

# DISCOVER HOW COMPANIES INCREASE PERFORMANCE & PROFITS THROUGH PURCHASING AUTOMATION



## How and Why to Assess Purchasing Automation Savings & Solutions?

[www.bellwethercorp.com](http://www.bellwethercorp.com)



*For the last decade or so, American businesses have been reinventing themselves for a worthy goal: increase profits without negatively impacting product quality. To this end, companies have automated, streamlined, diminished their work force, outsourced products, or parts of products, and implemented many cost effective changes.*

*But they may be missing their best opportunity.*

## **Indirect spending is the most often overlooked area for cost savings.**

Ironically, while companies may think they have examined every piece of their businesses in pursuit of lowering costs, there is a huge cost area that is often ignored. This area is referred to as “indirect spending” all those purchases departments make to keep themselves operating. These items include things like courier services, kitchen and bathroom supplies, office supplies, computers, computer paper, consultants, temporary help, etc. In other words, indirect spending refers to all maintenance, repair and operating (MRO) goods and other non-production goods that do not make their way into the final product.

Indirect spending is usually ignored because upper management wrongly assumes that these purchases are insignificant in the whole scheme of things, and, therefore, not really worth the time it would take to make changes.

But, here’s the real story. These small dollar high volume purchases can present a substantial opportunity to significantly lower costs.

## **MRO spending represents 20 to 40% or more of a company’s expenses.**

According to the Institute for Supply Chain Management, most companies spend between 20 and 40 cents of every dollar on MRO, and that percentage is increasing. These items represent around 90% of all purchase orders, shipment expense and invoices. Often the overhead costs involved in processing the purchase exceed the cost of the items, which is usually under \$50. Imagine how much money these companies could save by optimizing the purchasing process. This is money that goes straight to the bottom line.

*MRO represents 90% of all purchase orders & often the overhead costs are higher than the item purchased.*





## DECENTRALIZE OUT OF CONTROL PURCHASING TO NOW CONTROLLED CENTRALIZED PURCHASING

"Bellwether has eliminated the paper in purchasing and allowed us go from decentralized out of control purchasing to centralized purchasing and invoice processing. This has reduced cost and provided us a clear picture of accruals."



**BEN BELFLOWER,**

*Reporting & Analysis Manager, Aramark*

### If it's so simple, why isn't everyone done it?

As mentioned earlier, companies tend to underestimate the amount of money that is dribbling away due to inefficient MRO purchasing processes. They are focused on the big ticket expenses. Meanwhile, hundreds of thousands of dollars could be saved simply by investing in purchasing automation.

### How much money could your company save through automation?

One of the major sources of cost savings offered by automation is, of course, the reduction in administrative costs. Here's a way to determine how much your company stands to save in administrative costs alone.

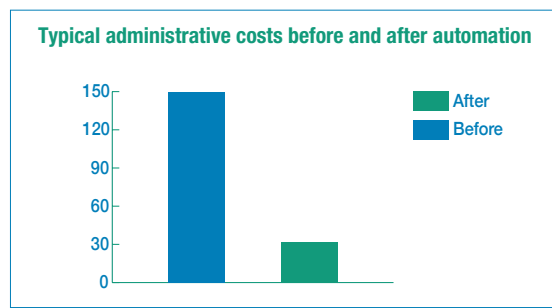
If administrative costs are not established for your organization, calculate the cost savings for work eliminated as follows. (The steps in this analysis have been borrowed from Purchasing Today.)

Create a flowchart that represents the purchasing cycle before automation. Then create another flow chart that shows steps eliminated due to automation.

For each flowchart do the following:

- Identify who does each step
- Identify how long it takes to do each step
- Calculate the value of each person's time per minute, using the mean salary of the labor grade
- Multiply the value of his or her time per minute by the number of minutes of the task
- Add the costs of all the steps and include all additional costs incurred such as consumable supplies, postage, etc.
- Subtract the before and after flowchart numbers, and the resulting number represents dollars saved.

According to the National Association of Purchasing Managers (NAPM), for every purchase put through a paper system, the company will pay approximately \$150 in administrative costs. Compare that to about \$32 to process an order through an integrated purchasing system. That's a savings of \$118 per purchase order. If a company processes 2,000 purchase orders per year that translates to \$236,000, which is pure profit.



Source: National Association of Purchasing Managers.

## Guidelines for evaluating software options.

Many procurement software packages are available today, and a solution can range in price from as little as \$1500 to over \$40,000 depending on how many functions you want to automate and how many people will use the system at the same time. Return on initial investment will vary, but payback is usually seen within a few months.

- **Functionality.** Software packages differ in functionality and it's important to investigate several types of purchasing software to see which one best fits your needs. For example, if your company has multiple offices you'll want to be sure your purchasing solution provides web-based requisition capabilities so that each office can initiate and track its own purchases.
- **Ease of Use.** A software package's ease of use should also be evaluated. You'll likely have many users who don't use the software on a daily basis. If it is complicated or not userfriendly, it will be difficult to get them to use the application. The package will be hard to implement and will likely become another bad idea that ends up being shelved.
- **Modularity.** Some purchasing software is modular, meaning that different functions, such as Purchasing, Receiving, Payables, Requisitions, Quotations and Inventory are housed in separate modules. This is good because it allows you to buy the modules you need now, and add other modules later as needed. Some software companies only offer the "whole package," and you may wind up paying for a lot of functionality that will never be used.



### I HAVE IMPLEMENTED VARIOUS SOFTWARE OVER MY CAREER (30 YEARS) THIS WAS THE SMOOTHEST TRANSACTION.

"The training session was phenomenal, all participants came out with a clear understanding of how the system worked. I have implemented various software over my career (30 years) this was the smoothest transaction. The night before implementation I was worried that I made a wrong choice...I kept that to myself. As of yesterday I am very excited how this is working. We have already implemented it full time (our other process crashed yesterday...good indication to move forward!)"



**DERRYL DEY,**

*Laboratory Manager, Precision Biosciences*



- **Vendor experience.** It is also a good idea to ask the software vendors how many applications they have implemented in an organization like yours.
- **Compatibility.** It's also important to be sure that a software solution will interface with your accounting system, and, if not, can be customized to do so. In a perfect world, the purchasing software should marry vital information to accounting and other critical systems.
- **Inventory control.** A good purchasing software package will help organizations reduce their inventory, which in some corporations represents as much 25% to 40% of their invested capital. Inventory impacts the bottom line and reducing inventory costs frees up cash that can be used for other business needs.
- **Reporting capabilities.** The software should produce a myriad of both standard and specialized reports, store key information, record historical information on ordering patterns and vendor performance and have budgeting capability. It makes good sense for the manager to work with his/her staff in identifying all the functions the department needs, and then evaluate the package against those needs.
- **Technical support.** Be sure to inquire about technical support after the sale; a strong customer service technical staff is critical. Find out if support is offered via telephone, email or other mediums. New and ongoing product training is also a must when choosing a software vendor.
- **Installed versus OnDemand.** Purchasing automation solutions are available both as licensed installed software and subscription-based web services. There are advantages to each and this should be carefully considered when selecting your purchasing solution.

With installed software, you are in control. You can customize the software and integrate it with other applications. You are not dependent on the service provider you can continue to use the software even if the vendor goes away. Security is not an issue because your company manages its own security. And, when your internet connection goes down, you can still use the application.

OnDemand services on the other hand can offer advantages in terms of deployment speed and initial costs. You are more restricted in how you use the application, but upgrades and bug fixes are generally seamless and you are always using the latest version of the application.



Bellwether's ePMX purchasing software has allowed us to seamlessly transition from an outdated unsupported purchasing program. The added benefit of being able to transition to 100% electronic functionality has made a major positive impact on the time it takes to purchase laboratory supplies/equipment. Reporting features are numerous, which enhanced our attraction to this software. Their cloud based system allows our different facilities to function as one. Support staff and management are very receptive to issues and concerns. We've been using this system for 3 years and consistently have our needs met. Highly recommended.

Tammi Stock

Wadsworth Center

NYS Department of Health

## The future of purchasing and supply

Within the purchasing function, business has a great opportunity to implement cost reduction in a major spend area and move into the 21st century. If you have not yet automated your purchasing function, now is really the time. Both short term and long term forecasts indicate that organizations are beginning to better understand that MRO related costs are carried through the supply chain, and future measures to contain these costs will be linked to organizations' overall goals.

As e-business, or electronic commerce, plays an ever-increasing role in strategic cost decisions, it will have a dramatic effect on purchasing and supply and all aspects of business over the next five to ten years. It is also forecasted that while purchasing and supply management processes will still be in place to facilitate the supply chain, electronic commerce will change who performs what functions (Institute for Supply Management).

## Purchasing, a vital company function

The Purchasing Department performs a critical function in business. If your purchasing cycle is automated, the company can expect an improved bottom line, positive impact on corporate spend and purchasing decisions. Spending on even the most insignificant items can be controlled in a way that positively & substantially impacts a company's overall profits. The purchasing process of indirect goods and services (MRO) can and should have a critical, strategic role in the business process.

## What next?

Bellwether Software, providers of ePMX and BPM Purchasing and Inventory Solutions, has been helping small to mid-sized purchasing departments automate their processes, increase their value to internal customers and deliver measurable contributions to company profits for more than 3 decades. Our purchasing and inventory solutions have been used by over 1000 companies. We can help you too.

## Contact us today for a free, no-obligation consultation.

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