



Web-Based Purchasing Software: a Critical Tool for Purchasing and Finance Leaders

A Coupa Executive White Paper



Executive Summary

Most businesses have a manual, labor-intensive purchasing and receiving process within their organizations. This manual process:

- *drains productivity for employees and the purchasing organization*
- *leads to a lack of fiscal oversight and spending “surprises”*
- *results in over-spending*

In addition, the manual process limits the finance organization’s visibility into spending and comprises their control over procurement costs. It makes it challenging for them to ensure budget compliance or to minimize negative surprises when it comes to cash flow forecasts or short-term working capital needs.

A web-based purchasing system is critical to automating purchasing and receiving to solve these problems, and also delivers quick return-on investment (ROI) by requiring zero upfront investment in hardware and software. This paper reviews the issues with manual purchasing and receiving, offers a brief description of a web-based purchasing system and describes the benefits of such a system to procurement and finance operations of businesses.

How the Purchasing Process Works Today In Most Organizations

Most businesses struggle with a cumbersome, manual, and inefficient process for purchasing capital equipment, supplies, and services.

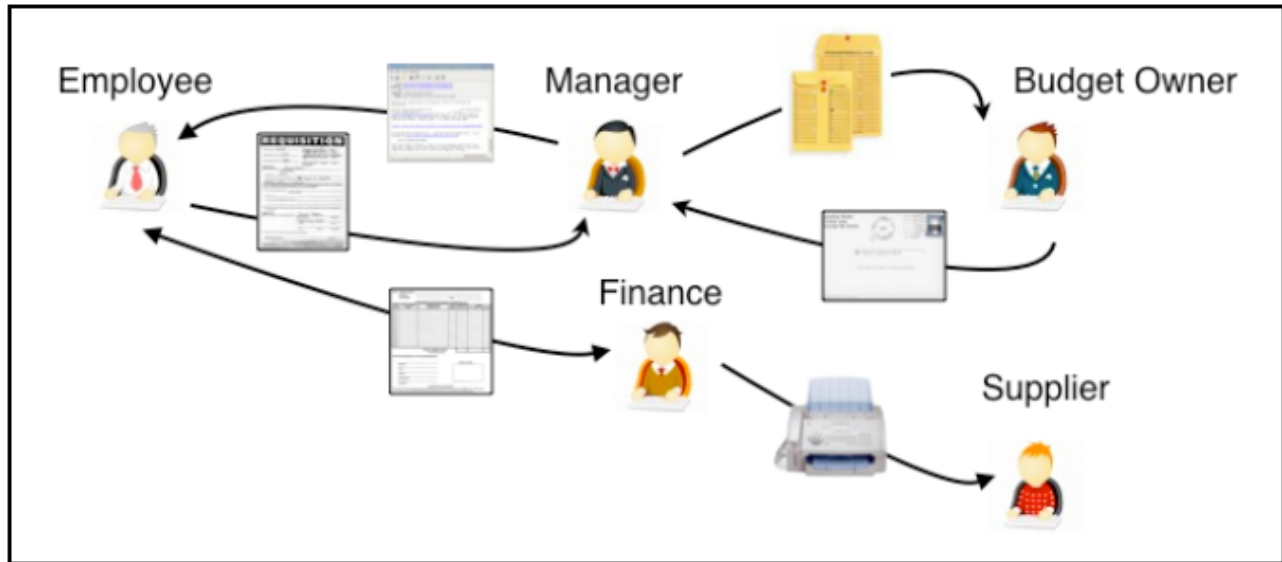


Figure 1. Today's Purchasing Process: Inefficient For Most Organizations

Here's how it works. If an employee needs to buy something for their job, he or she completes a paper form or email and then forwards it to their manager for approval. The manager receives the request after a few days and has reviewed and approved the purchase, it is forwarded to the budget owner or Controller/CFO for approval. Once the requisition is approved by all parties, a Purchase Order (PO) is re-keyed, re-typed, or hand-written by finance based on the approved requisition. Then, the PO may need to be approved once again by someone else in the finance organization to ensure no errors have crept in during the manual PO creation process. After the PO is approved, the order is placed with the supplier – either via phone or fax, or via the vendor's online website.

Such a manual procurement process creates serious challenges for the employee and the company:

- **It takes way too long to order the good or service needed by the employee.** Cycle time stretches into multiple weeks at a minimum. Key projects are often delayed as a result.
- **An unreasonable amount of employees' time is wasted tracking and**

managing the manual approval process. The only way to check on status is to call approvers, call finance, and be a “detective”. This detective work places a heavy burden on central administrators or the purchasing department, who are nearly as ill-informed as the employee in the first place. For example, consider the experience of the premier Marine Science Institute:

“We had no real-time status of the order after it was placed – we were all flying blind. Requesters would contact us to see if a certain part they ordered had arrived – to the tune of about 45 calls a week.”

Rachel Whitacre, Purchasing Manager at Marine Science Institute

- **If the employee, an approver, or finance needs to modify the request or has a question, the entire process is delayed or repeated,** causing even more problems.
- **There is no way for the employee to understand what the company’s purchasing policies are,** leading to confusion and expensive requests that should never have been made
- **The employee is all-but-encouraged to violate company policy and buy goods and services on their own and without approval,** asking “forgiveness” later by submitting rogue or maverick purchases via expense reports.
- **It is nearly impossible for the employee to get the “accounting” correct upfront,** leading finance to “guess” codes as they manual process requests. The result is poor visibility into spending and inaccurate financial reports.

How The Receiving Process Works Today In Most Organizations

The receiving process for most businesses is also manual, creating a challenge for employees as well as finance and the purchasing department. When products arrive at the shipping location, they may sit at that location until someone manually “checks them in.” In that process, a receiving department employee matches the items against a PO to ensure only those products that were ordered have arrived, identifies what is back-ordered, communicates with the employee who requested the shipment, and then updates all the purchasing records. After this process is completed, the shipment is forwarded to the employee who placed the order.

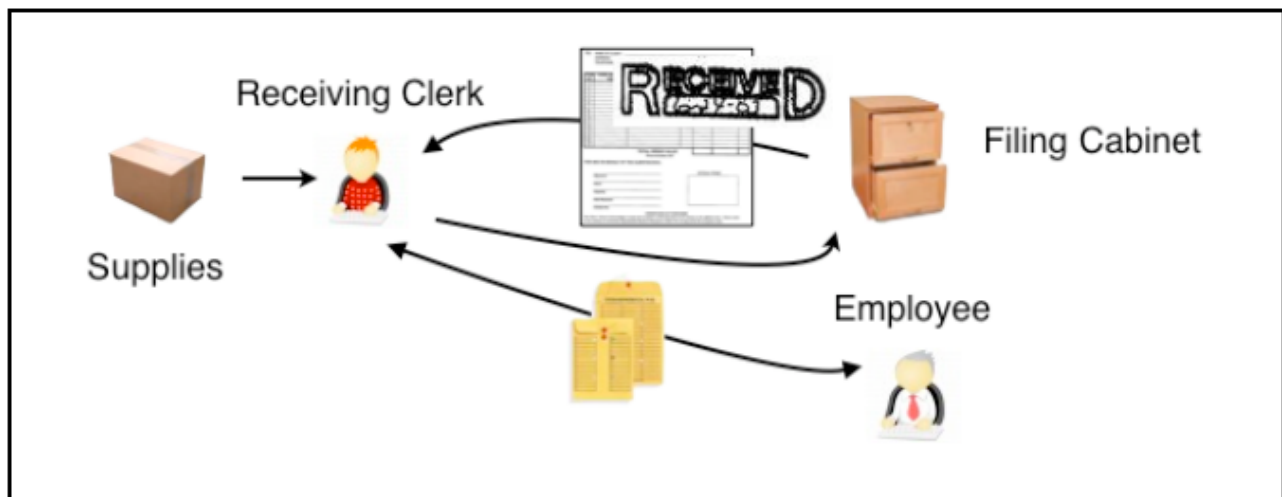


Figure 2. Today's Receiving Process: Time-Intensive Guesswork

Such a manual and time-consuming receiving process creates additional challenges for everyone:

- **Because guesswork is required to match a shipment to manual records, a shipment may sit at the receiving point for too long** before being delivered to the person who placed the order. As a result, some key projects may get delayed.
- **If the organization needs supplies or services delivered to a different location** the matching process (and delivery) gets even further delayed, since the paper-based POs and receipts are in different locations.

The Critical Challenge Manual Purchasing and Receiving Pose To Finance

Manual procurement and receiving processes not only affect the productivity of the employees, management, and the purchasing and receiving group, they also create a number of additional concerns for the finance organization.

- **First and foremost, with a manual process the finance organization does not get clear visibility into or control over the spending process.**
- By failing to achieve visibility or control, **finance cannot ensure all spending is within the bounds of overall purchasing policies and guidelines.**
- **The manual process also makes it impossible for the finance organization to assess how a department is doing against their budget** before it is too late.
- **The ultimate result is a failure to provide fiscal discipline and oversight for non-payroll costs**, a primary responsibility of the finance organization.

Manual processes also increase the potential for negative surprises in a company’s cash flow and working capital models, because finance department does not get good visibility into how much will be owed to vendors in any period. For many services organizations, where most of the procurement is for indirect goods, this lack of visibility can have a significant impact on a company’s key financial metrics.

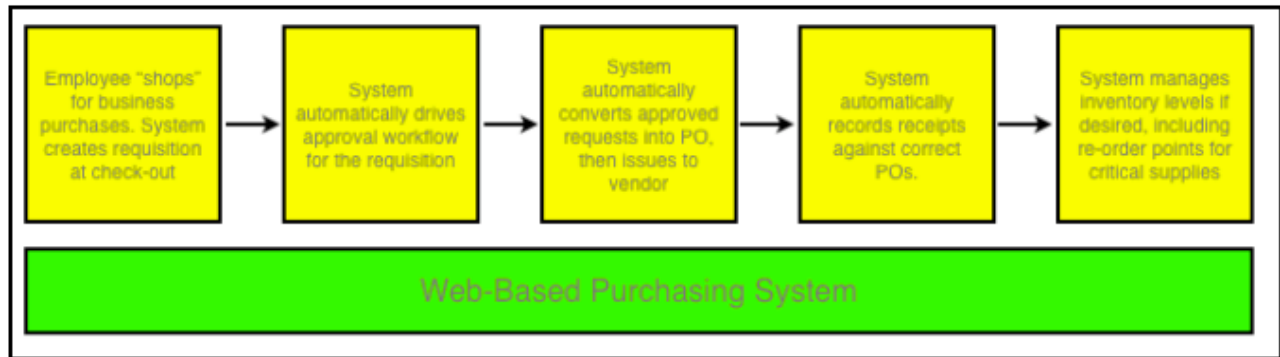
In addition, manual procurement processes make it hard to measure and improve finance’s key performance indicators for procurement (KPIs). Below is a list of the top procurement metrics for a typical mid-sized organization.

Table 1. Top Procurement Metrics for a Typical Mid-Sized Organization

Top Procurement KPIs for Mid-Sized Organizations
\$ cost reduction achieved over fiscal period
\$ cost avoidance achieved over fiscal period
% of total spend under control/management
Procurement spend as % of revenue \$
Requisition, PO, or invoice transaction volume
Cycle time (requisition to PO placement, Requisition to order fulfillment)
Supplier performance (price, quality, on-time delivery, service)

With a manual procurement process, there is no way to track cost reduction goals or cost avoidance goals. With a manual procurement process, there's no way to tell what percent of spending is under management or to improve that percentage. With a manual procurement process, finance is really *"flying blind"*.

How Web-Based Purchasing Software Works



A web-based purchasing system can help finance and the rest of the organization overcome the challenges with manual procurement. Such a system typically offers the following capabilities:

- Employees use an intuitive, shopping cart-based web interface to type in requests or select items from electronic catalogs or online forms. Best of all, employees can be encouraged or directed to purchase from pre-approved vendors with specially negotiated discount prices.
- Once the employee “checks out” their shopping cart, a requisition is automatically created, which is sent through a company-defined workflow for electronic approvals. Every approver gets an email, where they approve, disapprove or request additional information. The system tracks the process and can send reminders or escalations to ensure that the approval process continues to move forward, without any manual intervention required.
- Once the requisition is approved by all parties, a PO can be created automatically from the requisition and issued to suppliers via email or another electronic method, putting an end to endless manual faxing or phone calls. Employees can run reports and track the status of their orders from the system without needing to contact someone from the purchasing organization.
- Receiving can easily match receipts to POs in any location where the shipments are received. Purchasing can easily run reports to see if a certain PO has been fully or partially received.
- Inventory can be managed centrally or from multiple locations and re-order points can be set. Employees can also create re-order alerts to ensure they never run out of stock for critical supplies.

The Clear Benefits of Web-Based Purchasing Software

Web-based purchasing software delivers clear and compelling benefits to a central purchasing group or finance operations. These benefits include:

- Ensuring compliance with corporate policies: a manual purchasing process allows employees to choose their own suppliers -- even friends and family -- a sure path to overspending and fraud risk. A web-based purchasing system can direct employees only to contracted suppliers and enforce other purchasing business rules -- like spending limits and approval processes.
- Streamlining the transaction process. Paper-based purchasing is filled with inefficient, manual tasks like requisition approvals and fax- or phone-based supplier communications. A web-based purchasing system automates these tasks so they take less time, freeing up managers to address more strategic issues. In some organizations employing a web-based purchasing system, despite the growth in requisitions and purchase order volume, the company does not have to grow the purchasing organization thanks to efficiencies gained from automating the procurement and receiving process.
- Arming finance with information on spending to create negotiating power. With a manual purchasing process, an organization often struggles to understand their spending history -- how much they spent, on what items, and with what suppliers. A web-based purchasing system gives an organization the visibility into their spending and hence the bargaining power to negotiate better prices with key suppliers.

Once the web-based purchasing system is in place, organizations can set goals for cost reductions and analyze the savings using various categories listed below. The categories also depend on the core business of the organization – for example, services firms are less likely to evaluate capital cost reductions. In addition, many organizations may set internal savings targets tied to a reduction in G&A personnel.

Table 2. Popular Categories for Procurement Savings Goals

Categories Used for Procurement Savings Targets
Expense cost reductions
Expense cost avoidance
Capital finance costs
Capital cost avoidance
Direct (COGS) cost reductions
Direct (COGS) cost avoidance
Working capital finance costs
Working capital / cash improvements

How To Evaluate Web-Based Purchasing Software

Any information about the benefits of a web-based purchasing system would not be complete without a quick checklist to help evaluate such a system. Here is a short list of key capabilities:

- Shopping Cart-Based Requisitioning
 - Web-shopping interface with drag-and-drop requisitioning
 - Ability to purchase catalog items, non-catalog items, inventory items, as well as one-time items
 - Support for buying services with structured forms you can tailor
 - Punch-out to supplier websites like Dell, Grainger, and Office Depot
 - Approvals via email, with notifications and reminders
- Purchase Order Management
 - Automatically generate PO's from requisitions
 - Deliver PO's via email or electronic links to suppliers
 - Ability to make changes to issued PO's and track revisions
 - Indicate payment via P-cards
 - Support for multiple currencies (if required)
 - Automated budget checking and reporting
- Receiving
 - Dedicated receiving for receiving agents, as well as desktop receiving for requesters
 - Record receipt of goods and services, including partial shipments and overreceiving
 - Support for inspection, delivery to inventory, or non-inventory locations
 - Return to vendor

- Asset tagging and recording serial numbers and bar-codes
- Invoicing
 - Convert PO's into invoices
 - 2- and 3-way matching
 - Configurable tolerance rules
 - Invoice approval desk
 - Attach invoice scanned image
- Platform
 - No training required. Easy-to-use web interface for 100% compliance. Every employee should be able to use immediately.
 - Great reporting that you can customize.
 - No do-it-yourself (DIY) required. System should not require you to buy any hardware or software. All you should need is internet access and a web browser.
 - Works with accounting. Can integrate with your accounting system
 - Instant on. Is easy to setup and use quickly

Conclusion

A manual purchasing and receiving process drains employee productivity, compromises the role of finance in providing fiscal oversight, and ultimately costs an organization a lot of time and money.

A web-based purchasing system automates the purchasing and receiving process to address these critical challenges. It increases visibility and control over purchasing and eliminates negative surprises. It also significantly improves the productivity of the organization, freeing up time to focus on higher value-added activities.

Finally, a web-based purchasing system is an “accessible solution” for organizations to deploy. Many are available without any up-front investment and without the need to buy any computer hardware or software.