



American Red Cross

Industry: Non-Profit

Geographies: North America

Challenges

- Lack of Visibility & Control Over Spend
- Inefficient Manual Processes
- Meeting Diversity & Inclusion (D&I) Benchmarks

Results

- \$15M in Cost Reduction
- \$4M in Working Capital Improvement
- \$1-2M in Inventory Optimization
- 50% Reduction in Paper
- 87% On-Contract Spend

The American Red Cross Improves Financial Sustainability and Achieves Diversity Goals with Self-Funded BSM Initiative

Founded nearly 140 years ago, The American Red Cross has grown to \$3+ billion in annual revenue as it serves the nation. The organization provides 40% of the hospital blood supply in the United States and is regulated by the U.S. Food and Drug Administration (FDA). The Red Cross is also well known as a direct-assistance humanitarian organization, providing aid and comfort to victims of catastrophic events. Continuing on a longstanding commitment to driving diversity, equality & inclusion reflected in its [fundamental principles](#), the organization constantly strives to drive impact to Diverse communities.

Over the last few years, the Red Cross began shaping a shared vision of facilitating spend transformation as a business imperative that would improve financial sustainability, mitigate supply risk, improve supplier diversity, and harness more innovation with suppliers. This shared vision led to a successful and **self-funded** Business Spend Management (BSM) initiative that has already achieved 86% of the business results expected by the Business Unit Presidents. More specifically, the Red Cross is on track to achieve an overall 3X ROI on this investment which includes increasing spend with Diverse suppliers by more than 35%.

Transforming Spend Management: A Business Imperative

Money spent with suppliers is one of the single largest expenses for any company. For the American Red Cross, money spent with the suppliers is the second-largest expense for the enterprise after salaries and benefits. Because of this, the Procurement team began developing and proposing fact-based Procurement category strategies for maximizing commercial opportunity, including maximizing opportunities to include diverse suppliers, and minimizing supply risk. These strategies were developed collaboratively with the Business and then shared with Business Leadership so they could make an informed decision on how they wanted to spend their money.

The Business Presidents appreciated this governance model and recognized the additional opportunity to transform the operational procurement process to further move up the maturity pyramid. Such a Business Process Transformation would further improve their P&L by smarter day-to-day buying, mitigating supply risk, reducing their overhead allocation via improving back-office efficiency and reducing software license costs. Hence, this transformation became a **business imperative**.

Previous Initiatives Failed to Deliver Adoption and Success

The Red Cross had previously attempted a Procure-to-Pay (P2P) project that provided some benefits, but in the end, failed to generate the full results promised to the Business. The organization was left with several challenges:

Limited Spend Visibility / Control

Poor user experience caused some end-users to work around the system set in place for procurement, creating the risk of using an un-vetted supplier and, thus, forgoing the value of reduced costs, risk management, diversity and innovation from an existing, contracted supplier relationships.

Inefficient Manual Processes

Inefficient manual and paper-based processes left Procurement and Finance departments bogged down with low-value work. Manual Accounts Payable processes also disrupted effective working capital management by leaving early-payment discount opportunities unrealized or failing to stretch payments to optimize days payable outstanding (DPO).

Challenges with Meeting Diversity and Inclusion Targets

While The Red Cross had made real efforts to channel spend to diverse suppliers, it proved challenging to document and augment D&I impact without a fully effective business spend management process and scalable solutions for tracking diverse spend through multiple tiers of the supply chain.

Business Spend Management Transformation: Moving the Business Forward

While the Red Cross had invested in a Requisition-to-Pay (R2P) platform, that software contract was coming to an end and with costs expected to rise significantly and negatively impacting next-years' financial plans, it was an opportune time to look at alternatives. Therefore, the senior executive team, based on reviewing benchmarks and discussions with across industry thought leaders, decided to make a change to a new Business Spend Management (BSM) platform, which included supplier diversity tracking and reporting.

Diversity is Critical to the Red Cross Business Imperative for Change

Red Cross executives recognized that supplier diversity is associated with superior business performance and other BSM KPIs¹. A key part of the Red Cross' supplier diversity strategy is not only to further enable the identification and tracking of diverse suppliers via digital processes but also to invite at least one diverse supplier to every RFX, negotiation, and/or supplier initiative.

The American Red Cross Delivers on its Business Imperative for Change

The new digital strategy put IT simplification at the forefront. And by utilizing a best-in-class cloud-based solution to make things easier for end users, the Red Cross was able to achieve:

Greater Visibility, Compliance & Control

An easy-to-use web experience was instrumental in transforming the way field operations requisitions, purchases, receives and pays for materials and services. The end-to-end digital Requisition-to-Pay process ensures that spend goes on-contract and thus making it easier to detect fraud and achieve contract compliance goals. The Executive Steering team regularly monitors the BSM Dashboard; it shows KPIs such as Cycle Times, Working Capital Improvements, Contract Compliance, and Operating Efficiencies/FTE reductions. These KPIs are automatically compared against benchmarks to reach best-in-class status.

Increased Spend with Diverse Communities

Spending with diverse suppliers increased from 10% of \$1.3B in addressable spend to 13.7% over three years, creating substantial impact in diverse communities. In addition, the Red Cross is catalyzing a positive feedback loop in which their diverse suppliers continue to give back within their own communities. This maxim of "helping others, who in turn help others" has further enabled the organization's impact and aligns well with the American Red Cross fundamental principles.



“ With our BSM capabilities, we've increased our Diverse spend across the supply chain to top tier levels as measured against benchmarks over the last 4 years. And low upfront costs and fast time-to-value have allowed this business process transformation to be self-funded. ”

— **Thomas Nash, Chief Procurement Officer,**
The American Red Cross

1 - <https://www.bain.com/insights/supplier-diversity-how-to-overcome-four-key-obstacles/>

IT and Compliance

Transitioning from using multiple point solutions for spend management to a more comprehensive BSM platform helped to reduce software costs and complexity. Because several point solutions were no longer needed, the overall IT landscape became simplified and fewer integrations were required with ERP systems.

Bottom-Line Impact

The BSM initiative helped The American Red Cross maximize financial improvement by better managing its spend with suppliers, maximizing spend on-contract, redeploying resources from paper-pushing, and taking advantage of early-payment discounts and other working capital improvements. The project is projected to deliver \$20M+ over five years, providing 3X return on investment and a payback period of under two years. This bottom-line impact is critical to helping the organization achieve its objective of being the low-cost producer of blood supply in the United States.

Journey to a More Efficient and Effective Future

As The American Red Cross looks to the future, they continue to identify opportunities to harness more value from improved spend management and further digitize end-to-end BSM processes including inventory. Through digitization and streamlining of procurement processes, the organization is improving the targeted spend to disadvantaged communities by refining spend classification and multiple-tier D&I category tracking. In addition, The American Red Cross has adopted separate small business classifications from other categories for more granular tracking of social responsibility program impact.

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