I-SAVE

independent savings analysis verification and evaluation

A guide to show how organisations can achieve significant cost reductions in their procurement to payment processes.

The purpose of the I-SAVE project

The purpose of the I-SAVE research project was to identify, in tangible form, the benefits of competent purchasing practice in both the private and public sectors. Many e-procurement organisations have produced evidence to show huge savings related to improving processes and purchasing practices, however it was evident that many of these claims were exaggerated. Many ROI models typically use overall percentage savings that were in the region of 20%. This has led to a significant degree of scepticism in the professional purchasing communities and beyond.

For this reason, Oracle, in partnership with The Chartered Institute of Purchasing & Supply (CIPS), University of the West of England (Bristol Business School) and KPMG Consulting joined forces to develop I-SAVE. Its aims were to:

• develop a self-diagnostic toolset which would be practical and easy to use

• break down the possible e-procurement savings into identifiable areas

• be based on a sound research activity

• develop the link between best practice and savings.

Conclusions to I-SAVE Phase 1

Over 700 purchasing managers in a wide spectrum of organisations in the public and private sectors were asked to participate in I-SAVE Phase 1. The research was based on statistical analysis of over 120 responses addressing over 80 commodity groups.
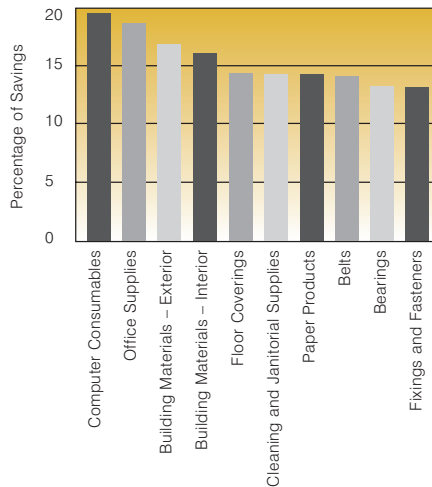
The results identified:

• that typical overall e-procurement savings amounted to 7.87%

• public & private sector purchasing professionals achieved the same level of overall savings

• the top / bottom 10 commodities by savings achieved.

The results also placed the commodities in order, ranked by the savings they achieved.

Figure 1 Highest Savings Per Commodity*

Figure 2 Lowest Savings Per Commodity*

Based on these results, Oracle has produced the I-SAVE self-diagnostic toolset, which is still available via a hot link from the project sponsors websites. It is a confidential, free of charge toolset available to all organisations in the UK and beyond. The success of I-SAVE has reached all corners of the world. So far, over 1000 people from 500 separate organisations in 26 countries have downloaded the I-SAVE toolset, including Australia, Brazil, Belgium, Canada, France, Hong Kong, Malaysia, Singapore, South Africa, Sweden and USA.
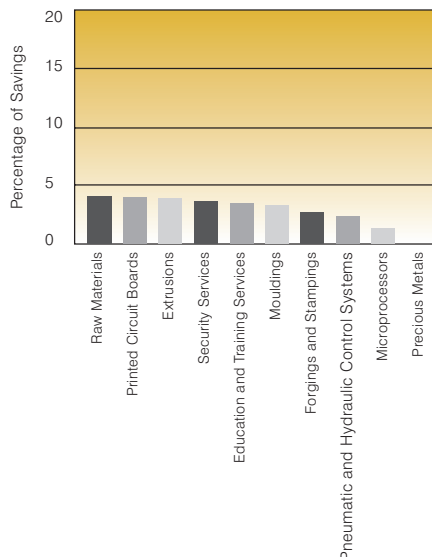
"We certainly found it to be a very useful tool, particularly for an institution just starting out. It is a very helpful product to begin the process with."

Purchasing Manager
University in the UK

"It is refreshing to see some reality being added into the e procurement debate. The I-SAVE research clearly underscores the benefits that professional purchasing can bring an organisation without resorting to exaggerated claims."

Purchasing Head
Multinational Electronics Company

* Using LPS figures at 99% acceptance interval

I-SAVE Phase 2 – Objective

The self-diagnostic tool developed from the I-SAVE Phase 1 research allows organisations to identify their potential savings opportunities on the products and services they buy. The objective of I-SAVE Phase 2 is to provide a self-analysis toolset, which will provide organisations with the ability to assess their opportunities for improved efficiency / savings within their procurement to payment (procure to pay) process.

The I-SAVE Phase 2 questionnaire was sent to over 800 purchasing managers, including CIPS members. Responses were received from a wide range of public and private sector organisations. It identified organisations, which have achieved improvements in various elements of their procure to pay process and have gained a better understanding of how much they have improved and what key enablers they employed. It also looked at the key inhibitors that prevent some organisations from improving their purchase to pay process.

The Questionnaire

A questionnaire was created, breaking down the procure to pay process into 5 key elements:

1. Sourcing what you want to buy.
2. The internal requisitioning / raising of purchase order process.
3. Getting your requirement to your chosen supplier.
4. Acknowledging receipt of the goods / service you have purchased.
5. Matching / approving and paying your suppliers' invoice.

Organisations were then asked to plot their positions, before and after their procure to pay process improvement. We also identified a number of possible key enablers and inhibitors, which had helped or hindered their progress and a range of percentage cost/time savings that may be achieved. The key questions were:

- Which procure to pay elements have they attempted to improve?
- Where were they on a scale of development prior to starting their improvement process?
- Where have they got to on a scale of development after undertaking their improvement process?
- What was their typical element cost / time before & after improvement?
- What were their cost / time savings?
- Which key enablers did they employ?
- If they have not improved, what were their key inhibitors?

The questionnaire also suggested a number of key enablers that helped them in their procure to pay process. Respondents were also asked to identify their own enablers. The suggested enablers were from the following list:

- having appropriately trained people
- a developed approach / methodology for supplier sourcing
- open to organisational change
- rationalising of supply base
- having clearly defined process ownership
- strong internal change leadership
- learning from best practice organisations
- developing strong supplier relationships
- using specialist tools and equipment
- using enabling software
- having technology enabled suppliers
- having robust communication infrastructure.

The questionnaire also proposed a possible list of key inhibitors, as well as asking for other suggestions. The suggested inhibitors were from the following list:

- lack of internal resources (funding, people, infrastructure)
- they only undertake short-term initiatives
- they are very risk averse / have resistance to change / not a follower or leader of change
- it is not appropriate to their organisation / business
- lack of awareness of what is possible / has negative perception of what others have achieved
- need to do something – not a priority
- not having a 'champion'.

Questionnaire Results

The research received 127 questionnaire responses from a wide spectrum of organisations. 78% of replies were from organisations that had made improvements and 22% of replies from organisations that had not. The responses gave us a sound statistical basis to identify both key enablers, per procure to pay element and overall process inhibitors. The research used typical wage rates published by the Office of National Statistics – New Earnings Survey 2000 – to calculate the typical element cost.

Key Findings of I-SAVE Phase 2

I-SAVE Phase 2 has produced some interesting findings. It has also outlined a number of key enablers and inhibitors to the procure to pay process, which any organisation should be aware of.

Key Findings

- Best practitioners have achieved significant savings by improving elements of their procure to pay process.

- The savings achieved varied across procure to pay elements from 12% to 83%.

- The key enablers varied across the different procure to pay elements.

- There were two key inhibitors that stood out across all respondents and all elements.

- The average total cost of the procure to pay elements prior to effecting improvements was £20.44 per purchase order.

The build-up of the cost by element is shown in the graph below.
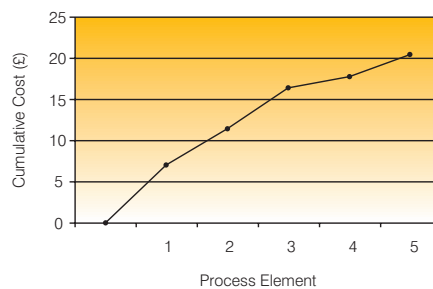
- The average time taken to carry out all the procure to pay elements prior to effecting improvements was 129 minutes per purchase order.

The build-up of the time by element is shown in the graph below.
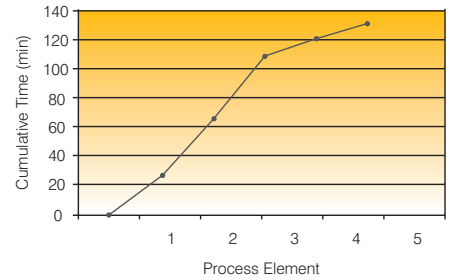
- The average saving having affected improvements in all 5 procure to pay elements was 59% thus bringing the total element cost down to £8.38 or 53 minutes.

Key enablers and inhibitors affecting the 5 procure to pay process elements

KEY ENABLERS

Sourcing what you want to buy

1. Rationalising your supply base
2. Developing strong supplier relations
3. Appropriately training people

ELEMENT 1

KEY ENABLERS

The internal requisitioning / raising PO process

1. Implementing enabling software
2. Appropriately training people
3. Rationalising your supply base

ELEMENT 2

KEY ENABLERS

Getting your requirement to your chosen supplier

1. Implementing enabling software
2. Having technology enabled suppliers
3. Appropriately training people

ELEMENT 3

KEY ENABLERS

Acknowledging receipt of the goods / service you have purchased

1. Implementing enabling software
2. Rationalising your supply base
3. Appropriately training people

ELEMENT 4

TOP INHIBITORS

In order of frequency were:

1. Lack of resources (financial, people, infrastructure)
2. Need to do it, but not a current priority
3. = Lack of Top Management commitment
   = Lack of interaction across functions
   = Negative perception / lack of awareness

KEY ENABLERS

Matching / approving and paying your suppliers' invoices

1. Implementing enabling software
2. Appropriately training people
3. Developing strong supplier relations

ELEMENT 5

**Some conclusions from
I-SAVE Phase 2**

The aim of the I-SAVE research project was to:

1. Produce solid statistical data, which challenges some assumptions that have been made in the procurement field over the past few years.

2. Use the data we have established to help purchasing professionals in their search of continuous improvement within their organisation.

3. Identify trends within the particular areas we are analysing and identify signs of continuing areas of difficulty that may lead to further investigation at some point in the future.

Phase 2 - the process savings has satisfied all of these aims as follows:

1. The total cost for the procure to pay elements that were analysed in this research ranged between £20.44 and £8.38. It therefore seriously challenges the higher numbers that are often quoted in this marketplace. In arriving at a current best practice savings opportunity of 59% of an organisation's time / cost within this process, the research still identifies the procure to pay process as a significant opportunity for many organisations. Of course it also recognises that in the area of process savings, it is potentially very difficult to bank these savings, as they are mainly efficiency savings made up of people's time. Therefore, the real use of the toolset is to enable organisations to identify which elements they would get most benefit from if improved, and to then embark on an improvement process using the key enablers that we have identified.

2. The research clearly shows that the key enablers for each element of the procure to pay process do vary. This fact alone is of real benefit to the purchasing community. The research also identified that 'supplier management', 'training of people' and 'implementing enabling software' were common enabler themes throughout the findings. Whilst it was not too surprising to find 'enabling software' and 'supplier relations' at the top of the enabling list, the 'training of people' came in the top 3 enablers of every procure to pay element and this was a very clear message that we did not expect, welcome though it is. It seems to suggest that there is a real partnership emerging between the software, the suppliers and the users. If any one of these three is ignored, organisations may be putting their improvement initiatives at risk.

3. The research highlighted an interesting anomaly. In the first procure to pay element studied – 'sourcing what you wanted to buy' – the reported savings, although still high, were lower for those organisations that went from initial implementation to a level of significant improvement (75%), against those that were continuing a path of previous improvement (83%). This suggests that there will be a period that organisations have to endure, during the early phase, where they are carrying some of the cost structure of the old processes / legacy systems. It also shows that they will not be relieved of their legacy costs until they are approximately half way through the improvement process.

4. One of the most interesting trends was that the further we move along the procure to pay process towards supplier payment, the smaller the savings achieved from the process improvements made.

For example – the research showed typical savings of between 75% and 83% at the front end of the process (guiding users to preferred suppliers / appropriate sources of supply). In the second phase (requisition to purchase order creation), there were typical savings of 71%-73%. In the third phase (placing the order with your supplier), there were typical savings of 55%. In the fourth phase (the goods receiving process), there were typical savings of 33% and in the final phase (the invoice matching and payment), the savings were of only 12%. This data does indicate that whilst the front end of the procure to pay process (the purchasing specific element) is having significant attention and results, there is still a disconnect somewhere in the improvement process. Here are some of the potential reasons we think may be leading to this situation:

- the procure to pay element improvements are being addressed as individual, isolated projects

- there is a lack of understanding of the cross functional dependencies within the respective disciplines

- the key enablers have not been successfully deployed - software / supplier rationalisation & development / training.

The Purchase to Pay Process Elements
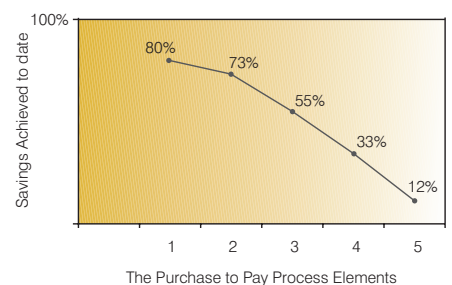
The I-SAVE Phase 2 diagnostic tool is now available. To register and download the tool please visit www.oracle.com/start and enter the keyword I-SAVE2.

"The I-SAVE collaboration, throughout both phases of research, has given practitioners a grounded insight into the potential value of 'e' applications in purchasing. By providing a guiding pathway for understanding the process use of technology, I-SAVE has looked at the real 'nuts and bolts' implementation issues. We are confident, based on Phase 1 feedback, that Phase 2 will be used and road tested by a number of practitioners involved in purchasing process development."

Marc Day
Research Director, The Chartered Institute of Purchasing & Supply (CIPS)
www.cips.org

"After successfully promoting, through Phase 1 of the I-SAVE project, the awareness for continuous and incremental improvements in purchasing practice, the UWE team is very pleased to be associated with Phase 2 aimed at investigating the level of savings that can be achieved in the procure to pay process. This was carried out by providing organisations with the ability to assess their opportunities for improved savings and helping them identify the key determinants (enablers and inhibitors) that influence the performance in each of the major process elements."

Dr. Mohammed Saad
Head of the School of Operations Management, University of the West of England (Bristol Business School)
www.uwe.ac.uk

"The first phase of the I-SAVE research provided solid empirical evidence that organisations can reduce total purchasing costs by an average of 7.87 per cent through the implementation of best practice procurement practices. Our experience with clients demonstrates that the size of this prize can be even greater if strategic sourcing, founded on more collaborative partnerships with vendors, is coupled with fundamental changes to business process and organizational structure. Phase 2 of the I-SAVE research project has identified a number of key enablers which support our experience to date."

Bernard Brown
Partner & Head of Supply Chain, KPMG Consulting
www.kpmgconsulting.co.uk

"Within Oracle we have been overwhelmed at the level of support that I-SAVE has received within the purchasing community and beyond. The results from the second phase of the research has identified some crucial findings and key enablers for organisations wishing to improve the effectiveness of their procure to pay process."

Chris Baker
Vice President, eBusiness, Oracle Corporation
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