Developing procurement services that facilitate and do not limit the business

Defining procurement services appropriately to meet the changing needs of the business

Monitoring supplier fulfillment of all commitments

Minimizing the transfer of risk from the supplier to the corporation

Installing appropriate audit controls for procurement processes, procedures and expenditures

Ensuring procurement happens at a negotiated price

Minimizing the amount of unauthorized procurement

Facilitating relationship management

Overseeing supplier performance

Analyzing, reporting and consulting on consumption and forecast spending to optimize financial performance

Facilitating the evolution of corporate environment to future state

Managing and modifying the contract with the Suppliers

Introduction

Organizations consider sourcing and contract management as a source of competitive advantage in the market. They face challenges in these areas resulting in significant loss in savings, both tangible and in-tangible. Sourcing and Contract Management should be an integral part of the Spend Management for any organization.

A successful sourcing relationship begins with value creation for both parties, a well-defined contract, clear objectives and guiding principles, and the right Sourcing and Contract Management foundation. This document outlines the guiding principles of implementing an effective Sourcing and Contract Management policy to tackle issues around spend and supplier relationship management.

Objectives of Sourcing and Supplier Contract Management

The primary objectives of Sourcing and Supplier Contract Management in the purchasing organization of any company include:

- Ensuring the strategic alignment of the business needs and the procurement strategy, design and execution
- Maintaining strategic control of quality and effectiveness in procurement
- Setting strategic priorities for procuring products and services
- Developing procurement services that facilitate and do not limit the business
- Defining procurement services appropriately to meet the changing needs of the business
- Monitoring supplier fulfillment of all commitments
- Minimizing the transfer of risk from the supplier to the corporation
- Installing appropriate audit controls for procurement processes, procedures and expenditures
- Ensuring procurement happens at a negotiated price
- Minimizing the amount of unauthorized procurement
- Facilitating relationship management
- Overseeing supplier performance
- Analyzing, reporting and consulting on consumption and forecast spending to optimize financial performance
- Facilitating the evolution of corporate environment to future state
- Managing and modifying the contract with the Suppliers
Guiding Principles

- Working towards a cooperative and participative relationship between the business units, corporate functions and the supplier
- Empowering and motivating the supplier to be innovative and provide the best products and services possible
- Leveraging the expertise of the supplier whenever possible

Focus Areas in Sourcing and Contract Management

Effective Sourcing and Contract Management occurs only when an appropriate operating model is coupled with solid competency. These two are the foundations for effective Sourcing and Contract Management. This comprehensive approach will help minimize risk and value leakage while clients reap the best value for their investments.

Figure: Sourcing and Contract Management Business Functions
Market Intelligence Benchmarking: Supplier information and benchmarking data.

Category Sourcing & Support: Preparation of sourcing documents, supplier research, analysis of evaluations, reports

Supplier Master Data: On-boarding new suppliers including approvals, validation of information, managing data changes

Catalogue and Portal Management: Maintenance of data in Procurement information systems

Supplier Management: Support on maintaining key performance data in support of SLAS and supplier evaluations

Contracts Management: Maintaining sourced contracts and producing reports on renewal expiration

Sourcing RFx/Auction Event: Specialist RFx/Auction Event team supporting Sourcing

Procurement Metrics: Analysis, compilation of findings and reports

Procurement Help Desk: Assistance using procurement systems/tools and guidance on policy, process and procedures

Spot Buying: Assistance to source, negotiate and process the non-catalogued order

Sourcing Strategy

The sourcing strategy is needed to establish with key stakeholders in a specific category through assessment of the opportunity, profiling the category internally and externally, building a total cost of ownership analysis, identifying potential suppliers. This will help streamline the process of conducting a sourcing event (Negotiation/RFP), analyzing the results of the event, selecting a supplier/vendor and developing an agreement/contract.

The sourcing strategy should include assessment of supply/service market economics, internal requirements, and analyzing the ability to leverage spend for logical categories, items or services to achieve the lowest total cost for procured goods and services. This will guide the determination of the best strategy/approach to source identified categories of spends, i.e. GPO, system self-contracted, local self-contracted, etc.

Guiding Principles

- Define the source of all procurement needs within the organization
- Establish a sourcing strategy by category to meet the procurement needs driven by market data analysis and prior sourcing
- All sourcing events should exist in a single electronic repository
- The sourcing event repository should include an electronic copy of all executed sourcing events and the outcome is to be extracted as key business values for further analysis
- The sourcing system should support collaboration and approvals workflow that will track and report the status of the event
- The sourcing system should support the use of pre-approved templates with standard terms and conditions that have specific by Category
- The sourcing system should support the ability to ensure that the sourcing event can be initiated, executed and awarded through the system with electronic trail of activities
- The sourcing system should support the ability to report on achievement of specific category goals/targets.

Contract Management Strategy

The contract management strategy establishes a centralized contract repository and unified governance structure (e.g. standard templates, T&Cs, categories). This strategic approach will result in increased legal and regulatory compliance and make the supplier management process more efficient across purchasing and payables organizations.

Guiding Principles

- All contracts should exist in a single electronic repository
- The contract repository should include an electronic copy of all executed contracts and amendments with key required business terms (vendor, expiration date, payment terms, etc.) extracted as key business values
- The contract repository should have line item details for contracts that have products
- The Contract Management system should support workflow that will track and report on the status of a contract.

- The Contract Management system should support the use of pre-approved templates with standard terms and conditions that have specific fields required.

- The Contract Management system should support the ability to ensure that price breaks based on volume, other incentive mechanisms, and spend limits are enforced.

- The Contract Management system should support the ability to report on achievement of specific category on-contract spend targets.

**Benefits of a strong Sourcing and Contract Management Strategy**

Below are some of the benefits of having a strong sourcing and contract management strategy.

**Shorter Lead Times:**

Average supplier lead time on purchase materials (in days)

<table>
<thead>
<tr>
<th>25th percentile</th>
<th>Median</th>
<th>75th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in (N=70)</td>
<td>4.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Not Invested in (N=93)</td>
<td>12.0</td>
<td>21.0</td>
</tr>
<tr>
<td>Invested in (N=70)</td>
<td>29.3</td>
<td>38.5</td>
</tr>
</tbody>
</table>

Top performers that have invested in automation have an average supplier lead time of 4 days, as opposed to 6 days for organizations that have not invested in automation.

*Source: APQC Benchmarks 2014*

**Shorter Cycle Times:**

Average cycle time on purchase materials (in days)

<table>
<thead>
<tr>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in (N=70)</td>
</tr>
<tr>
<td>Not Invested in (N=93)</td>
</tr>
</tbody>
</table>

**Key Insights:**

Use of self-service modules can significantly reduce the PO cycle time and Supplier lead time.

*Source: APQC Benchmarks 2014, Client’s AP database*
Conclusion

A research report by Gartner summarizes: "Sourcing applications provide a systematic and scalable means for organizations to manage the full sourcing process, including finalizing purchase specifications, selecting suppliers and negotiating prices. Most sourcing solution vendors bundle spend analysis, contract management and supplier performance management tools into their suites. Best-of-breed providers with suites delivered via ‘software as a service’ dominate the strategic sourcing application market, while ERP companies with integrated offerings are gaining traction by providing tactical sourcing support." According to Gartner, leading providers of supply and contract management software include SAP - Ariba, GEP, BravoSolution, Ivalua, AECsoft, Rosslyn Analytics and Emptoris. Oracle PeopleSoft is a new entrant to the Sourcing and Contracting application market area.

About the Author

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