



Manage

Purchasing

Efficiently
with BPM

 **Bonitasoft**

Manage Purchasing Efficiently With BPM

To improve competitiveness of your organization, ensure that your end-to-end purchasing process is intuitive, responsive, and well integrated

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Introduction

Procurement processes are often distributed throughout a company's business units, and following the right procedure in a timely fashion is often a challenge. Lost Purchase Order requests, unclear or delayed approval cycles, time-consuming reconciliation of POs with deliveries and invoices – these process issues frequently affect buyers company-wide.

From the financial management point of view, optimizing cash flow, negotiating best prices with suppliers, and limiting financial risk are among the procurement process issues that can directly affect the company's bottom line. This makes good management of procurement processes of key strategic interest.

In this paper, we discuss the various requirements that a good procurement process should meet, then look at how troublesome procurement processes, including those that are already heavily integrated with the company ERP, can be transformed by applying Business Process Management approach and tools.

Requirements

1. Control processes and minimize delays

1.1. Eliminate lost requests, overdue validations

End-to-end purchasing process is a **complex process**, involving many internal and external stakeholders, and including many validation steps. In organizations where this process is mostly managed via paper forms, it is common for orders needing validation to accumulate on manager's desks, **get lost** in the internal mail, or take weeks to navigate between floors before reaching the supplier. This long process, with no feedback to the originator, is a source of frustration to employees, and it is not favorable to a responsive, agile organization. To improve the competitiveness of your organization, it is important that your buying process is **intuitive and responsive**.

1.2. Remove opportunity for error and omission

Members of the purchasing department may know procedures, but what about the other members of your company or administration? Oral instructions passed along by "tradition," or procedures casually recorded in a few dozen pages, obscure the buying process, so you may often discover too late that **correct procedure was not followed**. This problem puts you at significant risk, and it creates frustration among your users, who do not understand how they should proceed. There is no need to closely supervise everyone who needs to place an order, if the process is **sufficiently defined** to make it clear to everyone that this is the right and only way to proceed.

1.3. Easy reconciliation of orders to invoices

Flattening the purchasing chain will surely reduce its structural cost. To optimize a process, first address the **costly, non-value added actions** in the chain: reconciliation of supplier invoices with initial orders is undoubtedly one of them. The average cost of treatment is estimated at \$17.69¹ for a paper invoice, versus \$5.13 for electronic invoicing.

¹ Arthur D Little study

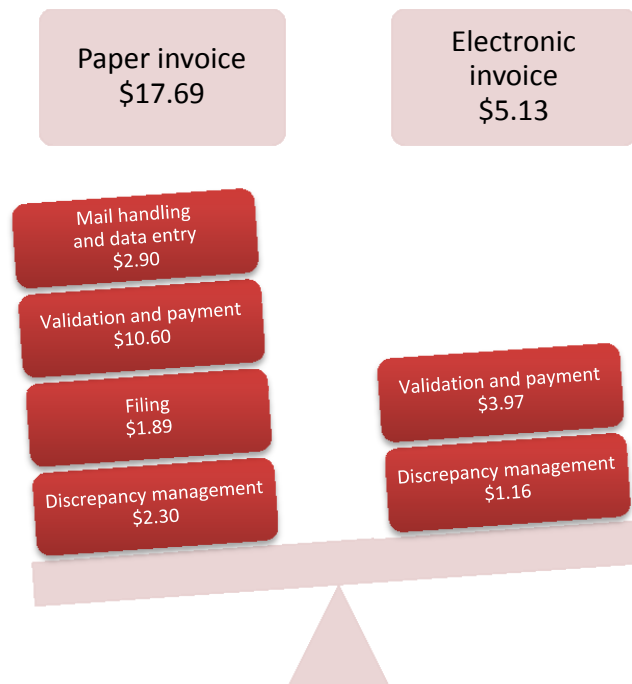


Figure 1 – Comparison of cost between paper and electronic invoice processing

Beyond cost, order-invoice reconciliation also generates delays when there is difficulty in identification. In this case, the search for the original order takes up your employees' time while your supplier waits to be paid. This should motivate your suppliers to help you improve the reconciliation process; ask them to place the order reference on invoices.

2. Optimize financial obligations

2.1. Pay on time

The buying process is key for the optimization of working capital. The challenge here is to pay suppliers just in time, that is, **neither too early nor too late**. Paying an invoice immediately is not wise, since it directly impacts the NWC. But paying late may incur additional cost (such as late fees), may expose you to penalties, and can damage your supplier relationships.

2.2. Ensure suppliers are paid

While it may seem surprising, a company often does not know if an invoice has been paid. To avoid the costly mistake of paying a supplier twice, it is important to know every step of the purchase process for each order, and where the process is at any time.

2.3. Limit obligations

Without clear control of purchasing authority limits, poor control of purchasing may result in over-obligation, committing the company to **more than it can afford**. A good reporting system and clear rules for decision-level validation needed for a purchase order offers insurance against this.

3. Manage the supplier relationship

3.1. Manage risk

In a complex business environment, buyers must master an additional component. And **supply risks** associated with a failed provider come into play, with a need for careful evaluation to avoid major breaks in the supply chain. Conventional systems, including ERP, offer limited flexibility – making it difficult, expensive or impossible to adapt procedures to **validate suppliers**. Worse, in the absence of management systems, employees can potentially initiate a purchase request for an unauthorized provider.

3.2. Check the catalog

To streamline expenses, **limit the catalog** of authorized orders (for example, for office supplies). This will allow you to **negotiate** effectively on large volumes, and to **assess the quality** of a supplier on a limited number of products. However, since you can't anticipate all your employee's needs, how quickly you can respond to add to the catalog will be a measure of your performance from their point of view.

3.3. Negotiation better deals

Purchases for production and overhead are currently more **than 50% of the turnover** of a company. Reduced purchasing costs can quickly have a **significant impact on the profits** of the company. To maximize competitiveness, companies are always seeking to buy at the best price, while streamlining the internal cost of purchases. An effective means of reporting, comprehensive and readily available, will allow you to better negotiate with suppliers.

3.4. Create partnerships with suppliers

Collaborative partnerships with suppliers is important. These partnerships help facilitate a good understanding with key suppliers of the company, ensuring the longevity of the relationship, and optimization of costs.

By implementing a **process of "onboarding" each provider**, you will ensure that you and your suppliers are prepared and ready to work together.

4. Put processes at the heart of the ecosystem

Procurement processes lie at the heart of the corporate IT ecosystem. Procurement functions connect across all business systems and partners.

Your purchase process involves the ERP, accounting system, logistics system, HRIS, and your production systems. It is important when optimizing this process to ensure **integration** with all of these systems to:

- reduce or eliminate double entry
- improve responsiveness
- limit any incorrect information.

But your purchasing process, in addition to reducing the time between the initial need and the receipt of the product, should also be able to connect to your suppliers' systems and any intermediate systems. This way you can order directly through a paperless platform, and follow the progress of your order from purchase to delivery.

Transformation

Improving the purchasing function often requires organizational transformation. There are generally two types of approaches:

- BPR or Business Process Reengineering, which uses process optimization to review the functioning of procurement functions;
- the establishment of shared services, to centralize support functions (including purchases) to optimize costs and standardize practices.

1. Business Process Re-engineering

Business Process Re-engineering is an approach that aims to rethink the business processes of the company in order to optimize them.

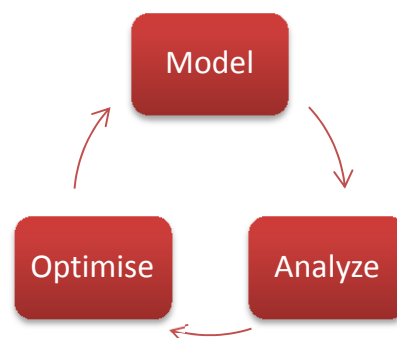


Figure 2 – the cycle of Business Process Re-engineering

1.1. Modeling

Even though the buying process is a cornerstone of the company, it is too often poorly understood internally, rarely widely shared, and even then often only by oral “tradition.” The daily activities of ordering, receiving and payment, though they may seem trivial, are complex and the number of actors involved requires a good overview to ensure optimization.

The lack of a formal and structured purchasing process can sometimes cause confusion in organizations: unlicensed suppliers, unapproved purchases, unexpected expenses, and more.

Identify the set of tasks in a **BPMN diagram**, enabling clear and simplified information sharing between business and IT.

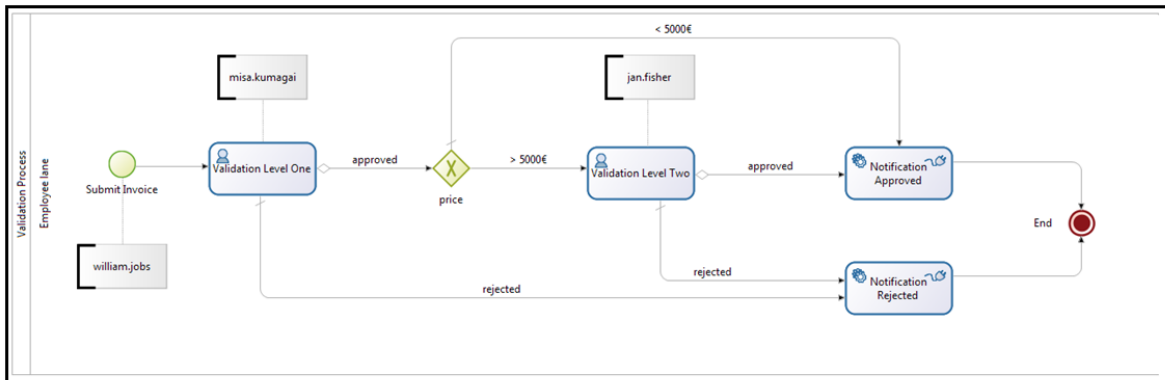


Figure 3 – Example of a BPMN diagram

1.2. Analyze

Analyze existing processes in the company and highlight the bottlenecks. This will identify the steps in the process where you need to manage backlogs of pending requests and act on them to smooth the entire chain.

With the help of a complete BPM suite, it is even possible to **simulate a process** by identifying steps that take more processing time, and thus focus improvements there.

1.3. Optimize

Once the analysis is completed, the process can be optimized to improve the overall purchasing chain, in terms of **cost** and **processing time**, and also term and vendor selection, optimization controls, and even budget planning.

The final step of optimizing the purchase chain is the **proactive management** of purchases of different services. A solution offering maximum flexibility on process changes and with good reporting features will allow you to more precisely manage global and local purchasing. For example, you can direct your orders to preferred suppliers to optimize volume, or avoid ordering from a supplier who is out of stock.

2. Shared service centers

The implementation of "shared service centers", often offshore, has taken off in recent years. Business leaders still see this type of structure useful to leverage significant savings on the company-wide support functions. To optimize costs and maintain cost control, it is important for the purchasing department to **centralize and standardize** purchase requests.

In essence, treating exceptional treatment requests, purchases of non-catalogue items, and not respecting the defined process results in increased costs and risks.

2.1. Streamlining processes

The centralization of the purchasing function in a shared service center allows greater **negotiating leverage** with suppliers, and also **standardization of practices** across the company. Centralizing processes will lead you to streamline processes across business units, driving all of them to a single mode of operation that ensures your ability to control and optimize the process.

"Standardization" also applies to suppliers. Favoring those whose ordering and billing services are in accordance with market standards will allow you to automate a low-cost part of the purchase chain, which can significantly change the value and show fast results.

2.2. Management of individual cases

The goal of BPM is not to rigidly manage all possibilities in your buying process. The flexibility of a good BPM solution allows you to manage specific exceptions when needed. The use of one tool, a **single point of entry** to manage all purchase requests, will help you better train users and thus ensure compliance with procedures.

When you have an ERP

1. Be flexible

Your structure, your competitors, suppliers and partners, everything is **evolving** around you. You are constantly adapting yourself, further customizing your process and changing your validation rules. Use BPM to manage all or part of your purchase chain and **gain flexibility**.

1.1. Extend your ERP

You can use an ERP to drive your purchases. But have you ever had to make a change in the process configuration? If so, you understand the complexity and cost of even a simple change request. With a BPM suite connected to your ERP, you can **move the complexity of your organization out of the ERP**, giving you the opportunity to make changes independent of the ERP update cycle. With connectors such as the ones provided in the Bonita BPM, you can continue to automatically update your system (SAP, Microsoft Dynamics, OpenER, etc.), while benefiting from the **agility of BPM**.

1.2. Be reactive

Your management has decided to change a validation limit; a manager is temporarily absent; you need to re-assign a validation in progress? With new generation BPM engines such as Bonita BPM 6, you can easily **change settings of your process "on the fly,"** or simply reassign certain tasks.

If one of your connected systems evolves and changes its communication protocol, you can update the connection to the system **without having to deal with a major upgrade** of your application.

2. Be efficient

As we have seen, a key to the performance of your purchase process is the clarity for users, and its ability to guide them quickly and easily through the tasks.

2.1. One process to control all aspects

The process called "Procure to Pay" represents of a macro-buying process.



Figure 4 - "Procure-to-Pay" process

Thanks to modeling and execution in a BPM suite, you will be able to assure, whatever the specifics of the organization's buying needs, that all purchases will be channeled through a **single process**.

The order can be sent by fax, email or via an external system; your supplier invoices can be electronic or not; the payment can be made by bank transfer or by check sent by certified mail – all your purchase requests, receipts, and payments follow the same path.

This greatly simplifies user training. It will also allow you to better **assess the impact** of each function, and possibly use these results to support decisions for your renewal agreements.

2.2. Clear process, easy interface

A successful approach to process improvement, including in the area of procurement, depends on the buy-in of process stakeholders. The implementation of a BPM suite has two advantages to help user acceptance.

First, the flexibility of BPM will allow the process to **fit your expectations**. Then, in the case of the use of a complete BPM suite, the modeler will include a powerful end user form generator. You can design interfaces that best match the needs of users, and generate **dynamic forms** as appropriate. Manager's decisions are easier and data input for complex orders is simplified, allowing you to further optimize the buying process.

3. Audit and security

Traceability in non-formal and poorly controlled processes is very difficult. The implementation of a BPM tool to manage purchases – a critical function of the enterprise because it has financial consequences – gives you embedded capability for audit and traceability. Tasks are automatically assigned to the right people, every action is tracked chronologically, and the **history** of each procurement process is kept. This helps ensure compliance with your company's internal audit and control rules.

Conclusion

Management of the procurement process, while it may seem trivial, is a process with many challenges. When it is handled by many systems, such as ERP and others, no single implementation can actually meet all the specific needs of an organization.

In addition, evolution and continuous improvement of these processes require that they be managed using more agile tools.

In this context, the use of a system such as a BPM suite to manage all or part of the process means your company benefits from its flexibility, while ensuring the necessary security for this critical process. A BPM suite with wide connectivity capabilities means your purchasing process can interface with all systems involved in the chain, and you can automate as many tasks as possible while maintaining the ability to manage individual exceptional cases through more manual processes.



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