Win Big by Starting With High-Value, Low-Risk Procurement Applications

By Analysts Micky Keck

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Big-bang investments in sourcing and procurement applications often fail to deliver on their business case due to slow time to value, poor scoping and problematic vendor selections. Application leaders should start small and focus on critical business requirements before gradually tackling more complex projects.

Overview

Key Challenges

- Amid global economic uncertainty, IT budget cuts are looming. Big-bang projects will likely not get approved, forcing leaders to rethink their procurement application investment strategy.

- Procurement claims compliance is a problem, but the rest of the business says procurement is too slow and inflexible. Addressing both seems like an impossible task.

- Company policies often force selecting a supplier over selecting the best solution. Single-vendor procurement and sourcing suites typically deliver poor ROI because they require the vendor to be good at everything.

Recommendations

Application leaders responsible for modernizing procurement and strategic sourcing applications should:

- Get quick wins by starting with high-value, low-risk solutions. This builds momentum for future projects and drives an immediate return on investment.

- Improve both process speed and user compliance by targeting more complex, high-volume manual processes.

- Build an optimal vendor strategy by mapping out business requirements and goals. Pick the vendor or vendors that can deliver on those goals.

Strategic Planning Assumption(s)
By 2023, organizations that invest in upgrading sourcing and procurement technology will reduce costs by an additional 30% compared to their industry peers.

**Introduction**

Global economic uncertainty caused by COVID-19 is forcing application leaders to rethink their future investment strategies. Procurement applications can be especially useful in a recession because they ultimately help to drive better negotiated savings and operating cost reductions. However, to ensure success, the rollout has to be staged in an iterative way, with each phase potentially funding the next.

The procurement application space is vast, and with a diverse set of solutions this makes the challenge of building a strategy very complex. Budgetary limitations, distributed workforces and economic uncertainty add more barriers to obtaining project funding. Poorly thought-out investment roadmaps will not get the funding needed to ever reach realization.

So what should be considered when building a plan to increase the chances of near-term success while avoiding long-term technology, data and process debt? Organizations need a clear vision that delivers business value early, addresses high priority business needs, and reduces early capital requirements and risk. Figure 1 lays out some of the key considerations when building an investment plan. Taking all these constraints into account early will make the plan more effective.

**Figure 1: Investment Plan Key Considerations**

**Investment Plan Key Considerations**

- Limited Budget
- Limited Resources
- Compliance
- Organizational Constraints
- Sequence High ROI, Quick Return Solutions
- Builds Momentum and Funding for Large Impact Solutions
Analysis

Quick Wins Are Your Friend

In 2019, a Gartner customer survey showed that the median procurement organization saved 4.8% annually, while third-quartile organizations saved 8.9%. Investments in procurement applications are key for high-performance organizations.

It is natural to want to solve big, organizationwide pain points first. Having said that, the optimal strategy for long-term success maximizes initial returns that can fund future investments. Whether you are just starting your procurement and sourcing investment program, or you are updating existing solutions, quick wins at the outset are essential. The investment plan should start with matching business needs with solutions that provide immediate return, while lowering risk and capital outlay (see Figure 2). Any investments should also serve a single region or division. Multistage global rollouts add significant complexity.

Figure 2: Comparison of Application Return Versus Resources

Comparison of Application Return Versus Resources

Source: Gartner
Note: APIA = accounts payable invoice automation; CLM = contract life cycle management; P2P = procure-to-pay; SIM = supplier information management; SPM = sales performance management; SRM = supplier risk management
Solutions in the first phase of an investment strategy should meet certain criteria. Specifically, they should:

- Relieve immediate business pain points
- Have relatively lower implementation cost and annual licensing fees
- Require implementation time that is less than one year, ideally six months or less
- Impact only a small number of functional users
- Impact existing systems with a limited number of integrations required

The first project in the plan needs to deliver results quickly and have a short ROI to start funding the next project. Quick, smaller projects also buy additional assets such as time and credibility. Business priorities and organizational structures can change rapidly over time. View the initial source-to-pay (S2P) investment plan as a guidepost; as the business changes, priorities will change and so will the plan. The key point is that you are setting the foundation for future investments.

**Modules That Make Sense for Early Investment**

Table 1 shows the key factors to consider and how they compare across the different functional modules. The most common starting places for investment plans are:

- E-sourcing
- Contract life cycle management (CLM)
- Accounts payable invoice automation (APIA)
- Spend analytics

These solutions are typically much easier to deploy with limited integrations to external systems, and have relatively smaller user bases. The overall functional and process complexity is also typically lower, which reduces the overall time to implement. Hard-dollar savings are also easier to measure with observable reductions to cost or process cycle times as a result of the investment. Soft, qualitative returns can be just as important as hard-dollar returns, but early in the roadmap, concrete returns deliver greater credibility.

**Table 1: Source-to-Pay Functional Module Typical Cost Benefit**
### Recommendations

<table>
<thead>
<tr>
<th>Functional Module</th>
<th>License and Implementation Cost</th>
<th>Typical Return on Investment</th>
<th>Process Complexity</th>
<th>Average Time to Implement</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-Sourcing</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>&lt;3 months</td>
</tr>
<tr>
<td>Procurement Contract Life Cycle Management</td>
<td>Low</td>
<td>High</td>
<td>Low to Medium</td>
<td>2 to 4 months</td>
</tr>
<tr>
<td>Supplier Performance Management</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>4 months</td>
</tr>
<tr>
<td>Accounts Payable Invoice Automation</td>
<td>Low to Medium</td>
<td>High</td>
<td>Medium</td>
<td>&lt;6 months</td>
</tr>
<tr>
<td>Spend Analytics</td>
<td>Medium</td>
<td>Low to Medium</td>
<td>Medium to High</td>
<td>&lt;4 months</td>
</tr>
<tr>
<td>Supplier Risk Management</td>
<td>Medium</td>
<td>Low to High</td>
<td>Low</td>
<td>&lt;6 months</td>
</tr>
<tr>
<td>Supplier Information Management</td>
<td>Medium to High</td>
<td>Medium</td>
<td>High</td>
<td>9 to 12 months</td>
</tr>
<tr>
<td>Procure-to-Pay</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>&gt;6 months</td>
</tr>
</tbody>
</table>

Source: Gartner

Are you ready to get started? Here are some top recommendations to consider:

- Consider spend analytics and e-sourcing as initial projects — these are two of the most popular first steps. They touch a much smaller population of users, and success does not require deep integrations with many other systems.

- Steer clear of supplier performance management, which looks easy at face value, but often fails due to requiring the buy-in from many nonprocurement personnel.
Increase Compliance by Tackling Complex Processes

Process automation and compliance lead to strong, tangible business cases, especially when the process is highly repetitive, or has a wide usage base. Reducing human touchpoints in a process allows the organization to redeploy people to higher-value work. Automation can also provide needed flexibility by eliminating where to do a specific task. A good example of this is automated capture of invoices via emailed PDFs to an email address versus a person scanning a paper invoice. This one change eliminates the need for a site-specific activity, and frees that person to address root cause problems that cause invoice capture failures. This example also reduces business risk during events such as COVID-19, where personnel may not have access to the mailroom to collect paper invoices.

Compliance issues come about as a result of many factors, the most common being people working around an existing process that is cumbersome and slow. This is a major reason why automation can drive much higher process and policy compliance from users. Speeding up a process to deliver a desired outcome takes away a key reason for users to find workarounds. Application leaders who improve processes to eliminate steps, ambiguity and complexity while also increasing automation see resulting increases in compliance. Manual procurement processes motivate end users to go outside policy as it is easier and quicker to buy from consumer e-commerce sites. Procure-to-pay (P2P) solutions drive compliance by bringing those consumer shopping experiences into the business to reduce effort and time to buy.

Table 2 provides a list of processes that organizations target for automation across the source-to-pay process, and their relative value.

<table>
<thead>
<tr>
<th>Process</th>
<th>Automation Value</th>
<th>Module</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice Capture</td>
<td>High</td>
<td>APIA/P2P</td>
</tr>
<tr>
<td>Invoice Matching/Approval</td>
<td>High</td>
<td>APIA/P2P</td>
</tr>
<tr>
<td>Real-time AP Auditing</td>
<td>High</td>
<td>APIA/P2P</td>
</tr>
<tr>
<td>Contract Creation</td>
<td>Medium to High</td>
<td>CLM</td>
</tr>
</tbody>
</table>

Table 2: Typical Value of Common Process Automation

- Evaluate CLM — a hot project right now — as a first investment. Implementation plans that roll out by contract type further reduce risk and effort.
The list of options can be daunting. However, as with all projects, business needs and budgetary limitations dictate your priorities. Ideally, the savings generated from the earlier projects will support larger, and potentially bigger return, projects such as P2P. Accounts payable invoice automation (APIA) is another process that drives a larger ROI due to high levels of document automation and error reduction. Conversely, supplier information management (SIM) involves a much higher level of effort for success. But the payoff for success can be large with improved master data driving more efficient downstream processes.
Complexity Dictates Your Vendor Strategy

Organizations often prioritize a vendor strategy that locks them into solutions that fail to maximize ROI. Well-meaning procurement or technical policies that focus on limiting solution vendors makes intuitive sense — fewer vendors equals less complexity. The problem is that no vendors, not even the leading ERP suite vendors, can provide a highly integrated, deeply functional, end-to-end solution. This functional, integration, end-to-end trade-off is one that many organizations can successfully make while not impacting the value of the solution.

However, application leaders should make sure they fully understand what they are suboptimizing when choosing a vendor strategy. One vendor for the entire process might make integrations and vendor management easier, but will limit functionality. On the other hand, too many vendors might make it impossible to integrate the end-to-end process.

A single vendor is optimal when:

- Your organization is a small or midsize business
- When end-to-end functional needs are not relatively complex
- Complex needs are very compartmentalized where a full-suite vendor is strong

Most source-to-pay (S2P) suite vendors have solutions that are strong in multiple functional modules, but are average in the remaining modules. This is highlighted in Gartner's “Critical Capabilities for Procure-to-Pay Suites,” in which we can see the relative strengths of vendor offerings across a range of capabilities. It is important to make sure that the selected vendor has strengths that match your biggest organizational issues. If one vendor cannot meet these needs, then a multi vendor strategy must be employed.

Application leaders that require functional capability across a variety of procurement processes should look to a mixed-vendor, best-of-breed strategy. This does not mean that every module in the S2P process needs a unique vendor. It does, however, dictate that when an organization needs deep functional depth, it should select the vendor that provides the best solution. Using a single vendor for the majority of the process, with supporting specialist vendors to fill the gaps, is a very typical strategy (see Figure 3).

Figure 3: Multivendor Strategy Example
There are two functional areas in the S2P process where organizations commonly utilize best-of-breed solutions. CLM and APIA are two of the most common areas where a point solution can bring specialization value. And these areas have one thing in common — nonprocurement or sourcing organizations are the primary users. CLM is heavily impacted by the legal and risk management requirements of the organization. Those functional areas typically dictate these requirements, and procurement must work within those organization-specific requirements. APIA touches many finance and treasury processes that have specific needs as well. Vendors that focus on the specific needs of those processes often outperform suite vendors that focus first on a tightly integrated, procurement-first strategy.

Gartner recommends a multivendor strategy over customizing your procurement and sourcing applications. Customizations dramatically increase the cost of ongoing maintenance, and they inhibit upgrades. Application leaders should customize only when the outcome is to deliver a unique competitive advantage for the organization.
Acronym Key and Glossary Terms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>APIA</td>
<td>accounts payable invoice automation</td>
</tr>
<tr>
<td>CLM</td>
<td>contract life cycle management</td>
</tr>
<tr>
<td>P2P</td>
<td>procure-to-pay</td>
</tr>
<tr>
<td>S2P</td>
<td>source-to-pay</td>
</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
<td>SPM</td>
<td>supplier performance management</td>
</tr>
</tbody>
</table>

Evidence

Information gathered for this research is the result of over 200 of inquiry calls in the past year related to source-to-pay strategies.

1 Gartner Procurement Diagnostic Suite Survey, 2019

Document Revision History

Best Practices for Sequencing Investments in Sourcing and Procurement Solutions - 25 October 2018


Recommended by the Author

Procurement Technology Roadmap Builder

IT Market Clock for Procurement and Strategic Sourcing Applications, 2020

Success With AP Invoice Automation Requires More Than Paper to Digital

Critical Capabilities for Procure-to-Pay Suites

Critical Capabilities for Contract Life Cycle Management

Hype Cycle for Procurement and Sourcing Solutions, 2019

Recommended For You
IT Market Clock for Procurement and Strategic Sourcing Applications, 2020
Procurement and Strategic Sourcing Applications Primer for 2020
Hype Cycle for Procurement and Sourcing Solutions, 2019
Don’t Assume You Have to Use an S2S Suite to Digitalize Procurement and Sourcing
Critical Capabilities for Procure-to-Pay Suites

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