The challenges and opportunities of technology implementation

by **Richard Edwards**   7 minute read

The story

How the University of California's (UC) procurement team put in place technology processes and frameworks to help push the function and the organisation forward.

After securing buy-in and executive level support for a large-scale savings project (see part one), the University of California's (UC) procurement team turned their focus to technology and how that could help them push the function and the organisation forward.

Part two of this case study series examines the technology processes and frameworks the function put in place to take the next step forward.

When Bill Cooper took over as CPO in 2013, procurement's view of the UC's total spend amounted to between $2bn and $3bn, as this was roughly how much it had directly influenced in the past. But, there was little visibility into what its system-wide, enterprise spend really was.

Having been in his role for just three weeks, Cooper was brought before the Board of Regents, a group of 26 who govern the UC, to outline his plans for how the function would look to save some $200m without it impacting on the institution's teaching.

"As I'm reading from our report and I'm telling them about the P200 (the wider transformation programme) and the $200m target that was our goal, one of the Regents insightfully asked me what our total spend was," says Cooper.

"What he basically wanted to know was whether this $200m was impactful or just like spitting in the ocean."

Being unable to answer that question with any great certainty, it would be difficult for the P200 programme to make a real impact. It was clear that procurement needed to gain full spend visibility and this meant leveraging the right technology to figure that out.

IN THIS SERIES:

Implementing spend analytics

"What any procurement organisation needs, first and foremost, is spend analytics," says Cooper. "It amazes me that we've been asked, historically, to deliver intelligent procurement with no intelligence. Without spend analytics that's pretty much what you're doing, you're operating without the data and the analysis you need to deliver strategic procurement."

In order for procurement's influence to be brought to bear and for his team in the Procurement Leadership Council (PLC) to identify the potential opportunities that existed, it had to carry out a deep dive on spend.

The PLC engaged a leading procurement and supply chain management consulting partner to aid in the development and implementation of its P200 roadmap. The first task the consultant performed was an in-depth spend analysis, revealing total spend, opportunity assessments, and pipeline analysis across the system. This analysis included spend in 'traditional categories', that is those previously managed by procurement, and more commonly spoken of as 'addressable spend'. Most importantly, this analysis

also identified the remaining spend in those categories which was not previously within procurement's portfolio; this was commonly referred to as 'non-addressable' or 'non-traditional' spend.

This analysis revealed total spend to stand at over $7bn, with almost $5bn identified as non-traditional and thereby unaccounted for in previous estimates. It was a figure that gave a graphic indication, not just of the scale of the challenge facing those involved in the programme, but also of the enormous opportunities that existed.

"Without that picture you can imagine just how much you're missing and not just in terms of defining your spend categories," he says. "Once you get that total visibility you can define where exactly opportunities exist as well as what your savings projections are."

This new view of spend also opened up opportunities for the function to better understand the relationship it had with key suppliers, such as IBM and Oracle and streamline spend across the organisation.

"All of that stems from spend analytics," says Cooper. "That was our first and most important technology."

The next stage after this spend analysis and the new awareness it had brought to the function was for Cooper and the team to make a plan for the rest of its technology needs; again the UC sought the help of the external consultancy to drive this forward.

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A five-stage technology project

What followed from the initial spend analysis was a five-stage technology project, which aimed to address procurement's every conceivable need and measure metrics across the various parts of the University.

Breaking down its requirements into five main applications, the team set about implementing spend analytics, eSourcing, a benefits bank, supplier self-registration as well as a contract management.

With spend analytics already in place, it was necessary to rollout the other four applications in order to set a solid technological foundation that would create a "one UC system".

eSourcing would provide an integrated sourcing and contracting system for the team and suppliers. The Benefits Bank would provide a way to capture cost reduction, cost avoidance, incentives and generate revenue that would contribute towards the overall P200 transformation goal. Self-registration meanwhile would provide suppliers with a one-stop solution when participating in sourcing events and contract management would allow users to access existing contracts and manage the entire life cycle.

Each application was rolled out in overlapping phases starting with sourcing integration.

In contracts management, in particular, this represented a sea change in behaviour. Before 2013, systemwide contracts were initiated by a small team located in the President's Office, many of whom had minimal knowledge of the contracts they were in charge of implementing. Their decision making was also hindered by poor spend data and little understanding of the individual business requirements of each campus.

Coupled with a high resistance to change, minimal support post-contract signature, and inconsistent processes, the aim and ambition for this technology rollout was set against a far from hopeful backdrop. And time was short.

"We basically put in five technology projects within the space of two years," says Cooper.

"We went from a very manual operation to one that was technology driven because that was absolutely necessary to unify across the system. We needed

one e-pro system that effectively acted as a marketplace for our system-wide contracts."

The results of this technology investment with a single provider were soon realised, with the University benefiting from data visualisation for commodity profiles, market basket identification (effectively how items are priced), price file analysis (the price that the supplier provides for those items), and improved supplier relationships.

Embracing innovation

At the heart of the UC's new approach was a willingness to embrace innovation, exemplified by the introduction of a SKU level content demand management system which enabled the procurement function to drive volume with its suppliers and hand it additional leverage when it came to future negotiations.

This helped UC achieve its $200m goal. Installing up-to-date technology helped drive orders of spend to the contracted supplier, ensuring greater contract adoption, and in turn ensuring greater savings. Further, this helped increase supplier market share, which encouraged greater willingness among suppliers to bid on even deeper discounted prices in future contract opportunities.

Compliance with contracts also improved significantly. For example, in the UC's lab sciences catalogue, contract compliance increased from 40% to an average of 80% within weeks, as a result of the changes.

The introduction of Centres of Excellence (COEs) comprised of category specialists, which involved virtual teams of category specialists selected within and outside the 10 campuses, empowered with the overall management of major spend categories, to include sourcing, contract award and contract management, delineation of applicable terms and conditions to manage contracts also naturally led to stronger terms and conditions being applied, with more stringent requirements on both sides. This ensured the effectiveness of any deals while also reducing risk.

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Measuring success

While the technology was doing the job it set out to do, Cooper explains that it was important to be able to demonstrate its success to key stakeholders within and across the university.

To do this, Cooper and the team identified four specific areas against which to measure their value add or benefit, namely savings, cost reduction, cost avoidance, incentives that are gained on procurement contracts, and revenue generating contracts. As Cooper explains, these metrics were chosen because they represent hard dollar realisation as opposed to soft dollar efficiencies. These measures also actually extend the function's operating budget.

"We don't speak in terms of just savings because that can get really confused," says Cooper. "Technically, you only get a procurement saving once. That in no way gives a true picture of the total benefit that procurement is delivering.

"All of that hard dollar revenue is how we define our benefits. In addition, we measure our efficiencies and effectiveness in cycle time. That's what some people call soft savings, although I don't necessarily subscribe to that.

"It really just means there's another connection you have to make if, by being more efficient, you're reducing the number of FTEs (full time employees) that are required to run an operation. Then you need to take that number of FTEs and translate it into a salary so it then becomes a hard dollar saving."

Measuring this progress allowed procurement to communicate the benefits to its employees and demonstrate clearly the impact of their work. It also showcased to the rest of the business the difference that investing in the function was having, and this significantly boosted procurement's profile.

While the transformation is a long-term value-add, the quick wins are also important to showcase.

"When they see the benefits that are being realised it shows that what we're doing is working – and that allows us to get more investment in our programme," says Cooper.

The unified approach to procurement negotiations across all of UC's campuses led to savings approaching $50m with software giants such as IBM and Oracle. The organisation's previously fragmented approach to IT procurement had been utterly transformed and illustrated the impact that a more centralised buying model could have.

The five technologies

- **Spend Analytics**- A web-based analytics solution capturing data on accounts payable, purchase orders (POs), card programmes and supplier transactions through one integrated system. Collected data is used to develop sourcing, forecasting and planning strategies.
- **eSourcing** – One integrated sourcing and contracting system where vendors on-board once to do business with any location. Sourcing events across campuses are uniform and are in compliance with UC policies.
- **Benefits Bank** - One integrated system that captures benefits such as cost reduction, cost avoidance, incentives and generated revenue using baseline types. This system helps the function understand how close it is to reaching its annual benefit goals.
- **Supplier self-registration** - A one-stop solution for suppliers participating in UC sourcing events. The information fed into it by suppliers helps track supplier activity, measure progress against goals, form small business outreach efforts, shortens the administrative timeline towards a mutually beneficial agreement and helps monitor compliance.
- **Contract management** – An application that allows users to access existing contracts and manage the entire contract life cycle.

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