

SPEND CONTROL *for dummies*

Pitfalls in selecting and implementing a solution

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When it comes to expenditure most company Directors still occupy a reactive management role. They have no real means to tighten the corporate belt during tough times or even to avert financial disaster before it occurs.

Yet the pressures to improve corporate governance are greater than ever before. Major corporate accounting scandals and the Sarbanes Oxley (SOX) directives are having a greater influence on the everyday lives of executives, with businesses coming under heavy scrutiny, having to justify expenditure and demonstrate control.

Perhaps it is because of these increasing pressures that a new wave of enterprise software is gaining popularity. More and more organisations are implementing Spend Control software to take control of expenditure, improve cost-base visibility and ensure that value for money is truly achieved.

Common Expenditure-Related Problems

Few would question the need for Spend Control software. A recent survey from the Chartered Institute of Purchasing and Supply in the UK suggested that as much as 60% of corporate spend is uncontrolled, meaning it does not have proper management approval and it cannot be properly accounted for. For many organisations the process of controlling spend is just too onerous. It is easier for staff to ignore the formal purchasing procedure and do their own thing, without any useful insight into budget availability.

Even more worrying than a lack of control, however, is the complete lack of visibility in most organisations.

Today's difficult economic climate sees a growing number of organisations attempting to tackle these problems. Whereas recent years have seen CRM and revenue-enhancing technology at the top of the IT priority list, today's focus is very much on solutions that tighten financial prudence.

Some of these issues are down to inefficient procurement processes and fragmentation of data. Others are about not being able to deploy best practice policies because of the lack of a good framework.

Spend Control Solutions

Spend Control addresses functions such as spend analysis, procurement cycle automation, procurement sourcing, approval control, budget checking and commitment accounting, supplier invoice reconciliation and employee expenses.

The key messages and uptake of Spend Control is extending across a wide range of business sectors too. The market has witnessed serious growth across a range of services sectors, as well as retail, hospitality and distribution. The Public Sector has seen major growth too as Local Authorities and Education establishments seek to improve internal controls.

The case for Spend Control is a compelling and one that many organisations are adopting for the strategic activity of managing expenditure. But how do you know if your organisation needs Spend Control? The following are just some of the key performance indicators which you can use to judge your organisation:

- 1) Are more than 20% of your suppliers redundant or inactive?
- 2) Is actual / budget variance on indirect expenditure greater than 10%?
- 3) Do more than 5% of suppliers' invoices require troubleshooting or clarification?
- 4) Are more than 5% of purchases made without proper management approval?
- 5) Do you struggle to analyse spend by vendor, cost centre, commodity, etc.?

A 'Yes' response to any of these questions might suggest the time is right for your organisation to explore the benefits of Spend Control.

And now your problems begin – How to select and implement a solution – read on.....

Delivering Spend Control is a strategy, not a short term tactic.

Consider these points:

- Spend Control represents the ability to become a business, where delivering 'best value for money' is the norm, irrespective of how or when the goods and services are purchased.
- Spend Control represents the automation and integration of what are some of the least disciplined areas of a business.
- Spend Control is dependent on the 'buy-in' of a significant proportion of your staff to ensure that the discipline of procuring from only certified vendors and approved items is carried out efficiently and accurately.

Spend Control involves new challenges, new disciplines and new ways of working, including:

- Attractive for what is perceived to be the fastest results, rapid 'evolution' ensures a high adoption rate by your staff and encourages their proactive involvement in extended Spend Control to more aspects of your business over time.
- Spend Control delivers new, more efficient, more effective ways to communicate the relevant, most up-to-date information internally and externally.
- Spend Control requires the total support of the board of directors.

TIP: LOOK AT THE BIG PICTURE

The very first step is to understand whether you are being offered the first step of a complete integrated Spend Control solution, or a product that just deals with a single aspect of Spend Control such as Content Management.

Once you can see the elephant, (which is the challenge of achieving Spend Control within your own company), the next step is how do you tackle it?

CHOOSING THE PLATFORM

Once you have a clear idea of what Spend Control is, the next question is what is the technology base that you want to adopt that matches your strategy?

The issue that needs to be carefully considered is whether or not to continue with current IT infrastructure strategy, or use this opportunity to start the migration to something new

The answer is probably a bit of both.

The majority of small to medium-sized organisations have invested in a predominately Microsoft-based strategy. Microsoft Windows on the desktop, Microsoft Office for office automation and email, Microsoft Internet Explorer 5 browser, Microsoft NT network, and more recently, Microsoft SQL server as the database engine.

For most businesses that have gone down this route, any new software needs to utilise this technology base, preferably being designed from the ground up to do so, rather than being ported from another environment to work on it.

Whilst there is no question that all major software developers have announced strategies to migrate their applications towards a 'web-based' or 'browser-based' environment, enabling the applications to be accessed and utilised by simply working from any internet terminal or device. Many will promise what is to come, driven by commercial pressure, but are not really ready to deliver.

The benefits of 'browsers' are significant. For example, the necessity to load any applications onto the users PC or laptop is removed. This represents very significant savings in both time and money on software, implementation, maintenance and upgrades. Also, it does not add to the memory and disc requirements of every computer.

Browser-based applications mean that relevant information can be accessed and updated from any location in the world, at any time, by employees, prospects, customers and partners. This should be a fundamental objective of Spend Control.

However, the key issue is the migration of the organisation to utilising browsers as the main user interface, both for internal and external applications and web-based work, whilst at the same time utilising the investment in back-office financial management systems.

TIP: LOOK AT THE SITUATION

Look at the situation from a potential benefits perspective. Where will you get the most benefit? It is unlikely to be from replacing ledgers and more likely to come from areas such as budget checking, streamlined invoice matching and the like. Pick an area that will give real benefits

Many have excellent applications, but lack the depth and breadth of functionality and technology to address all the aspects of a 'full-scale' Spend Control solution.

And often, this is reflected in their pricing structures, which at first glance, makes these offerings seem very attractive?

But the dangers are significant.

Often these vendors focus in on the more common starting point for businesses entering the Spend Control market, such as Requisitioning or Catalogue Management, offering what appears to be a cost effective solution as the first step.

Their literature and demonstrations may provide an insight to other applications on offer, but customers rarely investigate the level of functionality of these other applications in any detail, nor how they will deliver a totally integrated Spend Control solution. A full solution requires integration with other systems to provide a seamless process from efficient selection of goods through to payment of goods.

It is only when the first part of the strategy has been completed and the detailed review of the next step is undertaken, that the truth comes to light.

The choice is either to start again, something that rarely ever happens, or make the best of a bad situation.

It may be that there simply is not enough budget to embark on the Spend Control route, in which case an interim solution may be the most appropriate decision.

TIP: TACTICS OR STRATEGY?

It may just warrant reviewing the budget, as the difference in cost between a tactical solution and a strategic decision may be quite small. Other budgets such as Electronic Document Management or Business Intelligence could well provide assistance.

Having made the decision to follow the strategic route (and there are not that many choices on offer) then how do you go about implementing Spend Control?

HOW DOES A MOUSE EAT AN ELEPHANT?

It's easy! A mouthful at a time

Well structured Spend Control applications should be able to be deployed in many different ways. For example department by department or commodity by commodity. They should also be able to model the existing workflows in an organisation and be modified as required throughout the lifecycle of the solution.

Vendors who have developed successful implementation processes for major corporations often believe that these will work for smaller businesses. And all it takes is this:

Buy in the best consultants to re-engineer your business culture.

Get more consultants to carry out a business and workflow review of the entire organisation.

Enlist yet more consultants to design and document a solution that will resolve all of your business problems.

Release key management and staff across your organisation to spend weeks, if not months, discussing each of the above.

Then just do it.

This involves yet more consultants carrying out the project with all your staff that have an involvement.

Simple!

Or perhaps not?

TIP: BREAK UP THE PROJECT

Break the project into its most logical elements or phases, pick a phase that can be discrete and implement the system. Ensure that the team members are involved in subsequent phases so that the tribal knowledge doesn't disappear. Make sure to document decisions made and reasons why they were made

Small and medium-sized companies are more restricted than major corporations both in the financial budget that can be justified and the ability to release key personnel resources from their normal duties.

Unfortunately, the majority of Spend Control vendors will still approach the project using their tried and tested methodologies, which are well proven in the major corporate arena.

To succeed with smaller organisations, a different approach is needed in to achieve a successful Spend Control strategy.

The option to take a 'best of class' solution is compelling, however care must be taken to limit this to complete Spend Control solutions and not buy granular solutions to meet the tactical requirements of your business on a department-by-department basis.

You might think "It's better than nothing and we can sort out how to link it all together later"

You will always end up with the same result - Islands of information, representing your departmental structure.

TIP: GO FOR REAL BENEFITS

Look at the situation from a potential benefits prospective. Where will you get the most benefit? It is unlikely to be from replacing financial ledgers and more likely to come from budget checking, streamlined invoice matching etc

The advances are taking place at the speed of light. Just think back three years and guess what will exist in another three years time.

Two key aspects of the development of the internet are fundamental when trying to understand the implications to your business.

Broadband communications:

Simply translated as very fast data, voice and video transmission speeds at very low cost. Easily sufficient to allow business or commercial quality video conferencing from any land-based connection point. This is already available and the prices are falling as internet bandwidth continues to increase.

Wireless communications:

WAP (Wireless Application Protocol) heralded the 'proof of concept' of being able to access the internet over a mobile phone. But with very small screens, inadequate keyboard input and very low communication speed (9.6 kilobytes per second), it simply is not practical to use ... yet.

Within a short period of time, hand held devices, with a connection speed of a megabyte per second or more (100 times faster than today and 20 times faster than a normal 56.6 kilobytes per second modem), will start to replace many mobile phones and laptops. All the benefits of broadband available, any time, any place, anywhere. (I am sure that's an advertisement).

The third generation wireless devices are already in production. Whilst the early devices will be expensive, as the volume of both users and traffic increases, prices will rapidly fall. The commercial requirement to be able to provide up-to-the-minute information to employees, partners and customers will soon become a competitive necessity.

TIP: DON'T CELEBRATE TOO EARLY

Keep a project team in place even after the system is live. This can be part-time but is essential to the well being of any organisation. Activities such as User and System audits should be employed to ensure that all users are working to guidelines and that no issues are being overlooked

PRODUCT OR PROMISE?

The most remarkable aspect of investigating Spend Control solutions is that every supplier says "YES!" to everything, all of the time.

Just count the number of "NOs" you get in the RFP/ITT selection process. Treat it as a challenge!

How can this be true?

To satisfy the very diverse requirements of large corporate bodies, Spend Control has been developed using rapid application development tools (RAD technology) that enable the vendor to build anything you want, just for you, within a technology framework.

So everything is possible, but there is a price to pay. You will be unique, your training will be unique, and your solution will be unique. Which roughly translated, means that it is expensive to deliver and expensive to change.

Any suggestion that a significant cost is associated with the 'scoping' of your business needs after you have placed an order, can be translated into:

"We know roughly what you want, enough to quote, but we can't afford to find out exactly what you want, until you are prepared to pay for it."

If scoping is required post sale, you are in the world of 'design and build'.

In which case, you had better know *exactly* what it is you want, before you start, because that is exactly what you're going to get.

TIP: COMMONSENSE RULES

If a package solution is selected (in most cases this should be the decision) try to understand that the cost of acquisition and ownership is much lower than building it from scratch or from a technology half and half solution. This may mean that small areas of functionality are not available. You either have to adjust your requirements or better still work in collaboration with the package vendor to accommodate the most important ones. Set expectations for all users lower than reality and that way people will be more satisfied

But, if you are going to get the total buy-in from your staff, someone coming in from outside telling them how to do their jobs better is not really the best place to start.

This process usually produces three results:

1. In order to get buy-in and deliver change, a compromise is required from both the consultant offering advice and your staff.
2. Invariably the compromises made in this process lead to the automation and integration of the current systems, without adding the real benefits that are possible.
3. As soon as the system goes live, everyone realises that it could have been done far more efficiently and effectively. **Now they understand what really is possible.**

Too late!

You've spent your budget, so everyone had better just get on and do the best they can.

The result is usually a continuing decline in the use of the system by your staff – the single most common reason why a Spend Control system fails.

From a contractual point of view, the system does exactly what you asked the supplier to deliver, possibly close to the expected timescale and possibly close to the budget.

This certainly looks good in the customer satisfaction statistics on delivering the solution, but probably isn't what you would define as being 'satisfied'.

But the declining use of a Spend Control system has more than one cause, so what are some others?

TIP: FLEXIBILITY REQUIRED

Find a solution that will let you operate without it being too prescriptive or imposing constraints on the way that you work. It is worth remembering that your current systems are running your operation at present. It would not be a complete disaster if they were replicated using the 'new technology' as phase 1, and to then be used as the basis by which a controlled program of continuous improvement is instigated. Staff find this approach less intimidating and are usually more cooperative when change is eventually introduced.

LESS IS GOOD

Keep
It
Simple
Stupid

The message is simple: KISS!

Satisfaction is the realisation of expectation.

The higher you set your expectations in the early stages, the less likely you are to meet them.

If your staff's expectation of what the Spend Control solution is going to provide is unachievable, then the consensus will be "It's a failure".

The easier you make the initial process, the simpler the training.

The less information that needs to be entered and the clearer the understanding of the value of the information that is entered, the higher the likelihood of delivering a solid foundation for the Spend Control.

If the strategy to implementing Spend Control is founded on a step-by-step approach, then the stronger the foundations, the easier each subsequent step becomes.

TIP: EVERYTHING IS POSSIBLE FROM A SOFTWARE PERSPECTIVE

Getting a “yes, we can do that!” as an answer is easy. Ask yourself the following question on each issue, “but will my staff be able or willing to do that?”

(The parallels between the High-Tech stock of the late 1990's and the stock market booms heralding the advent of the railroad and electricity are remarkably similar. In each case, they became dramatically over hyped only to collapse. But their fundamental contribution to both business and domestic productivity was eventually reflected in their valuations.)

The danger of the current market malaise is to get the impression that eBusiness has somehow gone away. It has not, far from it.

Instead, we are witnessing the maturing of the dot.com phenomena. It is not so much about allowing new businesses to totally destroy the old, but more about old businesses delivering new ways for existing customers to access information, services and for some companies, to buy.

And the buying process is changing.

More and more businesses and individuals are doing their initial research on the web, looking globally for who can provide the products and services they require. Their research is more detailed, the criteria more specific and often the short-list comes before any of the prospective suppliers have formally been contacted.

As importantly, the expectation of after sales service is moving more and more to a self help as the initial step.

Why? Because we all know how expensive it is to have the right skills on the end of a phone, just waiting for it to ring. If you want to pay for it, it is there, but if you don't need to pay, why should you?

Websites must develop to play a proactive part in the pre- and post-sales process.

TIP: LOOK TO THE FUTURE

Careful planning and execution will always pay dividends when selecting enterprise solutions

Just how many screens does the application have and how many do you have to use, just to enter and review information?

We have all got used to using Windows, but most people use a fraction of the functionality, reflecting how many companies do not invest in formal training. Usually this means that you can't find out if an application can do what you want to do, or if it can, where the bit you want is hidden.

On the other hand no-one ever got trained in the use of the 'web-browser'. It is simple and intuitive. If anything is underlined and your cursor changes to a 'hand' you know you can drill down or 'hyperlink' to associated information. Better still, you know that you can go back to where you were just by clicking the arrow buttons. The browser user interface is systematically replacing the way application software is presented to the user. It is much easier to use than Windows.

Ease of use is fundamental to the successful adoption of the system. The simpler it is, the higher adoption rate, and the lower the associated cost of training.

TIP: HOW EASY IS IT?

If you follow a transaction through from inception to completion and count the key strokes/mouse clicks, you will get a pretty good idea of whether or not 'ease' is the appropriate term.

The 'user interface' hides many sins, making everything look the same on the surface, whilst nothing could be further from the truth.

The commercial pressure on software developers to deliver the full scope of Spend Control solutions, both in terms of software applications and technology platforms, has led to numerous acquisitions to speed up the time to market.

The result is that whilst you may possibly get a common 'look and feel' the software can be made up of a number of different products, developed using different tools and delivering a number of different databases.

Should you worry if it works?

Simply put, it is not easy to tightly integrate products that have a completely different heritage. This type of strategy also requires a number of different skill sets to enable on-going development, modifications and enhancements.

This further involves considerably more cost than the one-off payment required for a package from a single development of software; these costs will be passed onto you during the life-cycle of the solution.

TIP: BE THOROUGH

The level of investigation required to fully understand the architecture, technologies, development tools and environment is considerable, assuming that you have the skills and resources necessary to achieve this result in the first place.

Most companies clearly detail their acquisitions on their website. The more acquisitions they have made, the less of a pedigree product and the more mongrel it becomes.

In other words, constant evolution.

The question becomes "Where to start?" and the answer to that question can change from organisation to organisation.

Once you decide "Where to start" the questions becomes "What next?"

For the majority of organisations, the implementation of a procurement process represents the area of the business that will benefit the most, as well as deliver the fastest return on investment.

If you could achieve a fast-win, high adoption rate and demonstrable business benefits in this core activity, the roll-out of further parts of the Spend Control strategy becomes significantly easier.

What is much more important is the ability of your staff to understand the new concepts, review the current business processes and identify the next 'weakest link'. Once an issue is recognised, they will have developed the skill to balance "what is practical" against "what would be ideal".

And every subsequent step builds on the last.

This methodology has a number of significant benefits.

- It reduces the initial cost.
- It enables all future decisions to be founded on experience.
- It ensures user 'buy-in' at each stage.
- It allows each investment to deliver the maximum return.
- It allows complete control of when the investment takes place.
- And, it allows the culture of the organisation to evolve around high Spend Control adoption.

TIP: SPEND LESS -ACHEIVE MORE

Benefits can only occur when systems are live. Until that time they are an overhead. Effective phasing will deliver benefits during the project.

For example, a request for quotation needs to be sent out electronically, responses need to be analysed and order confirmation given.

The prospective supplier can be invited to answer a simple survey to capture the key information and automatically update your Spend Control database.

Workflow could interrogate the information to identify the geographical area of the enquiry, the market sector, the size of the organisation and the solution being offered. It could then generate an appropriate e-mail response, attach appropriate literature and notify them that you will be in touch. Workflow could also send an action to the appropriate person to follow up the enquiry.

All totally feasible.

Now consider the consequence of adding new items, new vendors or authorisation limits.

The workflow must be changed to accommodate the new structure.

TIP: START SIMPLE

Workflow is a double-edged sword, the more specific it becomes, the more restrictive it becomes. Limit your initial investment to the basics, then build on the workflow when you are confident that the benefits will outweigh any future potential restrictions.

But the real world then invades as they arrive back at the office and the momentum is lost.

What is required is a decision, made at board level, to start the process. But where should you begin?

The thought of restructuring the entire organisation is both daunting and probably not practical.

The first step should be to understand Spend Control in more detail. Perhaps senior management should attend an 'Executive Briefing' that could take as little as one hour, but will deliver a clear understanding of the key aspects of Spend Control.

Once the basic understanding exists, the most common next step is to decide which aspects of the business could most benefit from automation. (The answer is invariably IT spend).

Get a few ball park quotes to help set a budget, make a decision to pick a small number of potential suppliers that offer the solutions from within the main vendors.

Then stick to the timetable and make a decision!

TIP: BE PREPARED

When you start meeting potential suppliers, be aware of how many questions they are asking about your current business issues and practices. The more searching questions you are asked (and respond to), the better the potential suppliers understanding of your business and the more likely they are to be able to help.

My objective has been to enable you to ask the searching questions to increase your likelihood of having a successful project. It is also aimed at helping management to focus on what is practical, rather than what is possible.

This is equally true when trying to understand what is actually being offered.

The process of taking an in-depth review of all the leading vendors, reviewing their technology platforms, development tools and strategies, market focus, application functionality and financial and resource infrastructure (etc), can be very long and complex process.

The experience of doing this in-depth review will benefit your organisation but it must NOT become too onerous as you will still only scratch the veneer of a potential vendor's proposed solution.

These fundamental objectives should help:

- **Completeness of solution**
Full-scale Spend Control). Your strategy should be based on a complete solution capable of being delivered in a phased or building block approach. The architecture and structure of the application must be suitable to support this strategy.
- **Ease of use**
This is covered in earlier pages but is often overlooked in the selection process. What becomes immediately apparent is that a browser based application which links information is a far better environment than one which is driven by different programs. Ease of use remains one of the most fundamental drivers to determine the adoption rate by staff as well as impacting initial and on-going training costs.

- **Speed of development**

Time is money. To be competitive it is essential to be able to install the application quickly, without the need for very highly skilled software consultants. This applies as much to the initial implementation, as to future application upgrades, so often overlooked at the time of purchase.
- **Scalability**

We envisage that a successful Spend Control solution will expand through a business, reaching out all staff members over time. Whilst an initial implementation may be as little as ten users, the solution should be able to grow to 1000 plus users. As important, the solution should not be restricted by the number of users, the functionality available or future upgrades. These are artificial barriers, created to represent 'mid-market solution'.
- **Microsoft based technology platform**

The mid-market has predominately adopted a Microsoft IT strategy. Windows, Word, Excel, Outlook, Internet Explorer, NT and SQL totally dominate this market. A solution needs to be founded from initial design on the Microsoft platform, rather than build for a different platform and then migrated across at a later date. Any solution must have the necessary integration tools to integrate with all legacy solutions regardless of age or technology, XML provides an ideal tool for this purpose.
- **Web based architecture**

It is our belief that more people will demand more access from more devices (both connected and wireless) over the next few years. To meet that demand, the core architecture of the product must be based

around being able to offer access any time, any place, anywhere. This should be a primary architecture, not an add-on module. Beware of terms such as *web enabled*, they invariably mean old technology given a facelift.

- **Mid-market pricing structure**

Mid-market organisations have to be smart with their investment £'s. The solution needs to be priced to be competitive with the lower-end products with only a small justifiable premium reflecting the benefits of a true Spend Control solution.

- **Global provider**

Whilst many companies will never actively trade from another country, there will also be a growing number that do. The solution must be available in various language versions, support multi-currencies and multi-companies all within a single environment if required.

- **Reputation**

Customer satisfaction is the corner stone of Spend Control and this is reflected in the marketing positioning of most of the major players. The reputation of the supplier must be reflected in the results, not just the marketing. Talk to real users about working and living with the proposed vendor.

- **Service and Support**

During the selection process you will be working with the sales department, they will always be attentive. When you become a customer, the day to day support comes from the back-office team, ask to meet them before placing an order – they really do matter.

