Realizing a Better Alternative to ERP-Based Indirect Sourcing

How modular sourcing solutions help large and small companies achieve profitability and cost savings 'right out of the gate'

A 2019 ProcureCon Indirect East Report
Featuring Andrew Wolfe, President & CEO of Wolfe Procurement

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About the Report

Information in this report is based on an October 2018 interview with Andrew Wolfe, President & CEO of Wolfe Procurement. The report includes data from ProcureCon Indirect East's 2018 benchmark report, *Gauging Indirect Spend Management, GPO Adoption, & Best Practices;* and materials from WBR Insight's November 2018 webinar, "ERPs Can't Do It All: How Modular Sourcing Solutions Can Help," sponsored by Bonfire.

About Andrew Wolfe
President & CEO of Wolfe Procurement

Andrew Wolfe has a proven track record of executing complex, high-value strategic sourcing initiatives and supplier management programs globally. Today, Andrew builds relationships with CPOs and procurement leaders to understand their vision, key initiatives, and priorities while helping them through their digital journey.

Overcoming Problems with
ERP-based Indirect Sourcing

Alone, indirect spend can make up to 20 percent of total company spend and may involve up to 80 percent of a business' total suppliers. Most companies utilize some form of the RFP process to make decisions about indirect spend, often within the procurement module of a traditional ERP. But how are they actually performing evaluations of these RFPs?

ERP systems originated from direct procurement in manufacturing. They still predominately exist there today—on the manufacturing side or with direct materials for procurement. But for indirect use, ERP systems are "like sticking a square peg in a round hole," says Andrew Wolfe, President & CEO of Wolfe Procurement.

In a recent study, ProcureCon Indirect East found that only 38% of companies' spending is centralized across regions and business units. Most have adopted centralized procurement models, which would allow spending to be consolidated across the business. They do, however, remain challenged with controlling 'rogue' spending.

Most ERP systems are not out-of-the-box solutions, so businesses struggle to customize them sufficiently to support all indirect spend. What's more, companies that make acquisitions using different operating entities often end up with multiple ERP systems. Companies that acquire other companies are not prepared to combine two or more ERP systems, creating a disjointed RFx environment. Multiple ERP systems provide a very limited view of sourcing across the entire enterprise.

Historically, procurement teams have had little choice but to use ERP tools for sourcing activities. Today, however, the landscape has changed, offering more effective and competitive solutions—modular solutions. A modular system has the adaptability to help companies grow; they enable procurement teams to run more projects with less overhead and maximize the value of their budgets. Even companies with disconnected

What Procurement Teams Want

Most procurement teams want these seven things:

- Cost Reduction & Improved ROI
- Supplier Risk Management
- Flexibility to Changing Business Needs
- User Adoption / Higher Stakeholder Engagement
- Increased Visibility
- Better Reporting & Analytics
- Increased Efficiency & Productivity

systems can adopt a modular approach to sourcing activities, building connections where one or multiple ERP systems cannot. This approach is perceived as the notion of buying a best-of-breed suite and is becoming increasingly popular among enterprises.

Traditionally, experts recommended ERP systems to help teams achieve these goals. But even when using an ERP system to centralize processes, gaps emerge that obstruct them.

"In the past, teams emphasized having one source of truth—hence the ERP system," says Wolfe. "But given how processes and teams have evolved, the modular approach is much better. The issues around data have gone away because everything integrates so seamlessly."

Companies of all sizes and stages of their procurement evolution can benefit from these systems. For example, companies taking their first step towards RFx system adoption will lack visibility in terms of how they are spending money. They must start by understanding their spending and categorizing it before they can generate opportunities.

Modular systems can help them better manage that part of the process from a sourcing perspective. Dashboards in modular systems enable decision makers and end-users to manage entire projects simultaneously. In this way, users and decision makers can collaborate to build an entire project from within that platform, which isn't possible with an ERP system.

Realizing a True End-to-End Process

When it comes to procurement, companies want an end-to-end process. From a data perspective, this is a key motivator for companies that choose to adopt ERP systems. Although centralizing procurement data in a single place makes sense, that data quickly becomes fragmented and complex as companies evolve. Meanwhile, there are systems available that provide accessibility from all levels.

According to Wolfe, most companies adopt an ERP system for their financials, and they usually purchase the whole ERP suite. From a procurement perspective, the ERP is very focused on the transactional or purchasing side, where the sourcing platform goes from bottom to top. Since they already own a sourcing module, decision makers may feel they don't need to make additional investments in sourcing; they may settle on very limited functionality found in their ERP, which doesn't include critical feature sets that modular systems provide.

But ERPs do not necessarily support the end-to-end process companies want. Out of necessity, many companies work manually outside of their ERP systems, which disrupts evaluations and cost analysis. Unless a user or manager imports that data back in, companies lose their line of sight; and most users don't put that data back into the ERP system because it is a cumbersome and time-consuming process. The process then becomes disjointed—the data has no value when it's missing from the system.

Most ERP systems don't have the capabilities that simple-fitting modular systems have from an evaluation standpoint. While many ERP systems are useful for very basic pricing—where different scenarios don't exist regarding how companies select vendors, for example—they don't involve analyses like those found in a negotiation framework. ERPs are typically oriented towards pricing, which is purely quantitative; modular systems have a greater ability to asses qualitative depth.

The Primary Benefits
of Running More RFx

Easier events mean more events

Better innovation from the supplier network

More market inputs for greater creativity and choice

More creative and competitive pricing models

Greater collaboration amongst all internal stakeholders, with less doubt or friction after a decision is made

Faster, better decision-making for larger decisions

Greater view of all spend data, both active and in process

A Closer Look:
Four Ways Modular Sourcing Improves RFx

Modular sourcing allows internal departments and stakeholders to maintain visibility throughout RFx activities—from their request to purchase, to procurement teams' forming of criteria, to supplier selection or go-to-open market, to the decision making process. The following four benefits demonstrate how procurement teams and stakeholders achieve collaborative, end-to-end processes, which drive consensus and results.

Easier and More-Frequent Events

Modular sourcing platforms provide drafts, templates, and preformatted tools that make setting up criteria for new sourcing events simple. Project managers and stakeholders can request information and structure projects for the market with greater speed and agility than with a larger ERP.

What's more, modular sourcing makes it easier for project managers to engage and collaborate with department heads, business partners, and other stakeholders. Together, they can develop criteria in a digital environment that supports critical decision making.

When it's time to score responses, stakeholders can easily access the system to read, evaluate, and reformat information successfully. Then, they can quickly return to their core responsibilities. When released to market, suppliers have a clear view of what is required of them as well.

Greater Competition and Innovation in Supplier Networks

Procurement teams that use modular sourcing can go to market with requests that foster innovation and creativity. They can challenge suppliers with unstructured demands, who in turn can develop creative options even without a prescribed solution or supplies list.

Companies can engage with the market on a regular cadence to guarantee the best solutions; they can invite multiple preferred suppliers to solve a single business problem to achieve the best results. Teams can even sub-divide lists when they go to market and award items to the most competitive suppliers each year.

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More Collaboration and Greater Confidence among Stakeholders

Modular sourcing enables teams to create audit trails and engage users across global locations so that everyone involved can access relevant materials before a project's release. This eliminates the cumbersome circulation of multiple PDFs, emails, and spreadsheets.

Once a project is in market and begins receiving responses, the project manager and evaluation team can view those responses in real time, start internal conversations, and pinpoint elements of each proposal that need to be addressed by a group or specific stakeholder. A decision is made only after the project manager has solicited responses from all subject-matter experts and stakeholders in the areas of the proposal most relevant to them.

A Complete View of Historic, Active, and In-Process Spend Data

As an online collaborative experience, modular sourcing gives teams the ability to not only budget before they go to market, but manage active spend in each department or potential spend category. Procurement teams can report on savings achieved in any time period (e.g., quarterly or annually) and set benchmarks or savings goals in the system.

With a working history of spend data, procurement teams can conduct reflective reporting, pull relevant insights, and achieve future savings targets set against each individual department or category. As issues arise through the life of a contract, corrective action can be taken and contracts can be renegotiated or renewed with a full data set.

As we've seen, modular sourcing enables consistency of data throughout the full lifecycle of the purchase, facilitating a genuine consensus among all internal and external stakeholders. Meanwhile, achieving that consensus remains a persistent challenge across procurement teams today.

Disconnected Processes
and Stakeholder Engagement

According to ProcureCon Indirect East, controlling rogue spending is the most ubiquitous challenge facing procurement teams in terms of indirect spend management. Stakeholder engagement is the probable cause—ERP systems are complex, while modular systems that are specifically designed for sourcing support high user adoption.

Stakeholders, however, tend to forgo evaluations with ERP systems, especially in large organizations. Wolfe notes that even some Fortune 500 companies continue to do their resource planning manually—they use Microsoft Word, conduct their analysis from evaluations in Excel, and share data using PDFs, he explains.

These companies may create very large evaluation teams only to have their proposals go unevaluated. This delivers skewed results, jeopardizing multi-million dollar projects that only a handful of people have evaluated. Procurement teams inherently struggle with visibility into who has and hasn't accessed or modified records. Offline ERP habits prolong the process so that procurement teams cannot make timely recommendations about spend.

Companies adopt modular systems, which are easier to use and require minimal training, to alleviate these pain points. Evaluation teams that otherwise would not access proposals consistently need little training to participate, which improves the overall RFx process and stakeholder participation.

ERP System
Problem Areas

These are the top sourcing problem areas companies using ERP systems or other traditional solutions continue to face:

Visibility: Lack of visibility into all procurement activity across the organization (i.e., preventing 'rogue' spending)

Stakeholder Engagement: Difficulty engaging with stakeholders at the right time

Resourcing: Sourcing events that require frequent follow-up with stakeholders, too many administrative hours, and long cycle times

User Adoption: Low adoption rates amongst evaluators and key stakeholders in the process

Reporting: Indirect spend that isn't easily traceable

Disconnected Process: Tools and processes that are disconnected, particularly when it comes to sourcing activities

Modular tools are highly collaborative. Indirect procurement, for example, always has stakeholder and subject-matter experts as participants in the process. Whether that involves someone from IT, business, marketing, or finance, they all need accessible and practical solutions to participate in a meaningful way. In a modular system, these participants need only evaluate proposals for which they are responsible, providing a better end-user experience. If an IT stakeholder only needs to evaluate security requirements, for example, they need only review that segment of the proposal.

"That means greater visibility, but also accessibility for team members at all levels," says Wolfe. "It could be at an executive level, or down to an administrative role, but either way they're only seeing information that is relevant to them."

Achieving Full Line of Sight with Modular Solutions

To capture indirect spend, a modular sourcing platform provides a central control or focal point to bring together all sourcing activities. "Whether a company has multiple ERP systems, multiple operating entities, or they're around the globe in terms of physical location—you need to get everybody putting all sourcing activities in that single spot," says Wolfe.

A modular system will capture all of a project's activity within that platform at a dashboard level. Unlike ERPs, these systems give users management visibility of all projects that are going through that platform at each stage of the process. In this way, organizations can achieve full line of sight for all their contracts and generate all of their sourcing activities in one place.

"A modular system that is easy to use means great visibility and accessibility for team members at all levels, whether an executive role or an administrative manager."

– Andrew Wolfe, *President and CEO of Wolfe Procurement*

Greater Stakeholder Engagement

"In modular sourcing platforms, we've seen that stakeholder engagement has significantly increased," says Wolfe. "In some cases, adoption is above 98% within that process."

There are several factors increasing user engagement, especially among stakeholders. Wolfe finds that modular systems cut down on cycle time, which in turn reduces the time required for both users and stakeholders to participate in procurement events. This also increases their experience and familiarity working with procurement.

"Manual processes can become very bureaucratic," says Wolfe, "whereas modular cloud-based solutions provide stakeholders with an easy-to-use and easy-to-understand system that allows them the ability to get involved only when they need to be."

Automation in modular systems is one factor in particular that enables stakeholder engagement and satisfaction. It speeds up and simplifies processes for users, enabling them to participate in prequalification processes, for example, which would be impossible with only manual ERP functions. Companies that typically engage only 10 suppliers can engage 20 or 30 suppliers in a prequalification round before involving stakeholders, reaching a wider pool of suppliers and increasing the competitiveness of their opportunities without a substantial increase in workload.

Looking for a modular tool to capture **indirect sourcing?**

With many solutions in the market, options may seem endless. Consider a system that is cloud-based, allowing easy access for your team and external stakeholders. It's also important to review the capabilities of the tool to ensure all RFx activities can be completed in one central place, especially the evaluation phase of the process which teams are traditionally forced to complete manually. In looking at modular systems that fit the bill and work in tandem with ERPs, the **Bonfire Strategic Sourcing Solution** is regarded by end-users and analysts as one of the most user-friendly sourcing solutions in the market. The solution offers tools to support the entire vendor lifecycle including sourcing, contract management, and vendor performance.

Conclusion: Better Execution for All Company Sizes

For enterprises, adopting a modular approach to their sourcing system results in a quick and significant ROI. This is nonetheless a big transition for enterprises, especially those with multiple ERP systems. Smaller companies that invest early, on the other hand, have greater growth potential once they have a modular system in place.

"The bigger the organization gets, the more complex it gets," says Wolfe. "It's easier to mandate a modular system when it's a smaller company. If you have an excellent process in place, it helps as new stakeholders are onboarded with the company… it's effortless to understand, and easy to follow."

For small companies adopting modular systems, it immediately becomes easier to establish policies, procedures, and governance as well. By nature, modular systems will adapt to company growth—they will grow with small procurement teams and continue to support them when they reach 100 or more.

At large companies, modular systems enable procurement teams to become a more meaningful part of the business so they can work together to achieve a common goal. Modular systems may also complement ERP systems as larger companies transition. In this way, procurement can support the strategic direction of any organization and handle all types of procurement challenges using one simple solution.

Here Are Your
Next Steps:

Realize the challenges and associated risks of using an ERP system for RFx activities.

Discover whether a modular sourcing solution will benefit your organization (e.g., cycle time reductions, greater cost savings, seamless stakeholder engagement).

Centralize and leverage sourcing data for smarter procurement decisions.

Leverage data analytics to make smart sourcing decisions easily.

About the Authors

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