Sage ERP Solutions

Controlling Spend | Simplify Purchasing and Reduce Costs through Automation

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EXECUTIVE OVERVIEW

Operations managers and purchasing professionals face a difficult business environment. During the recent economic downturn, corporations turned the spotlight on purchasing as they sought ways to reduce expenses. Executives want insight into how to reduce costs in purchasing—and for good reason. If a business operates on 10% profit margins, a reduction in expenses of just 5% has the same impact on the bottom-line as 50% higher sales!

Because purchasing often takes place across an organization, it can be difficult for purchasing managers to supply accurate purchasing performance metrics. If many small orders are placed in different departments, it is impossible for the purchasing department to consolidate orders, or negotiate for better prices with preferred vendors.

To gain control over costs, purchasing departments often institute additional policies and process. But if error-prone paper-based processes are implemented, they are likely to result in employee noncompliance, missed delivery dates, and angry customers (internal or external). As purchasing professionals shuffle more paperwork, they feel increasingly frustrated and marginalized. The result? Increased (and costly) employee turnover.

"Today companies can bring automation to bear on a wide range of sourcing and procurement tasks. Virtually every dollar a company spends, in fact, can be spent more wisely if the right systems are put in place." Yasmin Ghahremani (CFO [1]

The solution for many of these challenges may be as simple as comprehensive, automated purchasing software that is fully integrated with the accounting or ERP system. Such a solution can enable the purchasing department to:

- Better manage suppliers
- Negotiate lower prices
- Establish effective internal controls
- Maintain optimal inventory levels
- Maximize purchasing power
- Reduce cycle time
- Analyze spend data

Sage ERP Solutions can help you automate purchasing processes and significantly reduce costs. Contact a Sage ERP Accpac representative today at 866-516-7243 (U.S.) or 866-797-8110 (Canada) for more information.

INTRODUCTION

As executives see signs of economic recovery, businesses are coming out of defensive postures and looking forward to resuming growth. Recently, orders for capital goods began to rise, and a quarterly survey of CFOs revealed that they expect to increase capital expenditures by 9% this year.[1] With business spending picking up, there is no better time to review your purchasing processes for potential cost savings.

As the economy recovers, you don't want to lose focus on the spending austerity that helped your company succeed during tough times. You want to continue to control costs and improve purchasing power. If you can purchase more goods and services than your competitors do for the same money, your company will gain an advantage that directly impacts the bottom-line.

At the same time, you don't want purchasing to become painful or error-prone. Piles of paperwork, irritated employees, and a bogged down system of approvals for every little purchase can eat away at profits through lost productivity.

Before your company starts to purchase additional inventory, supplies, or equipment, you should first consider evaluating a comprehensive purchasing solution. Automating your purchasing procedures with specialized purchasing software can help your company:

- **Simplify purchasing procedures** and **reduce cycle time** so employees comply with your process and don't become exasperated by paperwork.
- **Gain purchasing power** so you can negotiate better pricing for commonly-used Maintenance, Repair and Operating (MRO) goods, as well as inventory items.
- **Optimize your supplier base** and **identify preferred vendors** for hard dollar cost reductions.
- **Gain control over costs** by centralizing all purchasing data and producing accurate, up-to-date spend data analysis.
- **Balance supply vs. demand** while maintaining optimal inventory levels through close integration between your purchasing, Accounts Payable, and inventory systems.
- **Navigate the global economy** with multi-currency purchasing and reporting that helps you compare spending across currencies.

In the rest of this paper, we'll take a closer look at each of these areas of improvement.

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[1] *Duke University/CFO Magazine Global Business Outlook Survey*, March 2010. Accessed online at www.cfosuvey.org

MOVE BEYOND THE LIMITS OF ACCOUNTS PAYABLE BASED PURCHASING

Relying exclusively on Accounts Payable procedures for purchasing remains one of the most common mistakes made by businesses today. For many companies, internal purchasing procedures use a laborious paper-based process, prone to duplication of effort by different departments, repetitive data entry, delayed approvals, and other productivity-sapping snags. If your purchasing policy requires employees to obtain pre-approval for large items while submitting for reimbursement or using company credit cards for small items, you may be leaving money on the table.

Is Your Company Paying Too Much?

These questions can help you determine if you need automated purchasing software to reduce costs and improve efficiency:

1. Do different departments make small orders of the same types of items (for example office supplies and other MRO goods) with different vendors?

2. Do you use paper forms to request purchases and gather approvals? How much time is lost as these forms sit on desks? How often do they get lost in the process?

3. If you use paper, spreadsheets, or an application that does not integrate with your General Ledger and Accounts Payable system, how much time do your employees spend replicating the same data?

4. Do you require the purchasing procedure to be used on all purchases, or only orders above a certain dollar amount? What percentage of your total spend is actually under the control of your purchasing professionals?

5. Are your employees irritated by the process of making a purchase? Do they attempt to circumnavigate your policies and procedures because they are too time-intensive?

6. What is your average cycle time from requisition to receipt?

7. If you added the labor costs of all of the time used by all of the people involved in your purchasing process, what would it add to the cost of each purchase?

SIMPLIFY PURCHASING PROCESSES

Automation saves time and reduces administrative costs while maintaining purchasing policies and controls. Purchase Orders can be created quickly and accurately. Templates can replicate standard information to further reduce data entry. Purchase Orders and returns can be e-mailed to vendors, to reduce cycle time.

The true key to simplifying purchasing is integration. Avoid duplicate data entry by selecting a solution that is fully integrated with your Accounts Payable, Inventory Control, and Order Entry systems. As information flows back and forth seamlessly between these critical systems, your employees can spend more time on strategic objectives and much less time on paperwork. You'll also minimize costly quantity and pricing errors, as well as errors in receipt of goods.

Did you know? According to the APQC, companies that automate the purchasing process the same volume of Purchase Orders with about half the number of full-time employees required by a company that lacks automation.[2]

MAXIMIZE PURCHASING POWER

Reducing the paperwork burden leads to higher employee compliance with purchasing policies, so your department can get a more complete picture of spending. Armed with the right data, you can effectively control costs and improve purchasing power.

You probably have relatively good control over major plant and equipment purchases, since these large ticket items require a requisition process and bidding at almost any corporation. But what about lower cost items, such as Maintenance, Repairs and Operations (MRO) purchases, or small inventory orders?

Businesses spend hundreds of billions of dollars each year on MRO, yet according to Aberdeen Group, 84% of MRO payments are still processed on paper. Employees don't comply with purchasing procedures for contracted items about one-third of the time, causing companies to miss out on critical opportunities to reduce costs. [2]

What if you could pool these small purchases and negotiate contracts based on the lower rates for larger volume? The costs savings can be huge, without any sacrifice of quality of goods or customer satisfaction. That's maximum purchasing power!

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[2] Abbas Foroughi, "MRO and eProcurement: Opportunities and Challenges," University of Southern Indiana, 2007. Accessed online at http://business.usi.edu/aforough/example.pdf

MANAGE SUPPLIERS MORE EFFECTIVELY

When all (or nearly all) of your company's purchases flow through your purchasing department, you can develop standard supply lists and cultivate relationships with preferred vendors. An optimized supplier base leads to hard dollar cost reductions. You can negotiate better prices for high volume supplies or inventory items. You can also require your preferred suppliers to fulfill your orders as a first priority.

GAIN CONTROL OVER COSTS

One of the best things about an integrated purchasing system is the insight it provides into your company's spend-data. Integrate with your business intelligence solution for visual spend analytic dashboards. Or review current status and spot patterns using standard purchasing reports such as Purchase History, Transaction and Audit Lists, Purchase Statistics, Aging Reports and more.

MAINTAIN OPTIMAL INVENTORY LEVELS

When you implement a purchasing solution that integrates with your Inventory Control system, your organization will have everything you need to maintain optimal inventory levels while controlling costs and satisfying customers. You can automatically produce Purchase Orders based on Inventory Control reorders or from Order Entry backlogs. Or automatically drop-ship items directly to the customer from your preferred vendors.

Integrating inventory, purchasing, and Order Entry helps you stay ahead of the delicate supply vs. demand balance. Purchases can be made quickly based on real-time order information. Fresh inventory can be ordered just-in-time, so that you never stock out in the warehouse nor get stuck with unwanted items and extra storage costs.

NAVIGATE THE GLOBAL ECONOMY

Is your company sourcing materials, parts, or finished goods globally? If so, the right purchasing solution can make your day-to-day job much easier. Evaluate solutions that let you create Purchase Orders in multiple currencies and translate back into your home currency before posting to your A/P system and General Ledger. You'll also want a system that can report on purchases across currencies by translating them into a single currency for your analysis.

CONCLUSION

In today's competitive environment, purchasing is a critical corporate function. Its ability to hold down costs and contribute to the bottom-line cannot be overstated. Yet this vital function is often overlooked for automation, in spite of its proven cost reductions.

Comprehensive purchasing software can make a positive impact on corporate purchasing power, cycle time, administrative costs, inventory management, customer satisfaction, and strategic planning and analysis. When viewed in the total context of the 21st century organization, an automated and integrated purchasing system might be just as important to your company's success as Inventory Control, Accounting, or Human Resources applications.

To learn about how Sage ERP Solutions can help your organization move beyond AP-based purchasing processes, contact Sage today at 866-516-7243 (U.S.) or 866-797-8110 (Canada).

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