary of the myths we'll cover. Maybe you've bought into some of these yourself?

We will discuss each Myth along with buyer advice. At the end there is a comprehensive checklist on how to avoid the pitfalls and increase the chance for a successful services procurement initiative.

Summary of the Myths and Realities

Myth	Reality
1. You can manage services costs through RFPs	Sourcing is only one part of the equation, half of negotiated savings can be leaked during purchasing
2. Managing services spend is complicated and too expensive	It's never been easier-start by capturing spend for visibility It is too costly not to manage services
3. It's all about Temp Labor, HR should handle it	Temp labor is a good place to start but achieving total spend management requires all services to be managed Best-in-Class companies departments share responsibilities with procurement
4. If you build it they will use it	Users find a way around any system they don't like. Beware the "easy" demo
5. The best way to cut costs is by cutting services	Intelligent cost reduction can be achieved through effective spend management
6. Any eprocurement solution can be configured to handle services	Most eprocurement solutions are not designed to handle services
7. Point solutions are the best choice.	A solution should be part of an overall eprocurement strategy
8. No budget = no software	With fast implementation and quick ROI, along with subscription pricing, companies cannot afford to delay on services.
9. Vendor funded software is virtually free	Watch the hidden costs!
10. There is minimal risk in a fully funded start up company	Small software companies are a risk in today's economy

Procurement vs. Services Procurement

Services Procurement is unquestionably different from general goods procurement. This is one reason why it has taken so long for adequate solutions to come onto the market and longer still for customers to begin to implement them. In fact, it is estimated that only around eight percentⁱⁱⁱ of companies that have goods eprocurement solutions also have extended eprocurement to effectively purchase services through the system. Unlike goods with specific SKUs such as a pencil or even a complex computer, services have unique attributes and therefore require special consideration when purchasing them.

Characteristics such as skill sets and work hours or configuration and pay structure make comparisons much more difficult. You can't compare database administrators as easily as you do office supplies.

Similarly the ways services are received and then recognized are different. For a temp it's showing up for the hourly job and then a time card submitted, for Professional Services it could be milestones and for print jobs it may be a simple receipt of goods.

On top of everything of there is an extended user base. In addition to the internal users: Requestors, Receivers, Approvers and Payers, the system needs to be accessible to external providers and suppliers. A temp needs to complete a time card and the services supplier has involvement from beginning to end, starting with the requisition, proposal and collaboration through to the invoicing and payment. So it must be the easiest system in your enterprise to use with virtually no training required for basic users. Of course this cries out for rigorous security as well.

Fortunately there are now mature solutions with the ability to procure services in an optimized process. These robust applications provide flexible rate cards and approval workflow for compliance, collaboration for clarification and negotiations, all linked to service supplier networks with additional invoicing and payment functionality.

This paper is not meant as a recommendation of any system, but is a compilation of research from industry analysts, customers, and corporate learnings. Many pitfalls are universal to any procurement application and in some cases to enterprise software in general. In the end, any solution that is selected should satisfy your organization's requirements in six key areas.

1. Functionality

- Does the solution provide the features and functions that your process requires?
- Can the system support all types of services?
- Primary value in eprocurement is the ability to enforce compliance to process, price and suppliers.

2. Usability

- Will users readily adopt the system?

3. Technology

- Is the system not only compatible, but can it actually extend the value of your existing systems with minimal effort and cost?
- Will the system meet strict guidelines around security requirements?
- Will the system support single sign-on for enhanced usability?

4. Value/ROI

- Can the solution grow in value to leverage Sourcing, Contract Management, Invoice/Payment and Analytics?
- Can the system be justified based on an ROI of at least 1000% in the first year?
- Can the solution provide a positive ROI in less than six months enabling the system to be self funded?

5. Implementation

- Can the solution be implemented with minimal IT resources committed?

6. Viability

- Does the supplier have the resources and presence to support your ongoing and global requirements?

Myth #1

You can manage services costs through RFPs

Reality:

Sourcing is only one part of the equation, half of negotiated savings can be leaked during purchasing

There is no question that lowering costs through sourcing activities is an important step. However it's like the stock market, these negotiated savings don't become realized until an actual transaction occurs, it's just paper. And like the stock market, all kinds of things can happen to spoil your expected savings.

Not buying from the right vendor at the right price is a major source of leakage. Stop the leakage and bring those savings to the bottom line. Following inefficient processes or no process at all drains your potential savings as well as the loss due to poor payment controls. As we will discuss in Myth #5, in a down economy there are great opportunities for further reductions. Plus, operational efficiencies are also realized.

Organizations should consider a services procurement system when:

- Central visibility is needed into spend across the organization, who are the suppliers and how rates compare across business units.
- Services vendors are sourced from across a broad supplier base vs. consolidated with one or two preferred vendors.
- Requisitions and approvals are not able to be tracked.
- Internal driven cost savings are stalled. Sourcing is no longer providing the cost reductions.^{iv}

Buyer Guidance

Turn negotiated savings into realized savings using a comprehensive eprocurement system for goods and services. A solution should drive compliance to process, price and supplier ensuring the right process is followed so that the right supplier receives the order at the right price. By meeting your commitments to suppliers, you can leverage this into better prices in future negotiations.

Myth #2

Managing services spend is complicated and too expensive

Reality:

It's never been easier - start by capturing spend for visibility

It is too costly *not* to manage services

No doubt there are complexities associated with services that you do not have to contend with for goods. Collaboration in the form of proposals, clarifications and negotiations are common during a services transaction, this is more tactical and in addition to strategic sourcing that frequently occurs. Additionally different types of services have different attributes. In temp labor, time cards are essential as well as establishing a bank of skill sets and expenses. Print services can focus on the type of stock, complexity of the job and color vs. black and white, while projects may be based on fixed fee, time and expense, milestones or a combination. You may even use a service that requires a completely customizable process and data capture.

The good news is there are solutions that can handle all of these issues for all of your procurement needs.

Many businesses can report on their spend such as black pencils vs. red pencils, but they can't tell how their services are spent other than by supplier. The first step understands your services spend by putting a system in place that can capture the details during the requisition process. You can't manage spend you can't see.

But why bother with services at all? Services spend as a percent of total spend ranges from 30% in manufacturing up to 70-80% in financial services and other industries. Regardless of your business, if you place a conservative estimate of 5% savings on spend as a result of implementing a services eprocurement solution you can quickly calculate the money being flushed down the drain through inaction.

Buyer Guidance

Look for on-demand applications that can quickly be up and running, while still being configured to your exact needs. Focus on solutions that can "bolt on" to your existing ERP quickly with out of the box integration. As recommended by some analysts, there are pre-configured "catalogs" for services such as temp labor that come pre-populated with industry standard job descriptions, providing highly granular visibility as well as saving implementation time. By choosing the right system you can easily drop cash to the bottom line this year.

Myth #3

It's all about Temp Labor, HR should handle it

Reality:

Temp labor is a good place to start but achieving total spend management requires all services to be managed

At Best-in-Class companies, Procurement shares services responsibilities

"Internal pressures in companies to cut costs...will drive increased client interest in using services procurement tools to manage the purchases of consulting and outsourced services, not just temporary workers."

Aberdeen 2008 Eprocurement Benchmark Report

While temporary labor may be one of the largest services categories your organization purchases, it is seldom the only one. A large, fragmented area for most companies is consulting and other project based work. Services is more than just temp or contingent labor. For example print spending is significant in many organizations, with spend as much as three percent of corporate revenues. Print has an even greater potential for percent savings than temp labor approaching 30% savings in many cases including inventory reduction of 25-50%.^v

Research clearly shows that in Best-in-Class organizations, procurement leads the charge on services helping to coordinate and centralize all types of services from all departments. Just a few years ago HR would drive procurement of contingent labor most of the time, purchasing is now leading or involved in the process now 42%^{vi} of the time at most companies and 79%^{vii} of the time at best-in-class companies. Teaming with other departments has dramatically increased spend under management. In contingent labor, strong collaborative environments have seen cost savings that are 115% higher than those without collaboration.^{viii}

Buyer Guidance

Look for a solution that can handle all of your services not just temp labor. Find out where are the opportunities throughout your organization and aggressively address them. Print, installations, marketing, facilities and outsourcing are just a few areas to consider. Lastly, collaboration with HR and other departments is a key to a optimal success and savings.

Myth #4

If you build it they will use it

Reality:

Users find a way around any system they don't like

Okay we all hate change unless we're in charge. Adding a system to purchase services is a dramatic change for most. And if your user community finds the eprocurement system cumbersome or complicated to use, they will do anything in their power to avoid processing requisitions through the application. No matter what price you paid for the solution, even if it was free, you have lost. Lost spend visibility, lost approval processes, lost contract compliance and non-preferred suppliers being used with off contract prices. It has been reported that the average off-contract purchase is 17% higher than an on-contract purchase. Talk about leakage!

Many enterprise application projects have been abandoned because the users didn't like the system regardless of the value proposition it promised.

It's especially important for an eprocurement system to be easy to use. It isn't like someone in accounting using an ERP system day in and day out. It may take them a while to get up to speed but eventually they get the hang of it. Put a casual requisitioner in front of that same ERP system for procurement and they will quickly throw up their hands in frustration, pick up the phone and call purchasing or worse, an unapproved vendor. Today everyone is used to surfing to an easy application like Google or Amazon and intuitively knowing what to do. Plus consumer sites are always up-to-date with the most accurate catalog information and availability. Why should your business applications offer anything less?

Buyer Guidance

The solution you choose should have a consumer-like user interface and requisition process. It should offer single sign-on for any purchase request, goods or services, and allow the user to see the status of all of their orders that are in process. Find out who is responsible for catalog updates, particularly for goods, you or the solution provider? If the solution provider is responsible, find out how often are the catalogs updated and what is the mechanism.

Lastly, don't be misled by slick demonstrations, a good Sales Consultant worth his/her salt can make hacking into the Pentagon look easy. Ask for-hands on time with the application for an inexperienced user.

Myth #5

The best way to cut costs is to cut services

Reality:

Intelligent cost reduction can be achieved through effective spend management

Too often procurement of services has flown below the radar, bypassing standard requisition controls and approvals. Frequently there is no competitive bidding just "business as usual". This maverick buying is compounded by creating spend that cannot be monitored so visibility is lost. The resulting effect is the only way to cut costs

is to cut services with a hatchet rather than with surgical precision. Today, smart companies are matching the organization's requirements for fit vs. employment status.

Today's workforce is rapidly increasing its dependence on contingent labor. Leading companies are moving fixed costs to variable which allows for them to remain nimble in both boom and bust times. Additionally, workers are keen to leverage the flexibility around being part of the contingent labor workforce. Ultimately there is a lot of money to be saved before having to cut even one consultant or temp if services are properly managed.

Buyer Guidance

By managing services spend through a procurement application, visibility is restored and intelligent decisions can now be made around value as well enabling improved cost negotiation. This ultimately allows organizations to implement a strategy of moving fixed costs to variable services to allow them to be selective in cuts choosing fit over status, the scalpel vs. the hatchet. Additionally as the economy goes down, quotations previously received can be regarded as your price ceiling. Renegotiate during the requisition and collaboration process as prices are dropping. For this you will obviously need a system that supports services collaboration. Manage the renewal process and renegotiate at contract renewal, don't get caught with auto renewals. Make sure your system has tight integration with your contract management solution. By paying only on completion of milestones or acceptance of services rather than invoices you can manage your cash better. Select a system that tracks milestones.

Above all, remember this economy won't last forever. Companies that will thrive can act quickly, bringing on needed services and managing the process when the economy recovers.

Myth #6

Any procurement solution can be configured to handle services

Reality:

Most procurement solutions are not designed to handle services

In the past, procurement vendors have attempted to fit services into a square hole for goods. As discussed earlier, services have unique attributes that cannot be simply configured as catalog items. Trying to get services to act like something they're not is a recipe for frustration. Some applications have attempted to simplify this by creating catalogs for labor and other services the same as they present goods. This may work for some simple categories but not for most. Collaboration, time cards and expenses are just a few of the key functions you need to successfully tackle services.

Buyer Guidance

A comprehensive services procurement solution should be able to handle any service you may purchase including but not limited to: Temp Labor, Consulting, Marketing, Project based services and Print services. It should support external collaboration,

flexible rate cards, time and expense reporting, flat rates and milestones.

Many services procurement vendors can assist you with a generic requirements document that will outline the basic functionality that you should look for in a true services procurement solution. Make sure your vendor has the functionality and experience in services procurement.

If you purchase for a multi-enterprise corporation, (one with more than one ERP system) consider a solution with a deployment option that can unify disparate ERP systems and provide you with cross realm reporting and contract aggregation, catalog sharing, as well as centralized but flexible administration for data and processes.

Myth #7

Point solutions are the best choice

Reality

A service solution should be part of an overall eprocurement strategy

Procuring any type of services takes place in a larger procurement and corporate ecosystem. To put a single point solution in place for each specific type of service such as temp labor or print creates a drain on organizational resources and limits leveraging solutions for maximum value. Users will need to be trained on each system, ramp up will be longer and time will be lost moving back and forth between disconnected applications. IT will have a number of solutions to keep tabs on and reporting along with other centralized functions plus administration will be more complicated.

“Okay, that seems obvious,” you might say. Now think about all the systems that touch Procurement - Sourcing, Contract Management, Invoice and Payment, Supplier Management and Analytics not to mention ERP. How can you provide seamless integration between all of these applications? Sourcing awards flowing into contracts, procurement checks for contract compliance, purchase orders flipped to electronic invoices with supplier then receiving electronic payments. Analytics sitting atop all of this for a comprehensive view of your spend management ecosystem. Now that’s leveraging eprocurement!

Maybe you’re not planning on doing any of this now... but you will.

Buyer Guidance

Why have users learn two or more different systems? The ideal solution will provide seamless one-stop shopping for goods and any type of services. Alongside procurement make sure the system can provide tight integration to Sourcing, Contract Management, Invoice/Payment, Supplier Management and Analytics solutions. Additionally consider, as mentioned in Myth #6, the ability to unify ERP systems across divisions for cross realm reporting and contract spend aggregation along with shared catalogs and centralized processes.

Myth #8

No budget = No Software

Reality

A good solution can pay for itself within a few months.

Analysts and customers agree that hard cost savings are easily attainable within a short period of time with the right solution. Savings averages from analysts range from a low of 4.4%^x up to 7.3%^x. Many customers have seen even greater savings exceeding 15%. Plus with Software as a Service (SaaS), long, costly implementations are a thing of the past. Combining quick implementations with significant savings, payback within six months and ROIs over 1,000% in the first year are not uncommon. Subscription based pricing also allows many solutions to be installed using operational vs. capital budgets.

Buyer Guidance

Review with your supplier, implementation and estimated payback timelines. Many suppliers will provide an ROI calculation free of charge to help establish a business case for your organization. Investigate your pricing options including subscription pricing.

Myth #9

Vendor funded software is virtually free

Reality

Vendor funding has benefits but be careful of hidden costs

Vendor-funded software is typically encountered when a Managed Service Provider (MSP) is acting as a client outsource for procuring contingent labor. They may provide their own Vendor Management Solution (VMS) or will work with a client to secure a solution. (VMS is simply a point solution dedicated only to procuring contingent labor) Instead of the customer paying subscription fees directly to the software supplier, the MSP simply applies a mark-up to the customer invoice on the labor supplied (typically 0.25-.75%). This is in addition to their own markup for running the MSP operation. The MSP then passes the VMS markup back to the software supplier.

The benefits are the customer does not have to write a big check initially and the actual software costs are hidden in the labor costs. These both eliminate the need for a specific software budget. The issue becomes how much do you pay in the long run and are there other costs such as integration may be treated as optional?

Some clients have experienced a decrease in productivity and customer satisfaction when implementing a VMS that was not tightly integrated with their eprocurement system. Requisitions were delayed for almost a week during a manual approval process and invoicing and payments were never quite up-to-date.



Finally, if strategically you are moving to address other major spend areas, such as print or projects, how will a solution dedicated to labor work going forward?

Buyer Guidance

Make sure there are no surprises. Ensure any Vendor Management Solution can be tightly integrated with your existing systems. Investigate the total costs for three years including the integration components. The simple worksheet below can help outline these costs.

Decide on your strategy for other services. Will you be able to use the system for other types of services as you expand your spend management? How will pricing be affected if you use the VMS for other services?

Worksheet for Comparing Services Procurement Solution Investments

		Company A	Company B	Company C
Annual Recurring Costs	Annual Subscription Fee			
	Hidden Costs*			
	Support & Maintenance			
	Integration to Financial Systems			
	Total Annual Recurring Costs			
Setup	Implementation			
	Integration to eprocurement system			
	Total Years 1-3 Cost			

*Vendor Funding: Markup on services spend - typically 0.25- 0.75%

Myth #10

There is nominal risk in a fully funded start-up company

Reality

Small software companies are a risk in today’s economy

For those who purchased software prior to the dotcom bust, the realities around this statement are very clear. In as little as one year, suppliers with marquee customers and premier venture capital backing were like so many Pets.com sock puppets on the roadside. This sent business scrambling for alternatives or going back to their previous operations after millions of dollars and man-hours had been invested.

Those that had the foresight to have code put into escrow, found that without the resources to support the application on an ongoing basis the code was pretty much useless.

Today many companies that started in the late 90s are still old “startups” not having made the transition to a thriving business or are handicapped having revamped their business model several times in search of success.

Buyer Guidance

It's impractical to not deal with small startups, after all that's where most successful software companies began. The key is to enter into the relationship with your eyes open and arm yourself with information.

First, will the application support available be adequate today and in the near future? Given the global nature of most companies today 24-hour support is critical as well as support in an appropriate language. If you are automating contingent labor, the application should contain legal compliance for the country using it.

Are you preparing for the worst by escrowing source code? Remember escrowing source code is like life insurance. You only get it when someone dies and it isn't fun. Do your best to avoid getting into that situation. So how do you protect your company? Review the financials carefully. If a vendor you are considering is private, get an audited financial statement. In reviewing the financials do they have the wherewithal to survive 18-24 months at their current burn rate or are cash flow positive?

The American Staffing Association has published a paper on “Best Practices for Financial Management in VMS and MSP Arrangements” which you can access at http://www.americanstaffing.net/Best_Practices_for_Financial_Management.pdf .

Conclusion

While it might seem that selecting an application for Services Procurement is an uncomplicated exercise, there are many pitfalls to be avoided as outlined in this paper. Carefully researching functionality, usability, technology, anticipated ROI, implementation and corporate viability will help you avoid these pitfalls and improve your chances for a successful implementation. A system that is embraced by your organization delivers on the promise of real savings and value.

✓ Buyer Checklist	
Functionality	
	1. Does the solution support vendor collaboration for best fit and price?
	2. Can you manage spend in Temp Labor, Consulting, Projects, Marketing, Print and all other services you purchase?
	3. Are there flexible rate cards that can be easily modified?
	4. Can payments be made based on milestones?
Usability	
	1. Can users requisition both goods and services from a single sign-on?
	2. Does the solution provide pre-enabled catalogs for quick implementation and granular visibility?
	3. Can users check the status of any requisition in one place?
	4. What is the process for catalog updates? (goods and services)
Technology	
	1. Is there single sign-on and tight integration with Sourcing, Contract Management, Invoice/Payment and Analytics?
	2. Does the vendor have experience integrating with your ERP system?
	3. Can the system unify multiple ERP systems if applicable? (Cross realm reporting and global contracts, centralized administration, and shared catalogs)
	4. Is the solution Web-Trust certified? SAS 70 certified?
Value / ROI	
	1. What is the total cost of ownership? Include integration to existing systems and hidden costs such as vendor funded markup.
	2. Can the solution grow in value to leverage Sourcing, Contract Management, Invoice/Payment and Analytics?
	3. Can the vendor provide a comprehensive ROI analysis to understand the business case for the solution?
Implementation	
	1. Are sufficient IT resources available for implementation?
	2. How long is a typical implementation? How long do upgrades take?
	3. What are the integration requirements to existing systems?
Viability	
	1. Review audited financial statements. Does the vendor have enough cash for at least 24 months at the current "burn" rate?
	2. Do they have 24 hour support?
	3. Do they have global support in the language for users?

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