Purchase Smarter

3 Powerful Ways To Innovate Your Procurement Function

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Introduction

Regardless of company size, available resources, or the state of economy, improving the procurement function should always be top of mind. In good times and in bad, organizational success hinges on proactive cost control and smart cost reduction techniques. Across all markets and industries, these efforts translate into bottom-line savings.

However, as organizations begin to develop processes and increase headcount, spending becomes harder to control. Departments grow in complexity and supporting functions, like human resources and accounting, begin to take on strategic partnerships with leadership teams and influence growth. The same applies to the procurement function.

As the old adage goes, it takes money to make money. But, keeping the wheels of growth greased is a perpetual challenge. For purchasing teams, organizational profitability hangs in the balance of smart investment in direct and indirect spend, measured against cash flow viability.

If the procurement function can get this balance right, the benefits for an organization are immediate. However, greater control over spending isn't about limiting purchases. Instead, it's about building a proactive procurement strategy that highlights clear spend policies and enforces systematic controls to better monitor and track spending.

For many organizations, the right technology is the key to clarity and control. In fact, **research conducted by Aberdeen** indicates that e-procurement initiatives can:

- reduce requisition-to-order costs by nearly 50%;
- shrink requisition-to-order cycle time from 9.6 days to 3.4 days;
- increase spend under management by 35%; and
- eliminate 41% of maverick spend.

In this white paper, we showcase the three key practices you can implement today to improve the effectiveness of your procurement function so you can reap the rewards of improved operational efficiency and increased bottom line.

Procurement and the 'new normal'

The 2020 COVID-19 pandemic upended every function within organizations and many financial leaders were left reallocating budgets to priority departments.

AI-powered digital banking firm, **Finn AI**, for example, decided to invest in new marketing channels. As explained by Kinsley Chan, their Director of Finance:

> "With individuals not being physically in the office, we increased monitoring bandwidth and overall general security. We also increased our marketing spend. Because we could no longer attend events, we pivoted our spend to experiment with other marketing channels."
>
> Kinsley Chan, Director of Finance at Finn AI

On the other band, business payment platform, **Plooto**, slowed down hiring in priority areas like sales and marketing and reallocated their budget to employee wellbeing:

> "We started the year quite aggressively with a focus to invest in sales and marketing but we didn't know how long the downturn would last, so we slowed down hiring because we were scared of the unknown. We were in cost containment mode but we invested in employee benefits because it made sense."
>
> Wajdi Ghoussoub, Director of Finance and Operations at Plooto

Throughout the pandemic, one thing was certain: procurement teams were deprioritized when it came to the reallocation of spend.

Of course, this comes as no surprise. After all, organizations will always prioritize two key functions: sales and product. Without sales, it's impossible to recoup costs, maintain operations, and grow. Without product, organizations have nothing to go to market with.

However, as organizations grow, the markers of success change. Net new business is still critical, but so too becomes operational efficiency. Without this, organizations run the risk of reduced profitability.

To improve organization-wide efficiency, though, it requires leadership teams to allocate spend to internal departments so they can innovate, modernize, and begin reducing operating costs. Prior to the pandemic, this was a tough sell for many procurement leaders.

Fortunately, the pandemic shined a light on the importance of smart spend management. As organizations begin to bounce back from the pandemic, procurement leaders must continue to advocate for budget so they can create transparent spend policies, automated purchasing processes, and greater control and visibility over organizational spend.

After reading this white paper, you'll walk away with three innovative procurement practices that your organization can implement to reap the benefits of operational efficiency.

3 ways to innovate
your procurement function

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Step 1: Establish a strong spend policy

Bringing order to chaos can be a monumental task. But much like anything, the first step towards clearer processes and smarter workflows is to establish boundaries.

When it comes to your organizational spending, be sure to define your spend policy before you roll out any changes. Without this foundational framework in place, modernizing your procurement strategy becomes extremely difficult. After all, it's no use painting a house built on a faulty foundation.

By setting expectations early and providing thought-out parameters, you can bring your organization's spend culture to the forefront and implement change management with clarity in mind. Further, a clearly-defined spend policy creates autonomy among teams; it allows members to purchase what they need without having to turn to your team for clarity around the 'how' and 'why'. That means no more ad-hoc messages, and no more daily firefighting.

How to create a clear spend policy

1. Decide on your spend culture

Every business has a unique spend culture. Before you begin writing your spend policy, you need to determine what type of policy best suits your business's culture.

There are four types of spend culture to consider:

Administrative: This places the spotlight on procedural correctness and coordinated strategic decision making.

Democratic: This places significant responsibility on various leaders and their team, which makes people feel empowered.

Agile: This embraces order and stability but also encourages adaptability and innovation.

Unrestricted: This policy empowers people to take responsibility for decisions so businesses can react quickly and adapt on the fly.

Each culture has a unique take on how they approach company spending, and consequently, each type of spend culture will influence the wider business.

For example, if you adopt an unrestricted spend policy, your team members will feel empowered to spend liberally in areas they feel are essential for growth. An administrative culture, however, will create hierarchy that helps reduce expense errors.

2. Create clear categories and budgets

It's important that teams know how much they're allowed to spend, and which categories they're allowed to spend under.

Be sure to clearly define your spend categories, and how much budget is allocated to each category.

3. Include details on expense reimbursements

A spend policy is meaningless without details on how team members can both make a payment and file for reimbursement. Do you use **virtual spending cards**? Do teams place a request for order? Are team members expected to buy with their own card and submit a request for expense?

Whatever your process is, be sure to explain the steps someone needs to take to make a payment and, if necessary, claim their money back.

4. Define purchase authorization levels across your organization

In your spend policy, be sure to define your pre-authorized spending thresholds to create a more transparent working environment.

Your spend policy should empower teams to make purchasing decisions. To retain control, it's important to assign spending limits based on seniority, experience, and spending category.

This way, people can spend more time on the job and less time in the approvals loop, either with fewer requisitions or fewer required approvals. For you, this also means clearer accountability at every level.

At each hierarchy of your organization, team members should be able to purchase what they need without going through a bureaucratic approval process. For example, thresholds can look like the following:

Employee level	Can purchase up to
Entry/Level 1	$0
Mid-Manager/Level 2	$1,000
Senior Manager/Level 3	$5,000
Executive/Level 4	Unlimited

NOTE: These spend brackets apply to indirect purchases, goods, and material not used in production. The assumption here is that raw material is managed more closely by production managers in conjunction with the procurement team.

With these thresholds in place, teams know exactly what they can spend without the need for a multi-step approval workflow to slow them down.

Pre-authorized spending thresholds like this empower teams to work autonomously without the risk of overspend. It also creates greater accountability for company spending and raises the consciousness of smart spending.

5. Outline your approved vendors

As well as defined spend thresholds, it's critical to outline who your approved vendors are, and what types of purchases you can make with them.

If you negotiate better prices or more efficient delivery terms for specific vendors, you should encourage team members to make purchases through these preferred vendors. To properly implement this, ensure your spend policy states who these vendors are, and when to purchase from them.

For the vast majority of purchases, people will be happy not having to source a supplier as it saves them time. With that work already done for them, they can simply raise the request, have it approved, and wait for the goods to arrive.

6. Summarize your rogue spend policy

Rogue spend - or maverick spend - refers to those ad-hoc purchases that fail to meet compliance standards or that simply aren't budgeted for.

Unavoidably, there will be times when team members need to make real-time purchase decisions that may fall outside of negotiated contracts. Eliminating this rogue spend is unrealistic, and therefore, it's important to outline a plan for when it happens.

7. KISS: keep it simple, stupid

It's difficult to make team members care about things like spend policies, so the best thing you can do is to keep things simple.

Remember this handy acronym when writing your spend policy. Don't write a novel. Do provide answers to common questions. Don't confuse people. Do keep your policy short and to the point.

8. Consistency is key

Don't treat one team member different from another when it comes to spending. A level playing field is your best bet to rigorous control and clear expectations. Your spend policy should apply to everyone at your organization.

9. Regularly revisit and revise your policy

When it comes to spending, there's no such thing as a 'set it and forget it' mindset. Be sure to regularly review and update your spend policy, announcing changes to your entire company as they happen.

Build an environment that favors continuous feedback. Improvement comes from constructive criticism, so seek it out and adjust accordingly for maximum efficiency.

Remember: use clear language

First and foremost, you'll likely write down your expense policy to share it with your company. As a consequence, the language you use must be clear, concise, and easy to understand by everyone in your business, not just your accounting and finance teams.

Clarity of writing usually leads to clarity of thought. With this said, be sure to keep your policy simple and avoid using legal jargon that leaves your teams confused.

Step 2: Deploy the right procurement technology

Innovative technology impacts every organizational function, and procurement is no exception. The benefits of a paperless purchasing process - especially in today's remote-first workplace - speak for themselves. Quite simply, a digital procurement strategy saves everyone's time and money, and improves key metrics like:

- average request-to-procure cycle time;
- average expense approval or denial time; and
- average approval-to-purchasing time.

While these metrics contribute to operational efficiency, they're simply the tip of the iceberg when it comes to technological enablement. Automated workflows, the introduction of artificial intelligence (AI), smarter contract management, vendor performance analysis, and proactive purchase approvals are just a few more areas of procurement that benefit from digitization.

With this said, the e-procurement ecosystem is vast, and there's a lot of technology out there to choose from. In fact, the procurement software market is expected to register a compound annual growth rate (CAGR) of **10.2%** between 2020 and 2025.

This growth is attributed to an increased demand for centralized procurement processes, as well as the need to consolidate and control supply chain management (SCM). Deciding on the right software, then, is no easy feat, and it requires strenuous scrutiny.

The procurement technology selection process explained

When it comes to selecting the right procurement software, there are a few key things to keep in mind. Below, we outline the steps you need to take to select a procurement software that's right for your organization.

1. Define your requirements

First things first: it's critical to define what you want your procurement software to do. Are you looking for a simple expense management solution? Or do you require an **all-in-one purchasing platform** that makes it easy to request, approve, procure, and receive your goods and services?

2. Scout the market

Once you clearly understand what functionality you're looking for, it's time to start looking at the market to see what's out there.

Sites like **G2**, **Capterra**, **GetApp**, and **Software Advice** are great places to start, and you can search through a selection of procurement softwares that are easy to understand and reviewed by real users.

3. Shortlist and deep dive

After your preliminary research, it's time to shortlist vendors. Select four or five top tools that stand out from the pack and use this as your launchpad for further research.

Our advice? Reach out to these solutions directly and ask the questions you can't find answers for online. Consider watching a demo of the product and having an expert show you around each purchasing tool.

Armed with this, you can begin to really understand how each procurement platform works, and which one will benefit you most.

4. Reach out to your network to find out more

The most trustworthy reviews come from those you trust. It's as simple as that.

If you're still undecided on which procurement solution to use, reach out to your networks and ask around. The more opinions you gather, the better chance you have of making an informed decision and going with a solution that really works for you. Also, make sure to check out customer testimonials and case studies available on vendor websites.

5. Consider cost

Hopefully by now, you've narrowed down your procurement vendors to just one or two solutions.

The next questions to ask are:

- Does it meet your budget?
- What are the setup costs?
- What's the cost of licenses?
- Does the platform operate in the cloud?

Further to this, you might want to consider factors like implementation times and available integrations into your existing toolstack.

6. Finally, put it to a vote

Last but definitely not least, put it to a vote. Get your stakeholders together and debate each tool until you have a consensus.

Not only will a consensus help with buy-in from the rest of the company, it'll also speed up things like adoption times and change management, which are important factors to consider when implementing any new technology.

Take control of spend now

Book a personalized demo to see the Procurify procure-to-pay platform in action.

Get Started

Procurement software scorecard matrix

To help you make the most informed decision possible, we've put together a simple matrix scorecard to determine the effectiveness of your procurement technology.

Key: ① Strongly disagree ② Disagree ③ Sort of agree ④ Agree ⑤ Strongly agree

Consideration	Rating
The procurement technology is within my budget.	
The procurement technology will reduce the number of people needed to complete a purchase on behalf of my organization.	
The procurement technology is compliant with my organization's data policies.	
The procurement technology will make it easier to set up and enforce spending limits.	
The procurement technology has a vendor performance feature.	
The procurement technology integrates into my existing toolstack.	
The procurement technology integrates with my finance operations.	
The procurement technology makes it easy to purchase goods and services from multiple locations and in one order.	
The procurement technology lets me set up automated purchase approvals.	
I trust the organization behind the technology and believe that their customer service team will help me with any blockers I may face.	
The procurement technology offers virtual and physical spending cards so teams can make autonomous purchasing decisions.	
The procurement technology integrates with vendor portals and makes it easy to purchase from trusted vendors.	
The procurement technology has an easy-to-use mobile app to allow requesters and approvers purchase on the go.	
SCORE	

A note on ERP-based procurement systems

If you are like many organizations - especially those in manufacturing or distribution - your Enterprise Resource Planning (ERP) system is the most important operational asset in your company (aside from equipment and labor, of course).

An ERP system is likely the backbone of your organization, and chances are, you use it to manage inventory, production, and distribution.

If you're yet to deploy a procurement platform, you may be using a simple procurement module built into your ERP system. If that's the case, there's a chance it's not doing everything you require. At the very least, it's likely difficult to work with.

There are many reasons why your ERP-based procurement system may be unsuitable. Firstly, it was likely built as an afterthought by your ERP vendor and lacks the functionality you need to get clear on your purchasing process. Secondly, most ERP-based procurement systems aren't designed to handle indirect purchases coming from elsewhere across your organization. What's more, it may lack an intuitive licensing model that makes it possible for those outside of your procurement team to make purchases.

Finally, it comes as no surprise that ERP systems are targeted at enterprises, not mid-sized organizations. Consequently, features are often bloated and over-engineered.

Typical ERP costs

For most mid-sized organizations, the total cost of software and services ranges between US$150,000 and $750,000, not including hardware. Cost components can be broken down as follows:

- $4,000 per concurrent user.
- $200-$400 for each additional 'light' user.
- 10-35 percent extra for third-party add-ons.

Unlike ERP systems, procurement solutions don't tend to carry the big-ticket price tag. What's more, a procurement platform won't just benefit your purchasing and accounting teams. With the right platform, you can safely empower every team member to purchase what they need, when they need it, and retain complete control over spending, all without unnecessary red tape slowing you down.
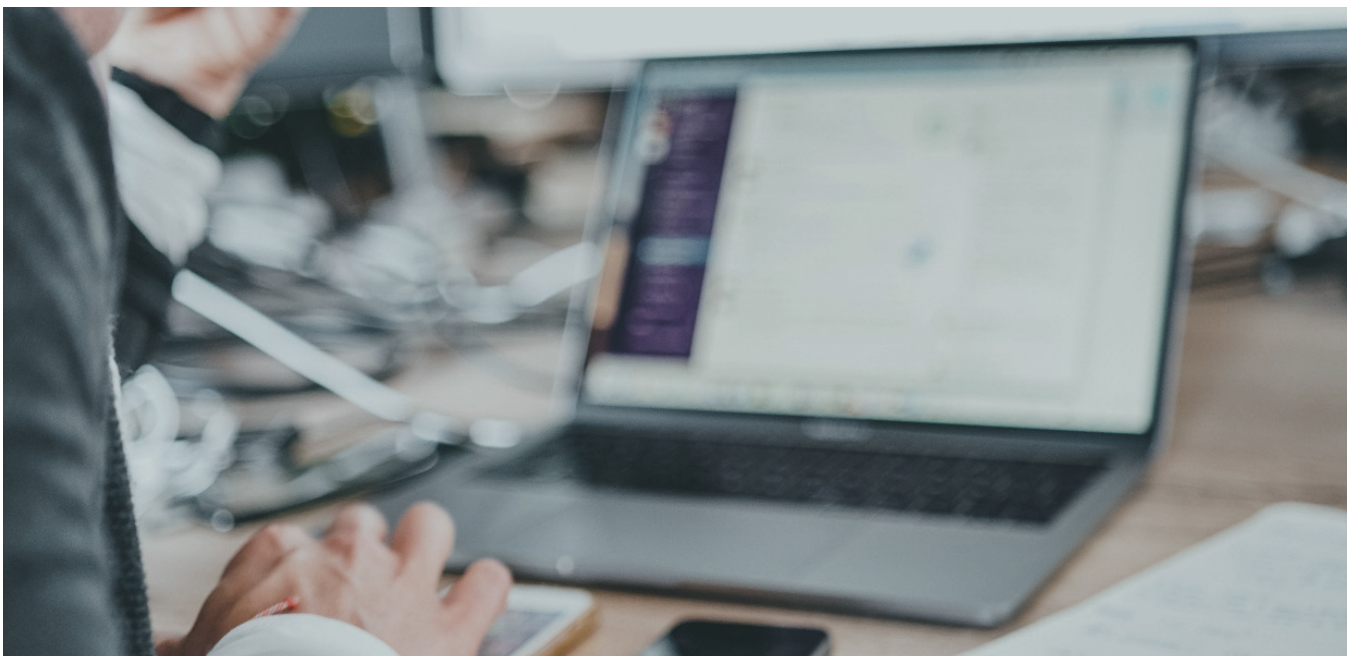
Step 3: Improve visibility and control

When it comes to managing organizational spending, greater control often leads to improved visibility. And without a doubt, greater visibility is the fundamental key to smarter procurement.

Across the entire purchasing workflow, visibility is essential. Not only does it give finance and procurement leaders the ability to see who is buying what and when, it also creates clarity around things like:

- who is approving specific spend requests
- the level of scrutiny associated to each purchase
- where there might be leakages

As a procurement leader, hyper transparency over your procurement process is a big advantage. It allows you to pinpoint approval bottlenecks and devise tactics for easing them; it lets you discover where communication may break down during the purchasing process so you can implement measures to improve it; and it gives you the opportunity to see who in your organization might bypass your spend policy, investigate why, and then devise a plan to bring them on board.

The importance of visibility on organizational strategy

Another advantage of increased spend visibility is greater influence over organizational decision making. Quite simply, clarity around spend empowers you to apply strategic value that contributes to overall organizational direction. Rather than focusing on transactional chores, you can use this visibility to work alongside leadership teams as a strategic partner and influence those high-caliber decisions.

Aside from that, visibility will also help you:

- Negotiate better contracts with vendors.
- Accelerate your purchasing cycle time.
- Implement automated and personalized approval workflows to streamline your purchasing process.
- Improve purchasing between cross-functional teams.
- Reduce rogue spending.
- Enable teams to purchase without the slow bottleneck of bureaucracy.

Last but not least, greater visibility results in more knowledge, and with this, you can drive value to other areas of your organization, justify overspend easily, and begin delivering insights to teams outside of the procurement function.
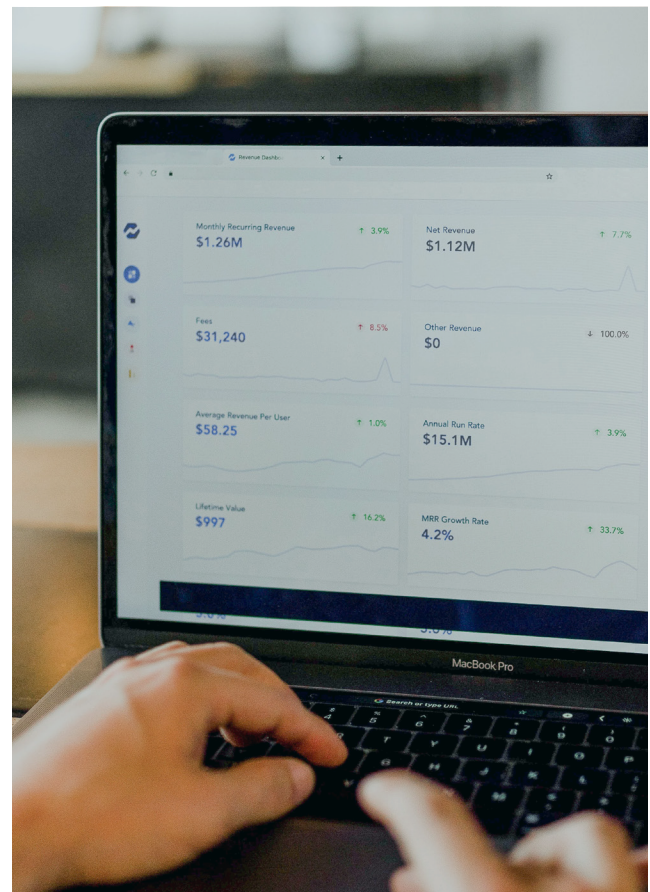
Building visibility into the procurement process

There's a lot to consider when building visibility into your procurement process. At its most basic form, spend visibility starts with the right procurement software. With this in place, you can begin tracking, analyzing, and reporting on a variety of metrics that help to drive value.

However, implementing procurement software is just step one. Below, we outline everything else to consider when building visibility and control into the procurement process.

1. Establish baselines

Benchmark data is the first step to understanding the value of your purchasing process. Be sure to identify baselines within each of your spend categories and start tracking future requests against these.

Not only will this visibility help you identify things like rogue spend, it'll give you the framework you need to consistently iterate, improve, and streamline your processes.

2. Set up the right purchase automation workflows

The key to spend visibility lies in effective and efficient automated workflows. Be sure to set up your purchasing platform so it works in your favor and begin automating things like:

- The creation and storage of your purchase requisitions, purchase orders, receipts, and invoices.
- Your approval workflows for different types of spend categories.
- Your receiving process.

Most importantly, automating and documenting as much of your purchasing process creates a visible audit trail. Armed with this, you can quickly revisit purchases or analyze spend upon request and break down every step of every purchase as needed.

3. Deploy spend limits and implement user controls

It's critical to set up your purchasing workflows so there are spend limits in place, either categorized by spend category or by team member seniority.

Personalized controls like this help reduce the likelihood of erroneous purchase orders and invoices. They'll also create a platform of visibility so you know exactly who's requesting and approving what, when, and why.

Bonus tip: Should team members take an extended leave of absence, you can set up proxy permissions to another user so that the system can continue to run smoothly in their absence.

4. Set up an environment of continuous analysis and feedback

Once you have baselines in place and you've automated the routine chores associated with a purchasing process, you can begin dedicating time to continuous data analysis and performance optimization.

It's at this stage that your team can begin strategizing and streamlining your procurement workflows. Perhaps that's using data to identify cost-saving opportunities with vendors, or perhaps it's about better understanding your procure-to-pay cycle times so you begin implementing tactics to reduce this time.

Whatever it is, this data-driven feedback loop is the critical factor that contributes to a highly visible and controlled purchasing environment; it's these insights that create leverage across the entire organization.

Procurement is fundamentally about people

"Mindless habitual behavior is the enemy of innovation."

— Rosabeth Moss Kanter, professor of business at Harvard Business School

As true as these words are, building a procurement environment that embraces change and innovation is still a challenge, even with the right procurement technology in place. Oftentimes, leadership teams and peers will push back on new processes in favor of familiar and low-risk workflows that offer manual oversight.

And this comes as no surprise. After all, it's human nature to shy away from the unknown, and it's easier to lean into old habits.

With smart policies, the right technology to support you, and transparent workflows in place, seeing into the future becomes a lot clearer, and change becomes a lot less scary. By building a framework that favors data-driven purchasing insights, you can offer solace to those afraid of innovation and begin to work with the wider organization to deploy a strategy that ultimately contributes to one thing, and one thing only: organizational growth.

About Procurify

Procurify is the AI-enhanced procurement and AP automation platform for the mid-market. We make it easy for organizations to take control of spend and save money. Procurify offers the most complete procure-to-pay system, seamlessly integrating purchase requests, approvals, expenses, purchase orders, contracts, vendors, budgets, receiving, invoicing, bill payments, spending cards, and more.

Named the #1 Mid-Market Purchasing Software by G2, Procurify is trusted by hundreds of customers worldwide to manage over $30 billion USD of organizational spend. We integrate with major ERP accounting systems such as NetSuite, Sage Intacct, Microsoft Dynamics 365, and QuickBooks Online to provide customers with real-time visibility into the most accurate and complete spend data.

Learn how Procurify can help you control costs and save money:

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Control Spend. Save Money.