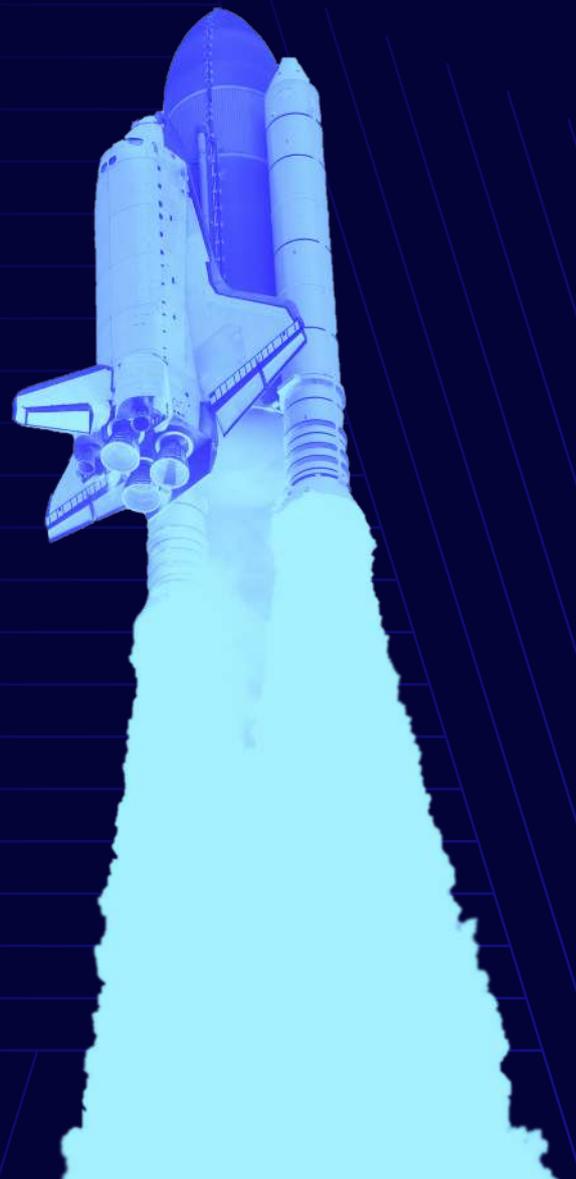


The Value of Supplier Information Management

Identifying the savings levers
for positive financial results.



What is poor supplier information management costing you?

Supplier relationships in the modern organization take on many dynamics based on stakeholder involvement. What this means is that supplier information needs can come from several different directions and can have multiple purposes.

Regardless of whether the supplier information needed is role-based (e.g. needed by accounts payable, strategic sourcing, procurement, supply chain or legal stakeholders) or as a part of a function that applies across many functions (e.g. onboarding or compliance management), access to, and accuracy of supplier information, becomes vital for establishing organizational efficiencies, reducing risk and ultimately impacting the corporate bottom line.

In the effort of understanding the time and costs related to poor Supplier Information Management, one may look to what analysts have to say. For example, a few years back, AMR estimated that a typical company spends between \$585 to just under \$1,000 per supplier annually in supplier management costs.

AMR also noted that by using a supply management technology, organizations have an opportunity to reduce per supplier management costs by up to a whopping \$848 per supplier.

By acknowledging the potential savings of applying “technology”, analysts can begin to baseline its impact, how insightful can these numbers really be for practitioners?

Also, how is cost allocated based on the various supplier onboarding and compliance requirements within the organization? How many systems managing supplier information are currently used? You see the point and, as such, the analyst discussion around understanding cost and savings is intriguing, but unclear. Below we take a look at how the future could look and how the CIO, CPO and CFO could quite possibly reshape this future.

“The problem is that understanding per supplier costs requires many assumptions that can vary widely by organization due to size, industry, or geography.”



Can supply management technology address the problem?

So as organizations look to understand their supplier costs better, those intimately reliant on proper supplier management, such as the Compliance Officer, CPO, Director of Supply Chain and so forth, have all likely looked to address the need of managing supplier information pertaining to their own needs through internally developed technology approaches or have invested in the supplier management functions with their current ERP providers.

Going off of this experience, however, there has also been a genuine sense of disappointment with the inability of existing systems to effectively manage the ubiquitous nature of supplier information.

In the case of internally developed systems, there lies the traditional challenge of buy versus make. While technologies can be customized internally to integrate supplier information, the patchwork of supplier systems, integrations and processes becomes burdensome in trying to keep up with the latest business requirements for managing areas such as supplier onboarding, performance score carding or regulatory requirements.

ERP systems, on the other hand, which in some cases have technologies specifically designed for Supplier Information Management, become a challenge due to their inflexibility in design. An Accenture study from 2009, as an example, stated that up to one third of organizations in both the US and UK do not make use of half of the capabilities in their ERP systems, which points to the lack of usability and inability to ever get value from ERP implementation.

Furthermore, organizations using ERP systems often have multiple instances of the same, or several different ERP platforms - and the cost of upgrades and/or additional configuration to these systems often takes many months, if not years.

This extends the time to-value in using new functionality like a supplier information add-on or module. Moreover, even if the name is the same on the proverbial ERP box, often times, their supplier management functionality has been acquired from a prior competitor or partner, which makes the concept of “using a common platform” less genuine (e.g. tool may have been developed on different code base).

What is SIM and why is it better?

Therefore, one question many supplier relationship stakeholders may need to ask themselves is: can a system exclusively designed for Supplier Information Management (a.k.a SIM) provide better visibility, better control, and reduce the various costs of managing the supply base? Time and time again, we found that the simple answer to this question is – yes!

SIM platforms, like those developed by HICX Solutions, have been developed to focus on addressing the complexities of Supplier Information Management by providing the flexibility to incorporate multiple sources of supplier information, while delivering

a quicker time-to-value, through the ease of integration and flexibility in design. To understand the difference between traditional approaches and those provided by SIM, one can simply look at how they differ in their approaches.

Consider the following comparison between the traditional internally developed and ERP approaches, versus a SIM platform.

Legacy Approach to Supplier Information	ERP Approach to Supplier Information	Future ERP Concepts
Concept: Patchwork of systems or platforms for accommodating specific Supplier Information Management needs.	Concept: “One” enterprise resource platform, but not necessarily focused on supplier management.	Prioritize user experience and smaller fit for purpose systems.
Focus: on customizing systems internally and keeping existing systems in place through customizations.	Focus: on enterprise processes across multiple functions that may include Finance, HR, Procurement, and Supply Chain, but not necessarily Supplier Information Management.	Flexible, easy to change and fit for purpose. Assumes it's more beneficial to have functionality tailored to industry and function use.
		Solving specific user cases and provides more autonomy to the group using the system to solve a particular problem. Lower cost of organizational change management.
Goal: customize necessary requirements where integration may be needed between various systems without acquiring outside technology.	Goal: take advantage of using a “common” enterprise platform for supplier management that may/or may not accommodate supplier master approaches.	Smaller investment, easy to change and not locked in by fear of losing out on existing investment. An open architecture where systems can communicate easily with one another.

Identifying the savings levers for justifying a SIM platform

To shed light on just how well a SIM platform like HICX's can add value beyond traditional legacy or ERP means, it is critical to go back to the basics and identify the savings levers for justifying it. This can only be done by considering the impact that poor Supplier Information Management is currently having on your organization.

By addressing the hard and soft costs involved with the current processes, the basis for understanding the value of implementing a SIM system can reasonably be established.

In this regard, the next several sections will take a look at these common challenge areas in Supplier Information Management as they relate to both the time and cost impacts to your organization.

(Note: as these concepts are explored, if you think that there may be a better way to handle Supplier Information Management within your organization, please put these points into your own context).

Time inefficiencies of poor Supplier Information Management

One of the biggest challenges in Supplier Information Management is based on the amount of extra time expended on various supplier-based tasks.

Without a sound Supplier Information Management strategy in place, internal resources are often left managing processes manually, exhausting valuable time in re-entering supplier information, or even initiating processes outside of the system to get their job done.

With this approach, suppliers are also frequently out of the loop on changes in data requirements or initiatives, do not understand what is needed from them, or lack an efficient means to communicate and collaborate with internal stakeholders.

Ultimately this creates time inefficiencies with longer approval cycles and wasted resources.

Time inefficiencies in core supplier information areas

To begin the assessment of time inefficiency, first consider the general time issues and or challenges that anyone involved with Supplier Information Management faces without a SIM platform:

Time Spent Searching for Missing Supplier Information

– Consider the extra time spent entering missing information on supplier profiles, particularly in trying to complete a supplier onboarding process, completing a performance assessment, or in creating a risk profile for a supplier. Supplier profiles that are incomplete waste time by missing details on supplier locations, mapping of parent/child relationships, and/or details on primary contacts. Other essential identifiers that may need to be validated include Tax IDs, DUNS#, or bank account information, or there may be small/diverse information. All these examples present the extra time required, even for the simplest of tasks, due to disjointed systems and processes, unlike an optimized process utilizing a SIM platform.

Time Spent Managing Documents

– Consider the extra time spent trying to share documents without a common supplier platform for communicating electronically with stakeholders and suppliers.

Whether dealing with contracts, supplier policies, W8/W9s, or other documents, time is often wasted by waiting to confirm if a supplier has received a document(s), or in validating if the proper versions of documents have been signed, or even in efforts of scanning documents into one place after the receipt from the supplier. The time spent on managing these extra steps even invites inconsistencies and errors for how frequently documents are retrieved. Moreover without a central location for storing a supplier document repository, stakeholders lack visibility into expiry dates, updated financial information or other risk-based alerts that could be easily provided by using a SIM platform.

Time Spent in Approval Processes

– When no common supplier information system is in place for managing the unique workflows necessary for onboarding a supplier, or, further, managing ongoing supplier data changes (e.g. address, banking, contacts, etc.), time is wasted trying to find the most effective way to gather, approve, or deny an essential process/request.

Furthermore, even if workflows are in place, say with an existing system, the inability to capture the dynamic changes or re-routing of an approval based on specific initiative requirements (e.g. unique workflow based on a geography or organizational unit), may force individuals to go outside the supplier system. This means engaging outside the system via email, phone or fax to communicate with internal stakeholders or suppliers to get initiatives, such as onboarding, supplier performance reviews, or supplier/site audits, completed.

Time Wasted by Duplicate Records

– Duplicate records related to supplier information creates serious time inefficiencies and redundancies, including contacting the same supplier multiple times for the same information request, which in turn undermines supplier confidence in your company; increases mailing and shipping costs; and, wastes many valuable hours of internal resources due to manual reconciliation of data.

Though an occasional review can attempt to eliminate the many duplicate records in a supplier master, this task will always fall short in traditional systems, due to data structure limitations on banking, supplier locations, etc. This reason, alone, is why most organizations have 20+ active suppliers named “International Business Machines”, or multiple variations of “Federal Express”

or “Fed Express” or “FedEx” causes internal practitioners the pain of having to distinguish one from the next. A more efficient approach is to install controls, through a common supplier platform, over the creation of supplier records that make it more difficult to initially generate a duplicate record (a preventive control), and can roll supplier “relationships” into one view, yet can communicate

with downstream system as their “system view” requires. Leveraging SIM provides a better means for maintaining supplier/vendor master files that can prevent failure of these types of system controls, process inefficiencies and inaccurate data management reporting.

Time inefficiencies by business function

In going beyond the general issues encountered across users of supplier information, specific stakeholders are also directly impacted by the time inefficiencies that become apparent when supplier information is stored in disparate systems, and are unable to provide a common point of insight:

Time Wasted by Accounts

Payable – Often involved in the back-end of the process when payments need to be made, Accounts Payable (AP) suffers from an impaired access to accurate information on a supplier in order to instigate a payment. At its core, the AP function is to pay suppliers for goods and services rendered, but their function extends to strategic importance when they are able to manage the delicate balance of whom to pay, how to pay, and when. As a result of poor supplier information, certain inefficiencies in optimizing the “procure-to-pay” cycle ensue.

In this regard, poor supplier information practices impact the ability to process payments due to extra time spent collecting W8/W9 documents, reissuing returned checks due to unreliable data, identifying payment addresses for a supplier and/or validating the proper bank account information such as an ABA number (or IBAN for European suppliers). Furthermore, AP may end up spending more time in dealing with help desk calls (e.g. invoice, collection, status, etc.) in supporting issues – and not having the luxury of time to maximize payment terms, capture discounts/rebates, or other.

Time Wasted in Sourcing

– Areas of time wasted by sourcing focusing on time spent trying to identify all approved suppliers with a specific profile or that have existing contracts in some system or other, or in confirming information required for validating certifications per a sourcing initiative. The extra time spent by sourcing employees in supplier efforts may also add to extra lead time and sourcing costs, which can potentially reduce the ability to introduce / add new products or services to market further downstream.

Essentially the time challenge sourcing faces are the results of inefficiencies in supplier prequalification and identification, where essentially suppliers are being added ad hoc without a standardized method of categorizing suppliers and/or being able to correspond this information back to the proper organization (e.g. by business unit, or by legal entity, etc.). The irony is that much of time consumed researching suppliers may have already been approved in one system or other, (e.g. looking for qualified suppliers that have previously submitted their information via RFI or RFP, but were not selected for that project or initiative). With the right supplier information in hand, sourcing can significantly improve the “make vs. buy” analysis and improve its communication to other parts of the organization. In this regard, with a SIM supplier onboarding implemented, processes can be more thorough, streamlined and efficient in enabling

the organization to bring products to market quicker and potentially have an impact on corporate revenues.

Time Wasted in IT – When supplier information is contained in systems strewn across the enterprise, IT is forced to create links to various systems for enhancing the ability of stakeholders to access this information, based on the various organizational structures that need to be modelled. What this translates to is extra time spent in customizing legacy systems or making modifications to ERP code (ABAP, Java, Ruby, etc.) to handle unique supplier needs such as custom views, tables or reports for accommodating these requirements. From a technical standpoint, these customizations often lead to changes within the underlying database, which can demonstrate an impact on the underlying performance of the supplier systems managing key processes, or time is spent

aggregating and merging data for point needs (e.g. the latest report). Moreover, during times of corporate change such as an M&A or divestiture, the demand upon IT is elevated, as “decoupling” or “combining” information in a sensible structure becomes difficult. In some cases, due to the inflexibility of the existing systems or processes, it may even translate to an ongoing use of a legacy system or spreadsheets, even when enhancements can be made by upgrading or moving to a so-called better platform. With SIM, the focus is on supplier information and built from the ground up for integration, but with the core business relationship in mind. Therefore, even with a frequency in change for adding or decoupling ERP or legacy systems, the concern for synchronizing various systems for supplier information is mitigated.

Cost and revenue impacts of poor Supplier Information Management

While the time dynamic is essential for understanding where efficiencies can be obtained during a supplier management lifecycle, the elimination of current costs

through the use of SIM can improve the bottom line. Even further, through quicker cycle times and the elimination of supply chain disruption SIM can also have a direct impact

on an organization’s sales. As a result the benefits of SIM can be taken straight to the CFO as both an immediate savings mechanisms and a new way to increase top-line revenue.

Costs from core supplier information areas

For instance, consider the general cost issues and or challenges that anyone involved with supplier information faces without a SIM platform:

Cost from Off-Contract

Spend – A major area of concern, and one often not effectively dealt with by other technology disciplines such as eProcurement or Strategic Sourcing, is the reduction of off contract spend (a.k.a. “maverick spend” or “spend leakage”). A recent study conducted by AT Kearney looked at one hundred and sixty two mid-sized and large organizations across thirty different industries and concluded that 35% of indirect spend is out of compliance with the appropriate procurement vehicle. To put that in perspective, this equates to something between \$750 billion and \$1 trillion of spend that is out of compliance just within the Fortune 1000 alone. As a major issue across the board, the symptom of off-contract spend is often caused by individuals that either: are not aware that an existing, preferred supplier exists; is empowered to purchase, yet doesn't know the process; will work around the established process to secure their preferred supplier; or, feels the need to move forward quickly, without the proper process, in order to expedite a lean onboard. Whether using a Shared-Service, Centralized,

or Decentralized procurement approach, by not modelling the approach and closing the supplier onboarding gaps, the savings identified by sourcing is only an estimate used “on paper”, versus a known effect on the bottom line. SIM, on the other hand, controls the supplier add requests and ensures that suppliers and commodities are routed to the proper stakeholder (e.g. Sourcing or Supplier Manager), before onboarding, to determine if an existing preferred supplier should be utilized, or whether another supplier should be properly vetted and on-boarded.

Costs from Poor Supplier

Master Data – Poor data quality resulting from bad supplier master data ends up taking time away from understanding the true profile of a supplier. This leads to delays in making decisions and in establishing a more dynamic view of supplier relationships (e.g. by geography, organizational unit, parent/child, etc.). Due to questions of data relevancy or accuracy from poor data quality, or inconsistent data standards, organizations also experience increased costs in managing supplier-related processes.

Ultimately, poor supplier master data can cause costly payment errors, accounting errors, and wasted effort in shipping costs to the wrong address. Costs from poor supplier master data management also apply to the IT function, as discussed above. As duplication and redundancy reduces efficiency, costly resources are spent on managing the data across the various systems. Organizations leveraging SIM, with a supplier master data management approach and governance, are able to incur considerably less cost, as their supplier information, regardless of where it resides, is in constant sync with other systems, thereby preventing duplicates, mismatched information, or other inconsistencies.

Costs from Unnecessary G&A

Expenses –Another area often not considered in the equation and what becomes part of the status quo are general and administration expenses related to managing suppliers. What this translates into is the amount spent on travel and expense costs, which can be necessary to communicate with suppliers.

Other areas that would need less outlay include unnecessary physical equipment (printers, scanners), extra postage, or other general administrative expenses if better means for communicating and collaborating with suppliers can be established. With deeper information on each supplier, organizations are able to stay in front of supplier performance, and increases the ability to understand when/if travel or extra communication is really necessary. Moreover, with better Supplier Information Management approaches through a SIM platform, organizations are able to focus supplier related activities that are more strategic than operational.

Costs/Missed Savings Opportunities – As part of a bigger process, how organizations work with their suppliers is also part of a longer cycle that most frequently starts with Sourcing and ends with Accounts Payable. But inconsistent supplier information processes leads to “opportunities lost” in working with suppliers. For instance, consider the opportunity in leveraging early payment discounts and/or optimizing working capital through payment terms. As an evolving trend in the effort better managing cash flow, some suppliers are willing to participate in the financial incentives to entice their customers to pay them early in exchange for a discount.

One of the most common enticements is the 2/10 net 30 payment terms, say providing for a two (2) percent discount if it pays before the 10th day, which is the equivalent to a 36 percent rate of return for the company paying the supplier. Through the use of SIM, suppliers can be setup to automatically be prompted with an option for early payment at a reduced rate. Moreover, with the approvals downstream systems being updated through a SIM platform, issuing payments are automatically updated with the information needed to adjust the payment date and payment amount due to the supplier.

Cost examples by function

While the cost issues addressed in the previous section impact the wider organization, specific business areas can have a larger impact in reducing costs and loss of revenue with improvements in Supplier Information Management.

Consider the following:

Costs Incurred by Fraudulent Payment – The impact of optimized supplier information management and governance has a tremendous and often an unseen impact on the bottom line. This is particularly exemplified, through Accounts Payable, by costs incurred from fraudulent payments (e.g., false invoices, bank account modification, etc.).

The cost of fraudulent payments is exceedingly high within most organizations. For instance, the industry average indicates that each Fortune1000 has, on average, four fraudulent AP instances in play at any one time – and, on average, the scheme is in place for two years before it is caught, or the perpetrator moves on.

Moreover, the core problem points to the lack of controls within supplier information governance, such as: the ease to getting administrator access to the finance/procurement systems; the ease of adding new/ fictitious suppliers; organization’s inability to efficiently match suppliers with invoices; or, even, access to modify bank details.

Hence, the concept of “segregation of responsibilities” remains unable to prevent direct financial fraud. Using SIM, organizations can gain control of this issue by: locking down access to systems and data (e.g. banking details); ensuring the proper reviews are always upheld; and, ensuring invoices match an active and approved supplier.

Costs/Missed Savings from Procurement – Negotiating achievable rebates is one of the valuable savings tools that Sourcing leverages. The difficulty, however, is the inability to recognize when spend goals have been achieved, what rebates are due, and driving the process to capture the rebate, thereby missing out of direct cash impact. The question becomes how do you work with vendors to standardize the rebate process, set expectations, and defend rebate dollars.

But the problem in most places is the lack of established supplier workflows to work closely say with Finance to ensure proper booking of rebate dollars, proper processing of rebate submissions, and the ability to defend rebate dollars by validating customer contract eligibility.

In using a SIM platform, the rebate levels and terms are captured, the volume of spend is tracked, and suppliers can automatically be notified, with supporting documentation, when a rebate is due.

Costs of Redundant Systems – One of the biggest challenges for any organization is the ongoing cost-benefit of existing systems. Much of the culpability in the inefficiencies and cost for managing suppliers revolves around a number of disparate systems managing supplier information, which range from ERP systems,

contract management, PLM, spend analysis, diversity registration, sourcing and procurement, just to name a few. If the goal is improving supplier management, it is critical that all these systems are able to integrate the essential supplier data and share relevant information as needed. Often this is not achievable by all systems, and often there are overlapping capabilities overlooked to fulfill a niche need. If, for example, through SIM, all supplier documents can be stored within a supplier profile, is a contract management solution needed? If, through SIM, all diversity information is captured for both active and potential suppliers, is a diversity portal needed? If sourcing has clean accurate supplier data, spend, and capabilities, is part-item spend classification necessary? In many cases, proper SIM solutions can eliminate redundant system costs.

Cost examples by risk and compliance

Cost from Reputational Risk/ Brand Risk – If not managed effectively, suppliers can elevate their customer’s reputational risk. As an intangible asset known often in marketing circles as “brand equity”, the cost of recovering from such a loss is more than just dollars.

Rebuilding reputation, market cap and customer/partner trust becomes a daunting process that can take years to recover from bad news that may be related to a supplier crisis, or event that involves their customer.

Regardless of how it comes about, reducing the impact of reputational/brand risk can be accomplished by improving Supplier Information Management, such as: through performing supplier segmentations to better assess and prioritize high risk suppliers;

establishing the receipt of automatic supplier risk alerts when suppliers fall out-of-tolerance with specific risk indicators; or, driving efficient review processes with stakeholders and suppliers (note: either post-contract, or pre-contract, award). With SIM, suppliers can automatically be prompted to verify social responsibility and governmental obligations - and supplier factory audits are coordinated appropriately - in order to have full accountability and traceability.

Revenue and Costs Impact from Supply Chain Disruptions

– Costs to supply chains can vary based on the type of disruption. Studies reveal that the average cost of a disruption is roughly \$1M per incident. Moreover, other studies point to only a quarter of FORTUNE 500 companies being prepared to handle crises or disruptions – and that a \$50M to \$100M cost impact can be incurred for each day a company’s supply chain network is disrupted. These disruptions arrive in many forms, from key suppliers being impacted by a natural disaster, to an n-tier supplier going bankrupt. Without the ability to fully understand the supply chain, the ability to monitor key risk indicators, or the ability to communicate quickly with stakeholders (e.g. type of incident, products impacted, alternative suppliers, etc.) organizations are often too slow to act.

Through the use of SIM, organizations are better enabled to react to supply chain disruptions because: relevant information is collected, which often ERP systems are not configured to contain; one can define triggers that necessitate action; and, stakeholders are notified, with all relevant information, in order to proactively mitigate lasting effects on the organization.

Cost/Fines from Non-Compliance – As one of the largest pressure areas for any company is regulatory compliance, and the looming audits and fines associated with any regulatory mandate. The exorbitant growth of regulatory mandates has created the need for organizations, across all industries, to reassess their capabilities in addressing the ever-changing needs. For the purposes of supporting an audit, or as evidence in the event of potential fines, the legal forms are often not as relevant as need to track what steps have been taken to be compliant (workflow and audit capabilities) and notifications exist (reporting and dashboards). Whether internally-driven, or mandated by a regulatory authority, the old saying of an ounce of prevention is better than a pound of cure could not be truer, yet traditional ERP systems were never designed to tackle these issues.

Moreover, given the number of systems that are typically used to support compliance needs, it is almost impossible for most organizations to adequately manage compliance needs without a centralized Supplier Information Management approach. While some enterprise risk systems try to address these issues with a niche focus, the core “relationship” often exists elsewhere. With SIM, a system-driven approach can be created to fully eliminate, or minimize, the risk-related exposure to noncompliance by establishing better workflows and document management mechanisms for keeping track of supplier status - and the internal best faith efforts for ensuring compliance, such as training and supplier commitment.

“Through the SIM system, organizations know who each of their suppliers, agents, and 3rd parties are, and are better prepared to manage against the threat of non-compliance.”

Starting the process of supplier information discovery

While this paper points out some of the key levers for improving Supplier Information Management, the ancient Greek aphorism “Know thyself” comes to play here.

As shared in the beginning of this paper, an analyst can provide estimates that do not necessarily take your organizational environment into account, but you are the

best guide to knowing how poor supplier information is impacting your organization.

In Summary

Understanding the supplier information dilemma is vital. We believe that the secret to success is our own, HICX’s, approach - which looks at the problem from a supplier master data management perspective.

In our view, effective Supplier Information Management, at its core, is having the ability to establish a “master” of accurate supplier information for governing and verifying data, in order to provide a truer picture for all activities that involve them. Moreover, SIM tools, like those provided by HICX, create the means for supplier-related activities to become more efficient and profit-oriented, because the proper controls for governing supplier information and processes are properly established.

Furthermore, by being able to model the dynamic nature of supplier relationships, a complex organization can adequately address how to enable unique information workflows and make visible the touch points of where information needs to be pulled, enhanced and shared to various stakeholders in an organization. In other words, with better modelling, you can better understand the value levers that a SIM platform can provide.

HICX is the Low Code Platform for Supplier Management.

We enable business to find, maintain, and re-use trusted Supplier Data and Information across their Enterprise, across any spreadsheet, app or system. Our solutions enable your businesses to be more reliable, flexible, and scalable. Building from a rock solid platform of good quality data, we help businesses become digital in supplier management, third party management, compliance and risk, master data and finance management.

