



# MANUFACTURERS GUIDE TO PROCUREMENT: A PATH TO TOUCHLESS OPERATIONS

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# THE IMPACT



Whether you work in manufacturing or not, the impact of the manufacturing industry on everyday life is indisputable, as evidenced by its contribution of more than \$8 trillion annually to the global economy.

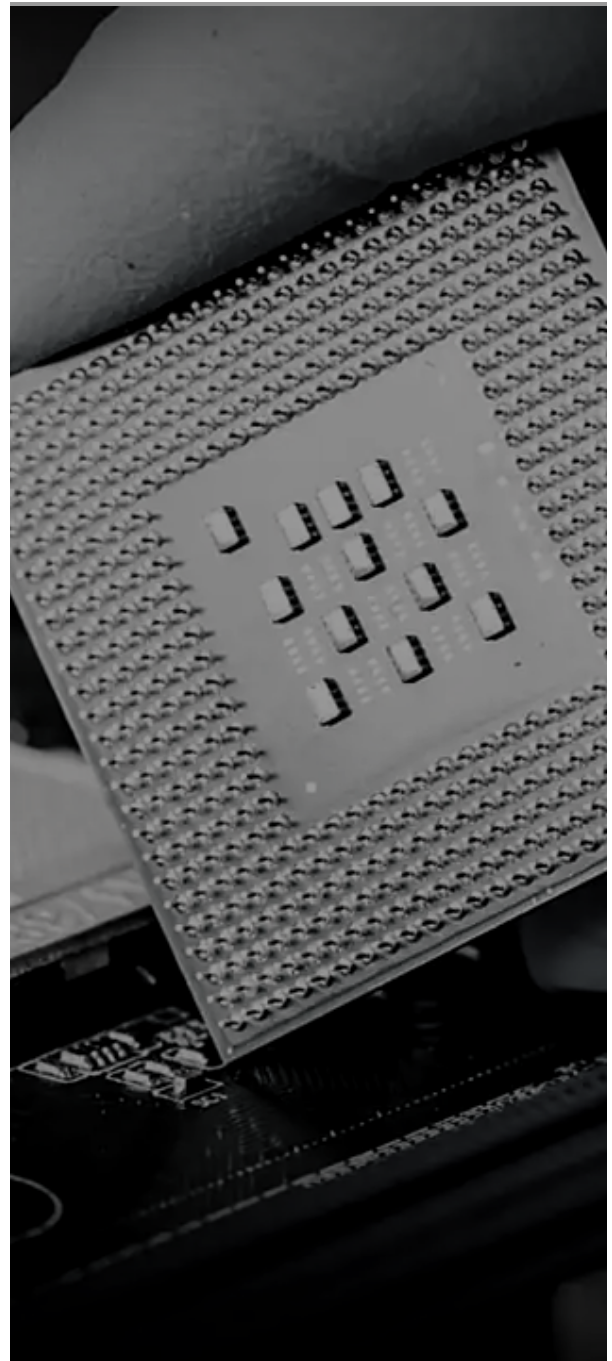
## **How do business leaders weigh a growing industry against marketplace uncertainty to remain competitive?**

As your business grows, more staff will typically be needed to take on the additional workload in the procurement department. While a larger workforce is necessary, businesses do well to consider how they are enabling their teams to be best utilized alongside technology. With more advanced procurement systems, many of the manual processes typically required to make approvals, issue invoices or otherwise can be automated. Intelligent workers are only really needed to manage the exceptions. By taking this approach to a more touchless model, businesses can greatly scale their operations, while driving down their working costs.

Unfortunately, achieving this in practice is more complex than it might sound and requires careful consideration of the steps involved in current processes. In this white paper, our aim is to provide you with the background to these processes and help you consider the ways in which your team can maximize their potential for future growth and predictability.

As an SAP design, build and sell partner, we work very closely with point solutions that manufacturers have been using in both SAP and non-SAP environments, and have come to note four principles that have helped businesses increase efficiency and maximize cost savings, including:

- 360-degree views of everything their suppliers may impact, including scheduled delivery times and returns
- A portal that enables two-way communication between the buyer and supplier in real-time
- The ability to leverage a growing business network
- Data that allows purchasing organizations to compare more than just costs; procurement optimization is a balancing act based on multiple categories



In this white paper, we will share what we have learned in talking to some of the largest global manufacturers in the world and how we can help businesses like yours thrive in the face of change by developing a path to touchless operations.

# DRIVING GROWTH



Looking at a high level, as a Chief Procurement Officer or Chief Finance Officer, your concerns come down to achieving targeted cost savings. This means that, in most cases, you are looking at the money being spent in large categories, including raw materials, services, or machinery. Therefore, it is common to overlook some of the more granular spending and the inefficiencies that currently exist. To ensure your team is equipped to keep spending in alignment with the budgets you created, it comes down to having the right tools and processes in place, which means considerations will need to be made on a process-by-process basis, prior to seeking out solutions.

When managed accurately, teams can reduce and eliminate off-contract spending to ensure spending stays on track.

**The question then becomes, where does spending most often fall off the rails?**

The answer varies across organizations, depending on the processes and workflows their teams are using throughout the sourcing, forecasting and contract manufacturing processes. Understanding these nuances at a more granular level will be helpful in identifying where operations can be improved, and cost-savings can be achieved.

## Sourcing

Securing suppliers is one of the greatest objectives in procurement. While businesses are encouraged to reduce their number of suppliers, so they can increase their buying power and lower costs, they must also consider how limiting suppliers can impact their agility. Therefore, businesses are encouraged at a minimum to maintain dual sourcing (a primary and backup supplier) or better. Effectively, this allows businesses to gain cost savings from increased buying power without forgoing agility. Along with dual sourcing, businesses are encouraged to ensure all contracts are written to guarantee supply with clauses for additional products, if necessary, further protecting them against spot quotes.

In practice locating and maintaining these relationships requires the following steps:

- Conducting market research
- Establishing ongoing technical, performance, ethical, and risk standards for suppliers
- Finding quality sources of goods that meet strict specifications
- Establishing payment terms
- Negotiating contracts
- Maintaining supplier relationships

Although these are basic steps, most businesses are taking a point approach to fill gaps in their current solutions. The concern with doing this is data gets separated, making it increasingly difficult for sourcing teams to surface and correlate necessary information and develop ongoing supplier relationships. The best way we have seen this done is through a consolidated sourcing portal and dashboard. With the right solution, data can be consolidated between on-premises and cloud, and SAP and non-SAP solutions.

The difficulty will come down to understanding your business processes and developing a set of repeatable sourcing practices that can be captured within your digital process.

## How To Prove Cost Savings to The Rest of The Business

When investing more heavily into sourcing processes, it is not uncommon for other departments to question what cost savings your IT solutions are achieving. What is lacking in many procurement systems is an A/B sourcing capability that provides these detailed breakdowns and allows a sourcing team to compare against market rate and lowest target rate. The benefits are then two-fold. Namely, sourcing teams can prove the savings they are able to receive through strategic sourcing and are able to increase negotiating power by simplifying the process to compare costs across suppliers.

Sadly, this feature is a common gap in most ERPs available today.

## How To Manage Supplier Relationships

The second step in the sourcing process is continuing to manage supplier relationships. By tackling problems collaboratively with suppliers, businesses have been able to achieve greater growth as negotiations are met with win-win scenarios, rather than win-lose as a buyer tries to take advantage of a seller and vice versa.

Unfortunately, cultivating these relationships on a large scale is difficult if not impossible when you are talking about 500 to 5000 suppliers - or more. While 5% may be top strategic suppliers, 10% may be in the mid-tier with the rest being virtually ignored.



So, how should your team determine which relationships are the most advantageous to pursue?



### **Analyze the Supplier Market**

Businesses identify how many potential suppliers exist to understand who has more bargaining power, what the supplier's historical performance is (i.e., If they meet delivery standards) and what risks the organization might face by working with them.



### **Consolidate Preferred Suppliers**

Organizations must consider which relationships are the most "high-value." High-value relationships can present opportunities to work with a supplier in a larger capacity, either by arranging consistent agreements, consolidating multiple suppliers or locating other synergies that might allow teams to work together in a more integrated manner.



### **Develop Sourcing Strategies Based on Product Category**

After "shortlisting" suppliers, organizations can further segment their list into product categories. The reasoning behind this is that different strategies will often be used based on the type of product being managed. In some cases, supplies may be eligible for reverse auctioning, and in other cases, bidding can drive down prices when a significant number of suppliers exist in each space.





## Scoring Suppliers

Next, businesses are encouraged to rank each of these suppliers by total value, including their capabilities, resources available, quality, on-time delivery and compliance with internal governance policies. Historical data can be useful to help determine which suppliers have performed well in the past, and which are better used only in the direst of situations.

## Ongoing Relationship Management



The process does not end after supplies have been purchased. Instead, businesses must continue to measure how suppliers are performing against organizational objectives. Those that continue to exceed benchmarks indicate to procurement teams that those relationships are worth investing time and effort in, long into the future. Supplier performance can be tracked through semi-manual methods, although automated measurement tools are more commonly recommended.

## Beyond The Technical Relationship



In today's globalized world, businesses must worry about more than the technical abilities of their suppliers. Depending on the market space involved, other factors oftentimes need to be considered, such as ethical standards, Fair Trade standards, reputational risk, innovation potential, geopolitical stability, financial stability, carbon footprints, etc. As part of the sourcing process and, furthermore, as part of the ongoing relationship, businesses can further gauge their suppliers based on these softer – but potentially impactful - criteria.

For the C-Suite, it is important to keep proving cost savings and developing supplier relationships top of mind when introducing automation, as these features are what separate good sourcing from strategic sourcing that keeps you on track to meet yearly goals.



## Forecasting

Following the sourcing process, purchasing organizations must undergo the forecasting process. This is also known as the stage where businesses must make predictions of the component supply, demand, and pricing based on predicted manufacturing needs, supplier data, and analysis of historical demand. Oftentimes, proposals will come with large amounts of data within multiple attachments that corroborate their responses.

To successfully identify trends, make accurate forecasts, and award appropriate constrained commits to bidding suppliers, streamlined access to as many useful data points as possible is required. Unfortunately, many businesses fall short due to incomplete information since data is stored across disparate SAP and non-SAP systems.

The result is that forecasts can face credibility issues, and credible data is key to an accurate prediction. Without it, companies may wind up with too much or too little inventory on hand and have no choice but to pay the added costs associated with the mismanagement of supplies.

By connecting systems, businesses will be able to make more accurate forecasts, and have a better view of where the business is headed.

The bottom line is businesses must do more than just manage their sourcing and forecasting process, they must entail transformation for the end-to-end process. Therefore, optimizing these steps is only the first step in a larger solution for touchless operations.



## **Contract Manufacturing**

Sourcing and forecasting will be ineffective without efficient execution of the direct procurement process (also known as contract manufacturing).

Contract manufacturing requires monitoring on a daily, weekly, and monthly basis to ensure the progressive ordering, delivering, billing, and payment of components is completed, monitored, and accounted for. Oftentimes, for historical reasons, businesses evolve in such a way that all this data is stored in separate systems rather than in a single source of truth. Once consolidated, procurement teams can automate aspects of this monitoring process, making it as touchless as possible.

Internally, manufacturers often must consider inventory turns, minimizing inventory and other opportunities to reduce carrying costs. Some procurement teams will help to minimize these costs even further through consignment programs such as supplier-managed inventory programs or just-in-time manufacturing.

### **Supplier-Managed Inventory**

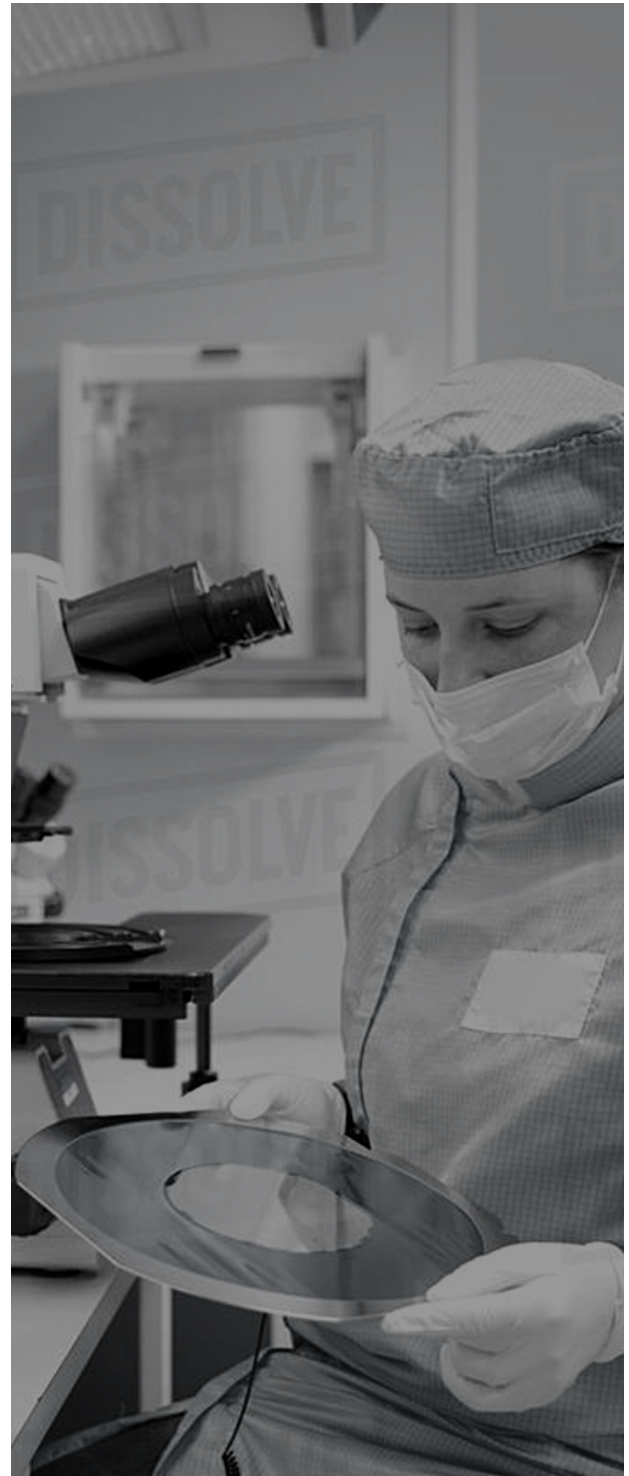
A program aimed to help streamline the integration between inventory management and order fulfillment. The process works by relying on cooperation between a vendor/supplier and the purchasing organization to ensure that products are replenished as requested by the software.

## Just-in-Time Manufacturing

Also known as JIT manufacturing, the concept is based on the principle that the manufacturing facility should house materials that are being used to create products, and nothing more. Stock is then carried only in “optimal” levels and are regularly monitored to determine when additional rounds of purchases are needed.

Implementing one of these inventory management systems will require a careful overview of a supplier’s reliability, available technology, and operational history, to determine if this is an advantageous move for the organization.

When teams work closely with material planners and production schedulers, they can help minimize unused materials and ensure that supply deliveries are being fully utilized.



# MINIMIZING SPOT QUOTES

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Sourcing, forecasting and contract manufacturing become crucial for ensuring that spot quotes and off-contract spending are virtually eliminated. Margins are thin in manufacturing, which amplifies the potential impact of unforeseen circumstances, making spot quotes one of THE costliest mistakes any organization can make.

## The Reason Spot Quotes Occur

In most cases, spot quotes occur for one of three reasons:

- **Human Error**

If a team member orders too few supplies prior to a given deadline.

- **Administrative or Data Management Errors**

Inaccurate data is being surfaced from your warehouse, leading to lost inventory or incorrect inventory status.

- **Significant Supply Chain Disruptions**

Situations beyond the control of your business that disrupt deliveries, such as a worldwide pandemic or political upheaval.

The first two situations can be mitigated almost completely with tools that address the end-to-end procurement processes. However, the third can only be addressed with strong backup plans achieved through advantageous supplier relationships. While these emergencies may occur occasionally, the difference between a successful sourcing team and an unsuccessful one is how they manage it. Your team should be considering long ahead of time how emergencies will be handled and how exceptions in the procurement process will be brought to the attention of the right team member.

### **Accepting Accountability**

That said, “emergency” orders will occur periodically. To prepare sourcing teams to effectively handle these situations, organizations must ensure they are equipping their people with tools that enable accurate forecasting and planning of deliveries to minimize as many opportunities for last-minute orders as possible.

Typically, businesses that have leveraged closely integrated solutions to sourcing and forecasting have the easiest time consolidating data and making accurate orders in future months. This is especially true in cases of just-in-time inventory since suppliers need access to the buyer’s inventory levels to replenish products accordingly.

### **Automate Whenever Possible**

Consider that if operations are running smoothly, your business processes can handle the traditional steps. It is only when errors arise that your team can and should be made aware of the situation. This is where the concept of digitization and management by exception comes into play.



# MANAGE BY EXCEPTION

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Businesses that have already customized certain parts of their procurement process or are filling gaps with point solutions often face the biggest obstacles when transitioning to a fully automated procurement solution. That said, the process is nowhere near impossible. Instead, businesses can reduce spot quotes and achieve digitization by:

## **Learning How Their Team Works**

Understanding how teams are going through the procurement process step-by-step can help leaders identify where automation can take over business rules and reduce manual processes. Design thinking can help pinpoint the areas of concern your team currently has in their workflows and identify areas that require simplification.

## **Thinking Bigger**

Consider procurement spend solutions that cover the end-to-end process, including all categories of procurement spend. Point solutions may solve specific problems but they are often the cause of data being lost and mistakes being made.

## Find a Partner That Can Help You Maintain Budget Adherence

SAP provides a variety of offerings that exhibit the breadth of their technology's powerful backend. Although vast in capabilities, businesses often find gaps in how their employees work that can only be met with slight tailoring. An SAP partner such as our team at ConvergentIS specializes in procurement applications built on the Cloud which includes end-to-end solutions for vendor management.

## Deploying a Solution That Works

Our vendor management solutions aim to provide full visibility across the supplier-buyer relationship from RFQ through to returns management, with integrations that help businesses achieve touchless operations.

With our solutions for direct procurement and vendor management, purchasing organizations can source qualified suppliers by comparing costs, quality, and lead times, as well as manage relationships with a single source of data to reduce the impact of spot quotes. By consolidating everything from SAP and non SAP systems into a single view businesses can take advantage of business rules and automation to enable touchless operations that guarantee a business's ability to improve their bottom line now and into the future.

Rather than providing custom solutions, we help businesses achieve savings by packaging these offerings and providing them as off-the-shelf solutions. To learn more about what this looks like for your organization, we encourage you to contact a member of our procurement team.





## About ConvergentIS

ConvergentIS is an SAP AppHaus partner based in Calgary, Alberta. With a team spanning across the globe, ConvergentIS offers a design, build, sell, and service focus that has been transforming the enterprise experience since 2002. As an SAP customer, ConvergentIS is uniquely equipped to help businesses of all sizes with ERP and mobility solutions, off-the-shelf SAP applications, design thinking services and business strategy consulting.

Learn more at [www.convergentis.com](http://www.convergentis.com)

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