Achieving World Class Source to Settlement Through Best Practices

PeopleSoft Supplier Relationship Management Solutions and The Hackett Group, an Answerthink Company

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Achieving World Class Source to Settlement Through Best Practices

Examining the use of PeopleSoft Supplier Relationship Management solutions as the technology infrastructure for a transformation program driven by best practices

an executive white paper by

The Hackett Group
an Answerthink Company

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Executive Summary

No corporate function comes close to procurement in terms of its success in reinventing itself over the past several years. Technology developments and increased use of the Web have enabled traditional purchasing supply management to expand well beyond the conventional tasks involved in acquiring materials, services and equipment. Indeed, today, procurement professionals have the ability to exert significant influence on quality, company profitability and ultimately on shareholder value.

As companies have come to rely on suppliers for increasingly greater proportion of their products' total value, leading-edge procurement organizations are driving far-reaching improvements in the acquisition of materials, supplies, and services required to operate the organization.
In the process, procurement executives are realizing that outdated systems and inefficient procurement processes can only impede their ability to execute effectively in a changed business environment. This problem looms even greater in large enterprises with decentralized procurement operations, for example those that have expanded as a result of acquisitions. In such scenarios it becomes almost impossible to aggregate supplier data from disparate systems quickly enough to contribute to sourcing strategies that support the strategic direction of the business.

To maximize the contribution procurement makes to customers and to company profitability overall, an ongoing commitment to best practices is required. As a starting point, it helps to understand how other organizations have achieved world-class status through a best-practices-driven approach to procurement. The Hackett Group, which for over a decade has studied the administrative functions of large, complex organizations, has isolated the characteristics shared by world-class organizations in its renowned database. These organizations provide more value at a lower cost than average. They accomplish this by embracing proven best practices in organization, processes, technology and the use of information.

In the realm of procurement, world-class organizations enjoy a number of benefits over their average peers, including more efficient transaction processing, a more effective and better-trained workforces, a smaller supply base and lower procurement costs.

For example, The Hackett Group found that world-class companies issue 78% fewer individual purchase orders due to an 84% higher use of blanket contracts. In addition, top companies not only operate with 77% fewer suppliers, they channel the top 80% of their spend to 97% fewer suppliers than average companies.¹

This white paper is designed to help your organization build the business case for deploying proven best practices and technologies. The following pages, in addition to comparing key performance metrics between average and world-class organizations, describe in detail the top five proven procurement best practice strategies adopted by industry leaders to achieve breakthrough performance in procurement. Readers of this report will obtain help answering the following frequently asked questions:

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• What is a best practice?

• How do we compare to world-class procurement organizations?

• What are the key drivers of procurement excellence?

• Do best practices offer help only with long-term improvements or can they also supply "quick fixes"?

• How do you measure the financial impact of implementing procurement best practices?

Finally, we conclude this paper by examining the use of PeopleSoft Supplier Relationship Management as a technology infrastructure for a transformation program based on the consistent, holistic use of best practices.

Answerthink recently conducted a study to help companies understand the business case for investing in best-of-breed solutions like PeopleSoft Supplier Relationship Management. To establish the degree to which PeopleSoft supports the deployment of procurement best practices, the study compared the out-of-the-box functionality of PeopleSoft’s Supplier Relationship Management Software Suite against empirically derived best practices in The Hackett Group’s database. The study provides strong justification for investing in PeopleSoft to improve the quality of decision support by implementing PeopleSoft Supplier Relationship Management as part of an overall best practice transformation program.

What is a Best Practice?

A best practice is a proven process that delivers measurable improvements in efficiency and/or effectiveness. Companies look to best practices to help them speed their progress toward performance improvement, and to guide them around pitfalls that might otherwise slow or even halt their initiatives.

1 Unless otherwise noted, all data cited in this report is sourced from The Hackett Group's 2002 Book of Numbers: Procurement
The very potency of this concept has led in recent years to a spate of artificial or unreliable declarations about best practices that too often reflect little more than theory. What makes a Hackett-certified best practice unique is the depth of the documentation behind it. Best practices identified by The Hackett Group are based on its unparalleled database of benchmark results from nearly 2,000 participating organizations around the globe, including 97% of the Dow Jones Industrials, 83% of the Fortune 100 and 86% of the Dow Jones Global Titans Index.

Answerthink and The Hackett Group have identified five principal criteria that define a best practice. Simply put, a best practice must:

1. **Drive a measurable change in performance**
   The most reliable way to quantify performance improvements is to:
   - define the specific measure in advance
   - establish the baseline of performance, and
   - set the target for the desired level of performance improvement
   - compare actual performance to the target over time

   In the next section, we highlight some of the highest-impact benchmark measures for various best practices.

2. **Be proven in practice**
   At the risk of stating the obvious, a practice must work to be considered a best practice. Proving that a best practice really works should be done by both observing it in operation and also measuring the results.

3. **Apply to a broad spectrum of organizations**
   A best practice must be applicable to a broad range of organizations of different sizes, business models and in different business sectors. A wide range of organizations should be capable of adopting a best practice, given reasonable resources and executive commitment. This distinguishes best practices from a distinctive capability, which a company gains by having unique skills in a particular area such as internal innovation, proprietary knowledge or some other driver of competitive advantage.
4. **Exploit proven technologies**
A key driver of increased interest and adoption of best practices is the proliferation of tools and applications designed to support proven best practices. Contrary to a broadly held belief that technologies such as self-service, workflow and information-on-demand drive up procurement costs, world-class companies that adopt these and other value-adding best practices actually have 69 percent lower total procurement process costs compared to those who do not. Contributing to world-class companies’ cost advantage is the fact that these companies focus their spending on proven technology and seek to minimize complexity by reducing the total number of disparate procurement applications within the organization.

5. **Minimize risk through effective controls**
Best practices are synonymous with a well-controlled and well-managed process. Implementation must involve appropriate changes in people, processes and technology, and maintain adequate control of these factors in the new environment.

**An essential point about best practices:** It is not necessary or even advisable to blindly adopt all the best practices in use by world-class organizations. Rather, they offer a framework and a methodology for driving improvements appropriate to each company’s particular business objectives. No executive should undertake any performance enhancement program without first pinpointing the drivers of excess cost and complexity within their own organization; best practices identified for deployment can then be directed at achieving targeted, measurable improvements in these areas.

**The Danger of Implementing Best Practices in Piecemeal**
Recently, large manufacturing company adopted Evaluated Receipts Settlement (ERS) - a recognized best practice that utilizes two-way matching of purchase orders with receipts to eliminate the need for an invoice. However, the company did not elect to deploy complementary best practices, for example in the processes required to support ERS. This led to a serious breakdown in data integrity throughout the requisition-to-pay process and caused the organization to overpay suppliers by $100,000 per quarter. ERS was not the causative factor; rather, the root causes of the overpayments were the result of the following:

- Receipts were made against Purchase Orders that did not reflect current negotiated pricing. Buyers did not perform price maintenance in a timely manner.
Receipts were entered for incorrect quantities (higher than actual). Receivers’ “fat fingered” receipt quantities or incorrectly counted quantities can be avoided with best-practice-driven purchase order creation and maintenance process. For example:

- Contract and price effective dates are managed and reported via a procurement system.
- In receiving, integration of bar coding techniques and/or Advanced Ship Notices with receiving and inventory modules provide critical feedback controls to the receiving process.

**World-Class Procurement**

Even though world-class procurement organizations may not have achieved excellence in every process, a close examination of the best practices they have implemented and perfected can help readers of this white paper accelerate their own learning curve and minimize the potential for costly missteps.

No one would claim that realizing the business-altering potential of world-class procurement is an easy task. Companies with decentralized procurement operations must deal with archaic processes, organizational politics and outdated infrastructures as they bring their purchasing activities into an age of technology-enabled, transparent integration of the supply chain. At the same time, while companies with centralized purchasing organizations benefit from greater control and leverage of vendors, they must maintain sufficient flexibility in policies and procedures to discourage maverick buying.

Today, the best global companies are moving to a hybrid procurement operating model that centralizes activities like buying commodities for multiple business units, while decentralizing activities like supplier scheduling that are best handled at the business-unit level. When best practices are applied intelligently and with the visible, ongoing support of executive management, it is possible to overcome the challenges inherent with any procurement-operating model.

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Selected Characteristics of World-Class Procurement Organizations

1. A focus on cost optimization throughout the procure-to-pay flow is the hallmark of a world-class procurement organization

World-class companies have seemingly captured the holy grail of the procurement function: They have fewer dedicated procurement staff; they minimize sourcing and order-fulfillment time; they negotiate the best prices on their most important commodities; and they leverage purchasing intelligence to improve supplier relationships – yet they manage to operate with 69% lower costs than average.

How do they do it? Year after year, data from The Hackett Group’s ongoing benchmark study of procurement has substantiated that no company can successfully reduce costs simply by overlaying technology onto inefficient processes. So although there is no doubt that automation and eProcurement are essential for a thoroughly optimized procurement organization, world-class companies understand that best practices geared to eliminating process inefficiencies must occur before technology is deployed.
Thus cost management at world-class companies begins with the recognition that routine processes should be streamlined in order to make the flow of information more efficient and accurate. In just one example, world-class companies have reduced their total purchase orders by 78% compared to average by moving aggressively to substitute blanket purchase orders for traditional, one-off purchase-order transactions. Use of blanket purchase orders – issued to a vendor to enable goods or services to be ordered throughout the fiscal year – reduces paperwork and saves time by enabling end-users to order small commodity-type materials or services that are bought frequently, such as office supplies or services such as routine maintenance.

2) Automating and e-enabling procurement activities supports dramatically improved process efficiency and frees procurement staffs to focus on more strategic activities.
World-class companies are within striking distance of the complete automation of the procure-to-pay flow. Top performers speed up purchase approval by doing 100% of approvals online; average companies which conduct only 47% of purchase approvals online, processing the remainder manually. Manual processing means that dedicated procurement staff are spending their time hunting down information dispersed among multiple databases, catalogs and paper files. World-class companies also use automated methods to generate purchase orders in under two hours -- by contrast it takes average companies over 50 hours to accomplish the same task. Online approvals and automated purchase orders not only decrease ordering cycle time; they also minimize costly human error. From the customer perspective, of course, timely, accurate order fulfillment is the hallmark of quality service.

By embracing automation and eProcurement, world-class procurement organizations support decentralized buying while ensuring that it operates within the bounds of the company’s corporate contracts, policies and process workflow. Further, by putting MRO (maintenance, repair and other) purchasing activities in the hands of the requisitioner, the need for intervention by dedicated procurement staff is dramatically reduced.

Best practices are increasingly embedded within the latest generation of technology. However, a concerted effort is still required to train and migrate employees to these tools if companies wish to realize the full return on their technology investments, in the form of reduced or redeployed procurement staff, shortened lead times, reduction of redundant inventories, fewer errors and lower prices through leveraged spending.
3. World-class companies harness the power of technology to improve access valuable information for decision-making

Effective use of technology to extract useful intelligence from eProcurement applications comes with its own set of best practice imperatives. Data standards, for example, greatly enhance the ability of users inside and outside the organization to share information -- not to mention the additional benefits of less required user support and training as the number of different systems in use is reduced. Consistent information structures such as company-wide supplier master files and company-wide commodity coding also reduce costs and help companies deal more effectively with suppliers. Here, too, world-class companies excel, driving 100% adherence to this best practice, as opposed to only 60% of companies on average.

As the use of purchasing analytics tools grows, data standards will make or break a company’s ability to extract a return on these investments, which use powerful decision-support engines to spot and analyze opportunities to leverage enterprise spending and improve supplier performance. As with eProcurement, achieving the full potential of purchasing analytics is even more taxing for companies because it requires the tight integration of purchasing software and Enterprise Resource Planning (ERP) systems.
4. Best practices in strategic sourcing deliver consolidated purchasing power, tighter relationships with suppliers and lower costs

To leverage the cost and effort associated with common purchases across the organization; world-class companies have elevated supplier-base management into an art form, using 77% fewer suppliers than average firms. Aggregating purchases from across all business units among a smaller group of preferred suppliers not only enables procurement managers to drive better pricing, but also reduces the resources required for overall supplier-management administration activities. Indeed, Hackett’s procurement benchmark data demonstrates that as the number of suppliers per billion in spend decreases, so does total procurement cost as a percent of spend.

A word of caution about strategic sourcing technology: To strengthen channel relationships and optimize acquisition costs, many companies are investing heavily in e-sourcing technologies that address product lifecycle management, direct sourcing, order planning and multi-channel based order management processes. Indeed, according to AMR Research, the e-sourcing market will grow from $275 million in 2000 to $3.5 billion in 2005.
Unquestionably, e-sourcing has a place in the contemporary procurement organization, but executives should never overlook improvement strategies that optimize people and processes to accomplish the same goals. To this end, world-class-class companies utilize cross-functional teaming more extensively than average, bringing together individuals from different parts of the company and with heterogeneous skill sets to evaluate supplier performance and negotiate contracts, among other activities. While cross-functional teams might not be an obvious strategy for achieving a more efficient procurement process, when team members have a solid grounding in their individual disciplines as well as a clear vision of their particular function’s priorities, higher-quality decisions are possible, since they are made with a corporate-wide view of needs.

5. Procurement staffs deliver more value with fewer resources

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Since 1999, spans of control have narrowed 43% at world-class firms, an indication of a shift in the staff mix away from clericals toward professionals as routine tasks are automated, eliminated or outsourced. By contrast, the ratio of managers to staff at average companies remained consistent through 2002. At leading-edge companies, the elimination of low-value activities is permitting the development of a new breed of purchasing professional, the procurement information architect, who applies empirical data-gathering skills and analytical tools to improve planning and policy making, negotiation, supplier evaluation, inventory control and related areas. As their influence expands beyond ensuring the routine flow of materials, supplies and services required to operate the organization, they are increasingly recognized as part of the executive management team, particularly in the manufacturing sector.

Another way in which world-class companies tap the skills of their procurement staffs is by involving them early in the product development cycle. The result: faster, less costly product rollouts. At companies where the procurement organization is an integral part of the product design team — creating a bill of materials early in the product's design phase, or providing
information about supply conditions and market trends, for example — the cost of procurement as a percent of spend is 24% lower.

In sum, the consistent and coordinated use of best practices in process management, technology use and organization design enables world-class companies to run procurement with 69% fewer full-time equivalents (FTEs) than average.

**Understanding Benchmarking**

Benchmarking enables an organization to compare its performance against the best-run companies in the world. The Hackett Group employs both traditional *quantitative* metrics such as cost and productivity, and *qualitative* measures including strategic alignment and decision-making effectiveness, benchmarking provides a framework for analyzing drivers of cost and value. This approach stands in stark contrast to the purely technical measures that are the focus of many other benchmark programs.

Establishing a baseline of current performance is the first step in building a business case for an improvement project. In order to assist companies with measuring the benefits, The Hackett Group links performance to proven best practices in efficiency and effectiveness.
Efficiency Measures
These typically address cost and productivity improvements such as cycle time, level of
detail, and level of manual effort required. The dollar-impact of these improvements
depends on the specific characteristics of the company and can range from the
thousands to the millions, depending on the process.

Effectiveness Measures
These relate to improvements in the quality and value of the activities performed. Effectiveness
measures describe performance improvements derived in part by improved resource alignment,
improved accuracy and better decisions.

Performance Drivers and Best Practices
The previously provided sampling key procurement best practices demonstrates that world-
class organizations have found ways to work smarter and be more productive than their
competitors.

How do they do this? They rely on the following five best practice strategies:

1. **Simplification** of procurement processes
2. **Automation** of routine or repetitive tasks
3. **Consolidation** of redundant resources
4. **Standardization** of data and processes
5. **Strategic alignment** of procurement activities with overall corporate goals and suppliers

Simplification

“There is nothing so inefficient as making more efficient that which should not be done at
all.” – Peter Drucker

Best practices focus on identifying the most efficient way to execute a process. This includes
elimination of unnecessary rework, handoffs, excessive detail and approvals. For example,
world-class procurement organizations have simplified the buying process by channeling 143%
more of their low-value transactions through purchasing cards while placing 84% more of their
contracted spend on blanket contracts than average organizations.
The following are additional examples of best practices related to procurement process simplification:

<table>
<thead>
<tr>
<th>Process Area</th>
<th>Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requisition &amp; PO Processing</td>
<td>• Maximize requisitioner authority by adding payment approval to existing purchasing authority.</td>
</tr>
</tbody>
</table>
| Material Receipts             | • Incoming inspection and multiple material handling transactions reduced through high usage of “dock-to-WIP” techniques with suppliers performing and monitoring inspection activities.  
                                | • Assumed Receipt for PO purchases that do not go through formal receiving.                    |
| Accounts Payable              | • Eliminate check requests, petty cash and manual checks.                                       |
| Supplier Partnering &        | • Empowered supplier places personnel onsite at customer facility to manage the integration of the two firms including the scheduling of incoming product (JIT II). |
| Development                   |                                                                                                |

**Automation**

Automating manual processes shortens processing cycle times and ensures higher quality by eliminating the potential for human error thus reducing overall transaction costs. For example, companies that distribute over 60% of their purchase orders electronically realize 63% lower average transaction costs as a percent of spend.
Self-service transactions are leading another major advance in automation. Web-enabled tools now allow people to connect directly to business processes, such as requisitioning and sourcing. This newer generation of tools enables people inside and outside the company’s walls to directly access relevant information. For example, suppliers can inquire on payment status and manufacturing schedules.

The following are additional examples of best practices related to procurement process automation:

<table>
<thead>
<tr>
<th>Process Area</th>
<th>Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requisition &amp; PO Processing</td>
<td>• Routing and approval verification automated through workflow (i.e. use of an automated delegation process to speed approval time).</td>
</tr>
<tr>
<td>Supplier Scheduling &amp; Order Release</td>
<td>• Suppliers access secured views of company production planning. • High percent of direct materials order releases generated electronically.</td>
</tr>
<tr>
<td>Material Receipts</td>
<td>• Embedded bar code information used to record receipts in purchase orders.</td>
</tr>
<tr>
<td>Problem Resolution</td>
<td>• Issue follow-up aided by automated workflow capability. • Problems documented online by supplier and type of dispute.</td>
</tr>
<tr>
<td>Item &amp; Supplier Master File Maintenance</td>
<td>• Supplier master file automated to flag suppliers with no purchase activity within previous 12 months.</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>• Evaluated Receipt Settlement (ERS) used with a two-way match of purchase order with receipt for an invoiceless process. • Recurring payments automated or eliminated with direct debits by the supplier.</td>
</tr>
<tr>
<td>Supplier Selection &amp; Negotiation</td>
<td>• Web-based searches utilized to identify alternative suppliers. • RFx creation, approval and distribution electronically automated. • Bid analysis and supplier selection supported through automated optimization tools.</td>
</tr>
<tr>
<td>Supplier Performance Measurement</td>
<td>• Supplier performance ratings available online for internal distribution</td>
</tr>
<tr>
<td>Product Requirements Definition</td>
<td>• Automated linkages between design tools and universal preferred parts and supplier catalogs</td>
</tr>
</tbody>
</table>

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Consolidation

The consolidation of related activities and information reduces redundant processes and leverages economies of scale. World-class companies were early adopters of shared services and have deployed this organizational structure to address a broad range of procurement processes. Most of the value comes from consolidating routine, high-volume transaction-processing activities that share common requirements across the organization, such as purchase-order processing and accounts payable. However, coordination and leverage of common supply requirements provides an even greater level of value. For example, world-class procurement organizations, as mentioned earlier, not only operate with 77% fewer suppliers, they channel the top 80% of their spend to 97% fewer suppliers than average organizations.

The key to successful organizational consolidation is to simultaneously simplify, standardize and automate targeted processes, but consolidation should not be limited to organizational changes. It should also include system rationalization to reduce the overall number of applications in use throughout the organization.

The following are additional examples of best practices related to procurement process consolidation:
<table>
<thead>
<tr>
<th>Process Area</th>
<th>Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item &amp; Supplier Master</td>
<td>• Companywide supplier master file maintained centrally.</td>
</tr>
<tr>
<td>File Maintenance</td>
<td>• Companywide item master file (at least within the same product lines) maintained centrally.</td>
</tr>
<tr>
<td>Government Compliance</td>
<td>• Government compliance function centralized for monitoring and reporting.</td>
</tr>
<tr>
<td>Supplier Selection &amp; Negotiation</td>
<td>• Master contracts centrally negotiated.</td>
</tr>
<tr>
<td></td>
<td>• Long-term agreements for high-dollar, strategic purchases.</td>
</tr>
<tr>
<td>Sourcing Strategies</td>
<td>• Reduction (rationalization) in overall number of suppliers, concentrating spending in order to leverage purchasing power.</td>
</tr>
<tr>
<td></td>
<td>• Coordination of sourcing enterprise-wide for common expenditures (i.e. global commodity management)</td>
</tr>
<tr>
<td></td>
<td>• Maintenance of comprehensive database of spend information and supplier capabilities.</td>
</tr>
<tr>
<td>Procurement Function Management</td>
<td>• Single integrated procurement system.</td>
</tr>
<tr>
<td></td>
<td>• Shared service centers utilized for routine purchase order processing, accounts payable, supplier maintenance and compliance functions.</td>
</tr>
</tbody>
</table>

**Standardization**

Improving the consistency of processes and data is fundamental to a best practice approach. Processes and policies that vary among and even within business units create confusion and lead to inconsistent levels of quality and effort. Lack of standard data architecture and definitions results in redundant input and excessive time spent gathering and reconciling data, time better spent analyzing results. For example, this is a common problem for the 40% of procurement organizations that do not utilize common commodity coding and thus struggle with gaining the visibility into enterprise-wide spending behavior necessary for developing appropriate sourcing strategies and plans.

![Use of company-wide supplier master file and commodity coding](image)
Standardization of processes and systems dramatically improves efficiency and the integration of information needed for the highest value add analysis.

The following are additional examples of best practices related to procurement process standardization:

<table>
<thead>
<tr>
<th>Process Area</th>
<th>Best Practice</th>
</tr>
</thead>
</table>
| Item & Supplier Master File Maintenance | • Companywide and consistent commodity coding scheme.  
• Standard process exists for adding and removing suppliers and items from their respective master files. |
| Supplier Selection & Negotiation      | • Templates utilized for contracts, RFP’s, RFQ’s and RFI’s.  
• Consistent negotiation process framework utilized enterprisewide. |
| Sourcing Strategies                   | • Common commodity management strategy framework and execution methodology.                           |
| Supplier Performance Measurement      | • Formalized supplier performance measurement program in place with a well-defined process, consistent and relevant measures and timely monitoring and reporting. |
| Procurement Function Management       | • Procedures are clear, simple and appropriately detailed at the activity level and available online.  
• Policies are tailored for specific geographic regions and cultures within the organization.  
• Technology enables sharing of data and definitions throughout the organization with quick and easy access. |

**Strategic Alignment**

Implemented effectively, best practices drive closer alignment between day-to-day operations and overall strategic objectives. This may include linking current activities more closely to the overall corporate strategy, but may also include the development of processes that currently are not being performed, such as supplier analysis, industry/commodity analysis and competitor analysis. For procurement to be effectively and strategically aligned with the overall business, it must focus its analytical efforts around information pertaining to key performance measures, such as those identified in a balanced scorecard implementation. By operating in alignment with the overall business strategy, procurement can make informed decisions and seize on opportunities within the competitive supply environment. The intense need for proactive cost management will increasingly drive companies to require procurement to plan around the organization’s overall strategic objectives.
To ensure alignment with the business, not only are world-class procurement organizations focusing on developing key performance measures, they are also embracing partnering extensively across both internal functions, businesses and geographies to create ongoing linkage between the supply base and the various organizational components it serves. Increasing internal partnering efforts such as procurement involvement in new-product development not only ensures higher quality, lower cost and more timely product rollouts, but also allows the procurement function to realize a 24% reduction in overall procurement process cost.

The following are additional examples of best practices related to procurement process strategic alignment:
<table>
<thead>
<tr>
<th>Process Area</th>
<th>Best Practice</th>
</tr>
</thead>
</table>
| Sourcing Strategies          | • Expenditures stratified into multiple categories including strategic and non-strategic.  
                                 | • Sourcing strategy reviewed and updated annually to reflect direct linkage to the company's strategic growth plans, markets, production  
                                 |     plans and business ventures                                                                                                                  |
| Supplier Selection &        | • Extensive utilization of cross-functional teams for sourcing and supply management activities.                                               |
| Negotiation                  |                                                                                                                                              |
| Supplier Partnering &       | • Top supplier contacts involved in customer’s management meetings.  
                                 |     • Investigate strategic partnerships with suppliers for high-risk/high-value purchases.  
                                 |     • Joint investment and/or technical development with strategic suppliers.                                                                  |
| Development                  |                                                                                                                                              |
| Supplier Performance        | • Goals linked between supplier, commodity management, procurement and overall company.  
                                 |     • Active participation by supplier in the development and reporting of relevant performance measures.                                       |
| Measurement                  |                                                                                                                                              |
| Product Requirements        | • Continuous communication of procurement strategy to product development community.                                                          |
| Definition                   |                                                                                                                                              |
| Procurement Function         | • Reporting is exception based and tailored to individual needs.  
                                 |     • Procurement management team actively participates in business unit decision making.                                                        |
| Management                   |                                                                                                                                              |

**Documenting the Business Case for PeopleSoft's SRM Application**

So far, this paper has demonstrated the significant savings and productivity improvements achievable through adoption of best-practices-driven procurement and sourcing. At this point it bears repeating that world-class organizational performance is possible only when best practices are implemented holistically and address processes, organization and technology. Fortunately, companies can now increase their chances of extracting the full ROI from procurement improvement initiatives by insisting that their technology and software tools be designed to support the enablement of recognized best practices.

**PeopleSoft's SRM Application suite has met the rigorous certification standards of The Hackett Group and has been judged to support the best practices that can move companies from average to world-class in procurement.** The Hackett Group analyzed each PeopleSoft SRM product in view of the processes and the best practices they support, as well as their ability to drive top-quartile performance in each process. In all, Hackett's analysts examined over 70 procurement best practices addressed by PeopleSoft's SRM application suite. They concluded that companies that use these best practices as part of a
comprehensive, integrated and technology-enabled approach aimed at moving from average to world-class in each procurement process can realize significant potential savings. It should be noted that these cost savings focus exclusively on reductions in the cost of procurement and do not include the potentially significant and additional savings that would also be realized with comprehensive best practice deployment, such as reduction in spend.

Examples of processes addressed in Hackett's analysis are included below:

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>PeopleSoft Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web technology used to distribute &amp; receive bids for RFPs, RFIs, and/or RFQs.</td>
<td><strong>PeopleSoft Strategic Sourcing</strong> allows for web-based definition of RFx's. Suppliers log-in via the web to receive RFx details and can prepare and submit responses on-line. Buyers may then analyze the bids on-line and make an award determination.</td>
</tr>
<tr>
<td>Single instance of an enterprise-wide supplier master file maintained centrally</td>
<td><strong>Vendor Master</strong> is shared across all PeopleSoft applications.</td>
</tr>
<tr>
<td>Performance ratings routinely communicated to suppliers</td>
<td><strong>SCM Portal Pack</strong> has pagelets available to suppliers to see performance metrics &amp; drill down to specific details. The <strong>PeopleSoft Supplier Rating System</strong> results can be viewed in real time by suppliers through the <strong>Supplier Portal</strong>.</td>
</tr>
<tr>
<td>Product development process integrates procurement decisions and information; supplier involvement; and supply-chain performance metrics</td>
<td>All supplier analysis is available via the <strong>Employee and Supplier Portal</strong>. Engineering, procurement and suppliers can have access to any and all performance metrics.</td>
</tr>
<tr>
<td>Suppliers access secured views of company production planning systems to coordinate supplier-initiated releases</td>
<td><strong>Collaborative Supply Management</strong> deliveries driven from delivery schedule/blanket orders</td>
</tr>
</tbody>
</table>

**PeopleSoft Support for Best Practices**

While technology alone cannot not deliver world-class performance, enterprise software can be a key enabler of improved performance when combined with appropriate process and organizational improvements. Answerthink recently conducted a study of PeopleSoft support for Hackett-certified best practices, analyzing software functionality against The Hackett Group’s renowned database of empirically defined best practices. **The study concluded that**
PeopleSoft's out-of-the-box functionality supports best practices across all applicable areas discussed earlier in this paper.

PeopleSoft delivers a comprehensive and integrated procurement and sourcing solution through their Supplier Relationship Management (SRM) Application Suite that includes product lifecycle management, strategic and tactical sourcing, supplier engagement, procurement across all organization expenditures, invoice dispute resolution and settlement and analytics. The PeopleSoft SRM solution's ability to connect to all suppliers; manage all spend; and optimize supplier performance provides companies the foundation for obtaining world-class performance.

Specifically, some examples of embedded best practices are:

**Simplification**
- Maximize requisitioner authority by adding payment approval to existing purchasing authority (“Permission to buy is permission to pay”).
  - **PeopleSoft Purchasing and eProcurement** support the enablement of this process-simplification best practice.
- Assumed Receipt for PO purchases that do not go through formal receiving.
  - **PeopleSoft Payables** provides support for this process-simplification best practice.

**Automation**
- Requisition routing and approval verification automated through workflow (i.e. use of an automated delegation process to speed approval time).
  - **PeopleSoft Purchasing, eProcurement and Services Procurement** provides an intuitive web interface and completely automates the request, approval and purchase-order transaction process for goods and services.
- Suppliers access secure views of company production planning through Collaborative Supply Management.
  - **PeopleSoft SCM Portal Pack and eSupplier Connection** provides a simple, browser-based gateway for suppliers to collaborate on supply scheduling and view other associated transactional information such as PO’s, advance ship notices, and invoices.
- RFx creation, approval and distribution electronically automated.
• **PeopleSoft Strategic Sourcing** automates the creation, approval and distribution of RFx’s.
• Supplier performance ratings available online for internal (and external) distribution.
• **PeopleSoft SCM Portal Pack, eSupplier Connection, Supply Chain Warehouse and Supplier Rating System** provide online access to supplier performance ratings both internally and to suppliers.

**Consolidation**
• Companywide item master file (at least within the same product lines) maintained centrally.
• **PeopleSoft Catalog Management** integrates the acquisition, aggregation, cleansing, categorizing and syndication of disparate catalog content.
• Maintenance of comprehensive database of spend information and supplier capabilities.
• **PeopleSoft Supply Chain Warehouse** provides a single, enterprise-wide repository for viewing of spend and other supplier related information.
• Reduction (rationalization) in overall number of suppliers, concentrating spending in order to leverage purchasing power.
• **PeopleSoft Supply Chain Warehouse** provides analytical viewing capabilities across multiple spend dimensions for creating supply base rationalization strategies.
• **PeopleSoft Strategic Sourcing** enables the execution of competitive sourcing events that drive supply-base rationalization and consolidation.

**Standardization**
• Consistent negotiation process framework utilized enterprisewide, including templates for contracts, RFP’s, RFQ’s and RFI’s (RFx).
• **PeopleSoft Strategic Sourcing** facilitates the establishment of a consistent negotiation process framework through the set up of purchasing policies, auction management and creation of contract and RFx templates.
• Technology enables sharing of data and definitions throughout the organization with quick and easy access.
• **PeopleSoft eProcurement and Services Procurement** provides a central location, consistent approval processes and standard item descriptions for users who need to purchase both goods and services for their organization.
• Companywide and consistent commodity-coding scheme
- **PeopleSoft Catalog Management** provides the ability to establish a universal commodity-coding scheme to be utilized enterprise wide.

**Strategic Alignment**
- Joint technical development with strategic suppliers
  - **PeopleSoft SCM Portal Pack and eProduct Management** provides a simple, browser-based gateway for suppliers to collaborate on engineering changes.
- Extensive utilization of cross-functional teams for sourcing and supply management activities.
- **PeopleSoft Strategic Sourcing** enables the utilization of cross-functional sourcing teams by providing global accessibility to all sourcing event information through web-based tools.

**Focusing on Organizational Uniqueness through PeopleSoft SRM Industry Solutions**
Recognizing that every industry has its own unique needs, PeopleSoft has taken an additional step to tailor their SRM products for the unique requirements of specific industries, as described below.

**Consumer Products**
PeopleSoft’s SRM for Consumer Products allows suppliers to participate directly in critical day-to-day business processes, from source to settlement, in order to save time and money.

PeopleSoft SRM for Consumer Products provides real-time, always-on connections to suppliers, helping keep costs low and improve efficiencies in the supply chain, and adapt to changing market conditions while keeping a tight control on expenditures. Suppliers can instantly monitor customer demand, check inventory, replenish supplies, monitor their own performance and check settlement status. Unique features for Consumer Products companies include:

- **Support for hedge buying.** Companies can hold overlapping contracts for the same item and supplier to support hedge buying, enabling quick response to price fluctuations.
• **Supports consignment inventory.** Companies can bring supplier-owned inventory into the plant where the inventory transfers ownership upon use.

• **Seamless access to trading exchanges.** The solution offers the ability to integrate with public or private trading exchanges for fast, accurate purchase transactions that tie directly to supplier order-management systems.

**Energy**

PeopleSoft SRM for Energy provides a comprehensive solution for centralizing the procurement process, driving down costs and meeting regulatory requirements. PeopleSoft SRM for Energy is designed for private-sector companies that provide electricity and natural gas to consumers and utilities for water and sewage management. The solution enables companies to implement a single system to control, leverage and analyze total spend while providing intelligent capital asset acquisition management. Key features include:

• **Management of goods and services procurement.** The solution automates the full request-to-check cycle, and enables organizations to track all contract activity.

• **Support for Federal Energy Regulatory Control (FERC) accounting requirements.** PeopleSoft Purchasing and eProcurement are seamlessly linked to FERC accounting requirements to ensure that all purchases reflect accurate FERC codes.

• **Integration with MRO maintenance management solutions.** PeopleSoft partners with MRO software for full work-management capability. Companies gain instant visibility into capital projects, facilities management and preventive-maintenance requirements.

• **Integration to assets and projects.** PeopleSoft Projects acts as a cost-staging area, summarizing all costs related to capital assets and projects.

**Government**
PeopleSoft SRM for Government enables agencies to gain control over the entire sourcing process and better leverage purchasing power. The integrated PeopleSoft SRM solution provides the infrastructure for sourcing, supplier optimization, collaboration and execution of product and service contracts. Select features include:

- **Real-time access to supplier inventory.** Provides real-time access to all suppliers, allowing the buyer to locate the closest supplier for timely emergency response for critical supplies and equipment.

- **Tools for blind and sealed bidding.** Sourcing tools allow blind bids where competitors do not see other bids, and sealed bidding that prevents both buyers and suppliers from viewing bids until a specified date.

- **Full procurement transaction traceability, encumbrance accounting, commitment control and budget checking.** All requests for purchasing are instantly checked against budget before submission or approval.

**Financial Services**

PeopleSoft SRM for Financial Services provides financial institutions with a single, integrated source-to-settle business process. This flexible solution is designed to meet the needs of traditional financial service providers from banks, investment companies and insurance agents to brokers, dealers and exchanges. SRM for Financial Services delivers:

- **Aggregated data for total spend management.** Through PeopleSoft Purchasing, eProcurement and Services Procurement, companies can align their spending strategy with all suppliers, resulting in a leveraged supply base and more timely delivery of products and services.

- **Scalability for centralized procurement.** PeopleSoft’s Pure Internet Architecture and intuitive Web interface simplify deployment of the solution across the enterprise. Suppliers are instantly connected to all departments and divisions, ensuring wide supplier adoption and seamless transactions, resulting in reduced cycle times and increased purchasing leverage.

- **Full integration with PeopleSoft Assets and Projects.** PeopleSoft eProcurement and Purchasing provide a seamless extension of PeopleSoft Assets and Projects, resulting in
accurate accounting and tracking of large acquisitions, and roll-up of project expenditures.

Healthcare

For providers of healthcare services, the PeopleSoft SRM solution addresses the multiple cost-management changes that have impacted the structure and practices of the industry, while ensuring that critical medical supplies do not run short. Unique features include:

- **Automated par inventory replenishment systems.** Users are assured ready access to specific items required in each department’s inventory. Supply replenishment is automatic based on par levels set for that item.
- **Group purchasing organization (GPO) reporting capabilities.** Organizations can take advantage of GPO contracts with commitment levels for items. PeopleSoft Purchasing tracks actual GPO purchases, rebates and contract tiers, as well as compliance against manufacturer and distributor contracts enabling a single point of pricing maintenance and management.
- **Medical device tracking.** Readily provides access to the manufacturer’s lot and serial identification information ultimately protecting the patient, manufacturer and healthcare organization in the event of a recall.
- **Universal Product Number.** The solution enables simplified invoice and receipt matching with a single item reference number across all supplier and user systems.

High Technology

PeopleSoft SRM for High Technology offers an end-to-end solution for the procurement of direct and indirect materials, services and assets, and integrates all of these into product life cycle management. The solution enables:

- **Collaborative supply management.** Multiple users across the globe can collaborate using real-time inventory management, order histories, economic indicators and employee input to monitor and react to changes in demand.
- **Product life cycle management.** To accommodate short product life cycles and multiple product options, the solution manages products from design, collaboration, sourcing and pre-production to full production and product retirement.

- **Tight integration with planning systems.** In the face of constant changes in production schedules and inventory levels, companies can quickly connect with the supply base to share changing information about localized product requirements, order status and inventory in real time.

**Conclusion**

Today, as executive management looks to procurement to help deliver bottom-line benefits and competitive differentiation, procurement managers require a strategy for delivering this greater value at lower costs. A well-designed, best-practice-supported procurement organization can help dramatically improve both efficiency and effectiveness. Investing in new business processes and technologies to transform the procurement organization can deliver real financial benefits, as demonstrated by the performance metrics discussed in this study.

It is important to recognize that adapting the corporate culture to support best practices is not a quick fix, but rather, a continuous process of evaluating and improving performance. Maintaining a competitive edge requires ongoing investment of time and resources, as the bar for world-class performance keeps rising. Thus even the best-performing companies will find they have considerable room for improvement.

PeopleSoft Supplier Relationship Management Solutions can provide the tools required to deliver world-class procurement performance.

**About PeopleSoft**

PeopleSoft (Nasdaq: PSFT) is the world's leading provider of application software for the real-time enterprise. PeopleSoft pure internet software enables organizations to reduce costs and increase productivity by directly connecting customers, suppliers, partners and employees to

About Answerthink

Answerthink, Inc. is a leading business and technology consulting firm that enables companies to achieve world-class performance through the application of best practices from the world’s leading repository of enterprise best practice strategies and metrics. Please call 877-423-4321 to learn how Answerthink and The Hackett Group can help you achieve breakthrough performance gains.

About The Hackett Group

The Hackett Group (www.TheHackettGroup.com), an Answerthink company, provides clients with fact-based, objective insights into the optimal design of business processes. Hackett’s empirically derived guidance is backed by its continuously updated benchmark database of performance metrics and best practices in use at nearly 2,000 client organizations, including 97% of the Dow Jones Industrials, 83% of the Fortune 100 and 86% of the Dow Jones Global Titans Index.
Since 1988, The Hackett Group has helped senior executives make rapid, accurate and confident decisions about improvement opportunities and the direction of their business.

The empirically derived guidance we provide is backed by our continuously updated database of benchmark metrics and best practices in use at nearly 2,000 client organizations, including 100% of the Dow Jones Industrials, 90% of the Fortune 100 and 84% of the Dow Jones Global Titans Index.

In addition to comprehensive and strategy-focused benchmark studies of finance, IT and related areas, Hackett offers collaborative learning programs in shared services and other administrative support processes.