Procurement Supplier Networks

WHITEPAPER

by Ian Barker & Chris Proudfoot

INTRODUCTION

As a supplier, you don't need to carry multiple mobile phones to talk to your customers. So why do you need to work with multiple supplier networks?

Business networks and portals have created a centralised location where buying organizations can interact in real time, both internally (e.g., procurement/AP) and externally with suppliers. These platforms have primarily been developed by larger technology providers from a perspective of, and to support, their larger enterprise customers. In this paper we will focus on the supplier facing functionality of these networks and will review the following:

· Status across a wide range of platforms
· Benefits of using these networks
· Issues with current levels of complexity
· The reality for medium and smaller enterprises
· Solutions for these smaller enterprises

We will conclude with discussion on what needs to be done to move this technology forward and drive greater adoption.

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WHAT IS A PROCUREMENT SUPPLIER NETWORK?

A procurement network is a type of business process network that supports one or more procurement processes, including Purchase to Pay. The defining characteristic is the multi-enterprise integration support that enables suppliers to view information from, and participate in, processes with multiple buyers, in the same account.

Broader functionality, particularly for the buying organisation, gives visibility into all elements of its value chain allowing users to maintain supplier information; measure, analyse, and manage supplier performance; uncover joint process improvement opportunities; and identify, monitor, and escalate supplier risks. Suppliers will obtain corresponding functionality that allows transparent sharing of information and documents with strategic buyers. Buyers and suppliers will also benefit from a potential ecosystem that will drive collaboration and innovation across the supply chain.

A Procurement Supplier Network can therefore be an important enabling mechanism that allows buyers and suppliers to identify each other, transact and manage their relationship.

BENEFITS

The most important goal of connectivity is to enable process automation through real-time collaboration and information visibility. The following are some functionalities that buyers and suppliers can easily take advantage of, usually through a shared portal:

• Register and upload all information required to do business and interact in real time with one or more buying organizations
 • End to end process integration for purchasing, invoicing and payments to enable real time visibility of document status, analytics, etc.
• Process efficiencies and automation through configurable workflows and business rules including alerts, escalations and conditional decisions
• Sales opportunities through improved access to alternative and/or additional buyers
• Full integration between the Supplier and Buyer back-end systems
• Improved cash flow due to faster payment cycles and access to various financing options
• The ability to interact across the supply chain to resolve contract disputes
• Drive innovation across the supply chain through the ability to collaborate on product and supply development

PROCUREMENT NETWORKS: DEFINITION

As defined by Gartner, A procurement network is a type of business process network: integration as a service tailored with applications to support one or more procurement processes, such as: Purchase to pay, with e-catalogue management and purchase order document exchange; Supplier information management, with credential document and firmographic data storage; e-Sourcing, with opportunity listings for suppliers and support for supplier electronic bid submission.

NETWORK COMPLEXITY

Many suppliers have incorporated a PSN as part of their overall procurement technology platform. The suppliers vary significantly is terms of size and capability with revenue figures ranging from approximately $10m to nearly $500m. In addition, some PSN suppliers are focussed solely on procurement functionality whilst others offer broader supply chain functionality. The box ranks some of the PSN suppliers by revenue. The different PSN's, whilst offering similar functionality have no, or very limited, ability to integrate across each other.

Each provider implements some or all the functionality referenced under the definition of a PSN and claims similar benefits for the areas that they implement. There are differences in how the technology is marketed (e.g. free to supplier, supplier pays transaction fee, etc) and in the scale of functional implementation.

All providers offer integration with major ERP/Finance systems to enable the available levels of transactional automation to be achieved. Most suppliers also offer "PO Flip" functionality that simplifies invoice creation without full integration with a finance system. This is of benefit to smaller suppliers.

Some of the companies offering Supplier Networks, by revenue

CHALLENGES WITH TODAY'S NETWORKS

There are clearly many providers with a range of scale and capabilities.

The main implication is that each PSN provider implements its platform in a unique way with a range of different implementation approaches and protocols. The choice of platform is, almost exclusively, driven by the buyer. Thus, an enterprise that purchases goods and services will take a decision to implement a PSN and then expect its supplier organisations to utilise that PSN in its relationship. As a result, suppliers will often need to utilise multiple PSNs for their different customers (buyers), with each PSN requiring a different integration approach and protocol.

For larger suppliers this is a manageable issue, as they will have IT resources to make this possible. However, full integration with supplier ERP/Finance systems is still an issue requiring significant expense and resources to get it right.

For smaller supplier organisations it is almost impossible to achieve full integration. Even in the "simplest" of cases where the PSN offers "PO Flip" capability, the supplier still needs to manually translate the buyer PO information to align with its' own sales order system. Similarly, supplier invoice information will need to be manually entered on the "Flipped PO" invoice. For smaller suppliers, therefore there is significant effort (and cost) in this type of transactional collaboration. This leads to:

• Increased cost
• Loss of efficiency
• Lack of take-up/adoption across the industry
• Loss of business opportunity

The concept behind a PSN is to allow buyers and sellers to work seamlessly in a virtual environment. In practice, however, individual enterprises are often unwilling to share data or collaborate outside their own industry. This, combined with the plethora of available technologies, results in failure to deliver a key enterprise enabler for local/regional businesses to be able to identify each other (discovery) and collaborate to deliver efficient goods and services.

Looking into the future, Amazon launched its capability with business networking in 2017 and is targeting businesses of all sizes. The platform provides the same shopping and delivery experience as its consumer website but with a dedicated business inventory and will also provide buyers with management functions such as spend tracking. The emergence of Amazon in this space could be disruptive to existing providers.

SOLUTIONS AND BENEFITS

The discussion above has highlighted issues with the current PSN marketplace. To some extent, the situation has been driven by competing provider organisations who have focussed on the needs (and corresponding benefits) of larger buyer enterprises. There are some exceptions, such as SAP Ariba, who have developed their PSN to reduce complexity for suppliers, but only if that Supplier is also using the Ariba network. Most of the benefits go to larger supplier organisations. Other suppliers, such as Coupa with its "Advantage" programme, have increased savings delivery by including supplier enablement as part of the implementation. Success is however limited, and it is clear that potential benefits go well beyond a focus on savings.

At 4C, we believe there is a need to simplify the PSN industry by agreeing a common set of standards and protocols so that suppliers (and buyers) do not have to duplicate and repeat effort for implementation and integration with different systems. These standards and protocols should then be incorporated into all accounting systems from simple payment ledgers to complex ERP systems.

We would also like to see a hierarchy of functionality covering the following areas:

• Level 1 – Search and Share: Allow organisations to identify each other and understand what products and services are required and available, including e-Sourcing capabilities
• Level 2 – Transactional: Allow organisations to transact across the network, with a minimum functionality to include simple PO and Invoice processes
• Level 3 – Collaboration: Allow organisations to collaborate across a range of different activities including performance and relationship management and product development

Smaller suppliers and buyers are more likely to focus on Levels 1 and 2; whereas larger enterprises will gain significant value beyond this and implement the functionality at level 3. The key driver should be that the protocols for communication and document transfer, at each level, are defined and standardised.

As a precursor to the development of standards and protocols, we would recommend that a consultation be carried out across supplier and buyer organisations, including smaller organisation who, to some extent, have been at the receiving end of technology with little or no input as to their requirements. The industry to date has been driven largely by the needs of corporate enterprises.

We believe it is important that such a consultation develops a vision for the industry which recognises that technology has changed, and the driving force of functionality should no longer be the requirements to integrate with ERP systems. Smaller companies, who may not have these systems, could potentially leapfrog a whole generation of technological development to gain the benefits.

ACTIONS FOR THE INDUSTRY:

• Establish an industry body to agree processes, supporting standards and protocols for Procurement Supplier Network. Membership of this body should include the current PSN providers, finance systems technology partners and other interested parties.
• Initiate a broad consultation across suppliers and buyers to develop a vision of the future state for PSNs. This should include a review of changes in technology and potential leapfrog opportunities for PSN users who are late technology adopters.
• Following this consultation develop and agree a list of hierarchical business processes covering discovery, transactional and strategic requirements.
• Work with technology providers to propose a set of standards and protocols that will enable buyers and suppliers of all sizes to collaborate with each other and gain the benefits and efficiencies that are available.

CONCLUSION

Procurement Supplier Networks offer real benefits to both buyers and suppliers covering a range of activities across all elements of discovery, transactional and strategic relationships. These benefits are being obtained mainly by larger organisations and, to some extent, are driven through the buying enterprise. In this paper we have identified a need to simplify the PSN industry by agreeing a common set of standards and protocols so that suppliers (and buyers) do not have to duplicate and repeat the effort for implementation and integration with different systems. These standards and protocols should then be incorporated into all accounting systems from simple payment ledgers to complex ERP systems.

Our consultants at 4C can help customers as they take decisions with respect to investments in Procurement Supplier Networks and Portals. We are also working with industry bodies and experts to achieve the simplification and standardisation that is required.

PSN INDUSTRY PARTICIPANTS

• Buyers and seller covering both private and public sector organisations
• SME representative bodies to reflect needs of smaller organisations
• Procurement Technology providers

ABOUT THE AUTHORS

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ABOUT 4C ASSOCIATES

4C Associates is a dynamic, fast-growing and diverse procurement consultancy. Our international presence, combined with our fresh approach and deep expertise in providing tailored solutions enables our clients to meet their strategic goals, ranging from rapid profit improvement to long term business transformation.

We have over 18 years of experience working across multiple industries and geographies with clients ranging from medium sized enterprises to global 500 corporations. Our focus is on consultancy, cost reduction and managed services. We are innovative in our approach and always bring genuinely new insight and thought leadership to every engagement.

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