

Make or Buy

Comparing the options for Procurement Analytics



Intro

Many purchasing managers and CFOs of midsize enterprises (MSEs) are interested in generating more insights from their purchasing data. However, the path to set up a professional procurement analytics solution and the associated workload is often unclear. With this guide, we aim to provide you with an overview of how to successfully implement procurement analytics in a purchasing organization. You will find information on the individual implementation steps as well as the implementation efforts which are likely to incur.

In this paper, we will discuss the qualities of the following options for procurement analytics:

- ERP-System
- Business Intelligence (Self-Service)
- Microsoft Excel
- Software solutions of external suppliers (e.g., SCALUE®)

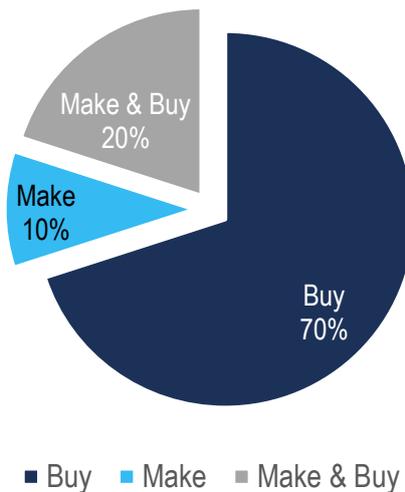
Analyses in the ERP-system

Procurement processes in modern medium-sized companies are very complex. In planning and controlling these processes, top management is often supported by an enterprise resource planning (ERP) system. Concerning the competitiveness of the overall company, the procurement organization's speed in reacting to changes in the procurement processes plays an important role. Ideally, information and performance values on purchasing processes are constantly provided to the purchasing department and all purchase requisitions, purchase orders, deliveries, invoices, and payments are stored in the ERP system. Besides, a data basis for further analyses is available. Based on the performed analyses, monetary and process-related savings potentials can be realized by the purchasing department. In addition, performing the analyses enables purchasing representatives to respond more quickly in negotiations and improve the basis for strategic management decisions.

Many ERP systems contain predefined standard analyses, which can be retrieved by entering transaction codes. Further analyses can be integrated into the ERP system with additional programming effort. The advantage hereby lays in continuing working with existing structures while keeping the number of software solutions in the company stable. However, there are ERP systems in which in-depth adjustments are not possible, causing a necessity to develop evaluations and reports outside the ERP system. As soon as procurement analytics requirements become more demanding and/or companies have to create the analyses and reports with data from several ERP systems and/or due to M&A activities, a procurement organization typically needs to create procurement-specific analyses outside the ERP systems as well. Procurement organizations need to proceed in this way because the data structures are very complex, the migration of the data to the leading ERP system is too costly and, in some cases, cannot be implemented completely. To name an example: If a procurement organization wants to perform an ABC analysis of order and invoice volumes at supplier and article or material group level for different periods, the limits of the ERP system are quickly reached. This situation is very unsatisfactory. Therefore, many companies move their purchasing analyses outside their ERP system to avoid high effort and customization of the ERP system.

It makes sense to map ad-hoc analyses in excel if these analyses and reports are simple and one-off questions in which the data volumes are small. In the case of analyzing large data sources at different granularities and on a regular/ad-hoc basis, self-service business intelligence (BI) solutions and software solutions of specialized providers like SCALUE® should be considered. A decision in favor of a BI solution or an external software solution can be made, based on the predicted value-add of the two options offer for the procurement organization.

Share of decisions for procurement analytics solutions



Business Intelligence (Self-Service)

Self-service BI tools are, as the name suggests, suitable for companies and individuals who want to prepare or program analyses "themselves". Therefore, these solutions are particularly suitable for IT-savvy users who have a solid understanding of data modeling, ETL processes (Extract-Transform-Load), and the processing of mass data. Hereby, it needs to be emphasized that the ETL process and the formation of formulas for any metrics should be very well defined. In addition, the complex setup of a BI-solution requires special technical and purchasing knowledge in equal measure. Therefore, companies usually need external support from technical specialists, such as ERP consultants. If companies work with extensive ERP systems, such as SAP® (modules: MM - Materials Management or FI - Financials), answering purchasing-relevant use cases often requires calculations and views, which consist of more than 70 data tables. When implementing a BI-solution both, the purchasing perspective and the IT perspective on the analyzed topic must be precisely specified. To name an example, when calculating the maverick buying rate with the target of deriving actions and optimization measures, it needs to be decided whether the output should be presented as a rigid value (e.g. proportion of invoices without purchase order reference) or whether the output should be broken down by categories like suppliers, material groups, materials, countries, production sites, etc.

To productively use a self-service BI tool, an organization needs to deliver the following key results:

- ⦿ Early involvement of users to map purchasing-specific requirements and to design an intuitive and user-friendly BI-operation
- ⦿ Creation of a catalog of requirements for operational and strategic reporting
- ⦿ Data extraction from the ERP system and formation of the data model
- ⦿ Repeating the extraction step and calibrating the data model and formulas to match the expected results
- ⦿ Control and release of work packages (e.g., creation of delivery performance)
- ⦿ Review of the logical linkage of analyses (vs. stand-alone analyses as in Excel) and adjustment of IT staff resources (high complexity and error-prone)
- ⦿ Adjustment of the originally planned timeframe due to limited resources
- ⦿ Involvement of all stakeholders and, if necessary, involvement of management to release necessary resources
- ⦿ Extension of the data model based on new circumstances

When evaluating a BI-solution's qualification as a procurement analytics solution, particular attention should be paid to the total cost of ownership (TCO). The TCO of a BI-solution can be broken down, in the following way:

- ⦿ **Planned personnel resources (short,- medium,- long term)**
 - IT, purchasing and other stakeholders
- ⦿ **Non-planned resources**
 - Adapt/expand/re-correct data model
 - ERP-specialist
- ⦿ **Hardware**
 - Server
- ⦿ **Software**
 - licenses
- ⦿ **Maintenance, Performance and Stability**
 - System maintenance, data security, etc.
- ⦿ **Training**
 - Initial user training
 - Continuous coaching
- ⦿ **Strategy**
 - Product enhancements
 - Scalability
- ⦿ **Other opportunity costs**
 - ...

Make



Buy

The ROI as the foundation for decision making

When evaluating the technical options for performing procurement analytics on a make-or-buy basis, we recommend a comparison of the expected return on investment (ROI) of a BI solution developed in-house with the ROI of a purchased software solution. Given a decision in favor of buying a solution, you can justify your approach internally with the (high) expected ROI:

- **ROI through financial savings**

- If you decide to buy in a solution and your annual investment are, for example, €50,000 with a purchasing volume of €500 million, then you invest 0.01% of your purchasing volume to control 100% of the purchasing volume. Especially if your IT department is set up as a cost center, you can compare the internal expenses in a, particularly transparent way.

- **ROI through gains in efficiency**

- Rapid efficiency increases can be achieved on the customer side through quick-win analyses. For example, SCALUE® enables a procurement organization to standardize delivery and payment condition analyses across all active suppliers. As a rule, our customers achieve their ROI through efficiency gains within a few weeks.

In practice, we often see that MSEs find it difficult to decide to use a software solution for procurement analytics, as companies often do not fully trust their own data. On the company side, we observe that there are both, supporters for the creation of an own BI solution and supporters for the purchase of a solution. If a procurement organization has to make a compromise on the make-or-buy issue and can only use internal resources, then opportunity costs need to be considered and an agreement on the deadline for setting up procurement analytics should be made. Regardless of the final choice, we suggest that employee satisfaction should also be a focus when evaluating the applicability of a solution for procurement analytics. An internally developed solution, but also a purchased software solution, is profitable if users apply the solution regularly and enjoy the usage. Eventually, employee satisfaction can be raised significantly if the time spend on low-value adding tasks or redundant tasks can be decreased, such as data collection and Excel calculations. By relieving employees of such tasks, they have more resources to work on more value-adding tasks and thereby maintain a steep learning curve.

SCALUE® Procurement Analytics

SCALUE® offers procurement organizations a plug-and-play Software-as-a-Service (SaaS) solution that enables a fast, easy, and continuous performing of procurement analytics. All data analyses calculated by SCALUE® can be displayed graphically, which is a great help for the management in purchasing. After a one-time quick setup time of a few days, personal access data will be sent to the users on the client's side. The integration of SCALUE® in the procurement organization is done in a very resource-saving way. We validate the data with our clients and the users get parallel access to the SCALUE eLearning training platform. Our experienced Customer Success Management team provides support parallelly with the set-up so that a maximum benefit from our solution can be ensured right at the beginning. Through our SCALUE® e-Learning, employees will receive ongoing training content on how to best use SCALUE®.

The SCALUE® solution was developed **by procurement professionals for procurement professionals**. We are especially proud to announce that we are currently the only provider worldwide that combines the three areas of purchasing controlling, process analysis and management of savings measures in one solution. SCALUE® is part of the SAP.io network and is listed in the SAP App Store. In addition, SCALUE® was named "Cool Vendor in Sourcing & Procurement for Supply Chain" by the market research institute GARTNER, as the SCALUE® solution represents significant added value for companies.

The application of SCALUE® imply the following benefits for procurement organizations:

- Time savings for purchasing and IT
- A starting with ERP specialists who are familiar with handling multiple ERP systems and managing ETL processes
- Reduction of opportunity costs,
- Ready dashboards for ad-hoc negotiations,
- Numerous KPIs such as material cost changes
- Raising the quality of decision making, by basing decision making on validated data

On request, we offer our customers a 3-month pilot phase, so that an evaluation of the solution with the customers' own data can be performed. If a decision in favor of the SCALUE pilot phase is made, our solution with the option to increase data quality through features like supplier consolidation or supplier categorization is provided. All evaluations are hereby customizable through flexible slice and dice and drill-down functions. With the existing analyses and evaluations, numerous use cases of a tactical and strategic nature can be addressed directly. The single point of data source and the web application provides our clients with a less- error-prone solution with raw data that is not manipulated.

MAKE OR BUY

Some of the most important criterias in decision-making:

| Nr. | Criteria | SCALUE | ERP | BI | EXCEL |
|-----|--|--------|-----|----|-------|
| 1 | Plug – direct Connection to your ERP-system | ✓ | ✓ | ✓ | ✗ |
| 2 | Play – start with ready to use analysis & dashboard | ✓ | ✗ | ✗ | ✗ |
| 3 | Automated Data Enrichment and categorization | ✓ | ✗ | ✗ | ✗ |
| 4 | Flexible slice and dice & drill-down functions | ✓ | ✗ | ✓ | ✗ |
| 5 | Applicable for big data | ✓ | ✗ | ✓ | ✗ |
| 6 | Central Maintenance | ✓ | ✓ | ✓ | ✗ |
| 7 | Procurement-specific development & updates | ✓ | ✗ | ✗ | ✗ |
| 8 | 5-degree savings tacking approval process, connected to your spend data | ✓ | ✗ | ✗ | ✗ |
| 9 | Integrated uses cases | ✓ | ✗ | ✗ | ✗ |
| 10 | Error-prone protection | ✓ | ✗ | ✗ | ✗ |

Source: SCALUE – Comparison of Procurement Analytics solutions

With our procurement analytics solution, we strive to support our customers' strategic purchasing as a partner. To assist our clients as a partner continuously, we are constantly working on expanding our portfolio of functions.

We invite you to make yourself an own impression concerning SCALUE® and the applicability of our solution in your procurement organization. On request, we can send you a price indication for a pilot phase and the subsequent regular usage of SCALUE®.

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