

CASE STUDY 6

SAP E-Sourcing Implementation – Ontario Public Sector (“Client”)

Challenge:

The Client had commissioned a project to deliver a solution that achieved a dual objective of realizing Best-In-Class performance from their supply chain and exceed business partner / client expectations. The key to achieving sustainable results and optimizing success in any supply chain transformation is to leverage systems to coordinate and integrate all of the process activities. However, in keeping with Lean Six Sigma fundamentals, technology solutions should only be considered **AFTER** the business processes and organizational design are fully re-engineered, documented and operating effectively in steady state.

The Project’s objective was to eliminate non-value add processes and activities to reduce costs and inefficiency and to free up capacity to focus internal team members on strategic initiatives. In addition, implement methods and systems that allow internal customers to increase their own productivity by reducing the administrative burden to source, order, receive and pay for services. The technology solution must be supported by a business case that ensures the investment pays for itself within two years of Go Live.

Solution

The Project developed a business case presented to the Senior Executive Team to deploy SAP E-Sourcing. Then, with their support, the Project pitched the proposal to the Ministry to secure the funding for the project. The business case emphasized the following key benefits:

1. Improve Contract “life-cycle” Management and Facilitate Effective Negotiation
 - Generate, customize, negotiate, and manage contracts with a searchable but controlled repository of standard contracts and clauses to promote and enforce ORC’s legal standards during the contract-generation process.
 - An on-line workflow approval process to expedite and automate all contract activity eg. re-bidding, renewing, renegotiating prior to expiration.
 - Central repository for legal-approved template contracts to ensure compliance with legal dept document requirements i.e. version control.
 - Automated workflow will “hard wire” ORC Delegation Process into the system while facilitating ongoing changes subject to Executive approval.
2. Immediate Adoption of “Cutting Edge” Supplier Management Functionality
 - Employ a searchable Web portal in which suppliers can register, maintain their own profiles, send updated files, participate in collaborative discussions, respond to bid requests, view scorecard performance, and view active contracts and sourcing events.
 - Manage simple & complex KPIs for supplier performance scorecards.
 - Optimizes current supply chain resources by automating tactical activities thereby enabling Strategic Sourcing staff greater flexibility to perform strategic value add initiatives.
3. Improve Category and Procurement Project Management
 - Link all sourcing activities to specific projects to track results and decisions then monitor status, manage workload, and track opportunities.
 - Track spend against contracts and contain maverick spend through effective reporting and monitoring (e-sourcing linked to the ERP)

- Enforce policy with rules hard-wired into system and track on-line all communication / incidents related to any procurement activity.
4. Enhance Sourcing Execution and Implement On-line Bid Optimization
- Conduct simple or complex sourcing by automating the creation of requests then analyze bids using collaborative scoring for multiple attributes, total cost calculations, side-by-side comparisons, and pricing / savings reports.
 - Use on-line templates to expedite sourcing projects, proposal requests, and contract management to more effectively gather and leverage knowledge from colleagues and sourcing events for sustainable results.
 - Automated sourcing events and analytical functions eliminate cumbersome, time-consuming, and costly paper-based supplier negotiations and awards.
 - Ability for Business Partners to quickly run simple procurements with only oversight provided by Strategic Sourcing, reducing HC requirements

A snapshot of the financial business case that supported the proposal is included below:

E-Sourcing Financial Analysis

| Estimated Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Licence | \$ 500,000 | | | | | |
| Maintenance | \$ 110,000 | \$ 110,000 | \$ 110,000 | \$ 110,000 | \$ 110,000 | |
| Yr 1 Licence Costs Total | \$ 610,000 | | | | | |
| Implementation | | | | | | |
| Implementation & Hosting - Deloitte | \$ 707,128 | | | | | |
| QA - SAP | \$ - | | | | | |
| Implementation Project Total | \$ 707,128 | | | | | |
| Support (Deloitte) | | | | | | |
| Hosting | \$ 46,950 | \$ 69,900 | \$ 69,900 | \$ 69,900 | \$ 69,900 | |
| AMS | \$ 8,000 | \$ 48,000 | \$ 48,000 | \$ 48,000 | \$ 48,000 | |
| Ongoing Enhancements ¹ | \$ 12,000 | \$ 72,000 | \$ 72,000 | \$ 72,000 | \$ 72,000 | |
| Total Costs | \$ 1,384,078 | \$ 299,900 | \$ 299,900 | \$ 299,900 | \$ 299,900 | \$ 2,583,678 |
| Estimated Savings² | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
| <i>Statement of Cash Flows (March 31, 2008)</i> | | | | | | |
| Investing Activities (Capital Investment: Net + Capital Improvement for Clients) | | | | | | |
| Repairs over \$5M ³ (-1%) ³ | \$ 1,200,000 | \$ 1,200,000 | \$ 1,200,000 | \$ 1,200,000 | \$ 1,200,000 | \$ 6,000,000 |
| <i>GREP Business Model - "All Centres" (2/5/2009)</i> | | | | | | |
| Non-Recoverable Expenses - Facilities | | | | | | |
| Misc Expenses (-1%) ⁴ | \$ 166,060 | \$ 166,060 | \$ 166,060 | \$ 166,060 | \$ 166,060 | \$ 830,300 |
| Non Facilities Expense | | | | | | |
| Leasing Costs (-1%) ⁵ | \$ 5,450 | \$ 5,450 | \$ 5,450 | \$ 5,450 | \$ 5,450 | |
| Legal Costs (-1%) ⁶ | \$ 49,153 | \$ 49,150 | \$ 49,150 | \$ 49,150 | \$ 49,150 | |
| Professional Services (-1%) ⁷ | \$ 16,095 | \$ 16,100 | \$ 16,100 | \$ 16,100 | \$ 16,100 | |
| Portfolio Restructuring (-1%) ⁸ | \$ 47,926 | \$ 47,926 | \$ 47,926 | \$ 47,926 | \$ 47,926 | |
| Sub-total | \$ 118,624 | \$ 118,626 | \$ 118,626 | \$ 118,626 | \$ 118,626 | \$ 593,130 |
| Total Procurement Savings | \$ 1,484,684 | \$ 1,484,686 | \$ 1,484,686 | \$ 1,484,686 | \$ 1,484,686 | \$ 7,423,430 |

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> | |
|--|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Procurement can assume responsibility for PO process if current clerks can transition. | | | | | | |
| Estimated Efficiency / Effectiveness Gains (% of FTE)⁹ | | | | | | |
| Accounts Payable ¹⁰ | | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | |
| Procurement Services ¹¹ | \$ 140,000 | \$ 140,000 | \$ 140,000 | \$ 140,000 | \$ 140,000 | |
| Sales & Acquisitions ¹² | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Legal ¹³ | | \$ 120,000 | \$ 120,000 | \$ 120,000 | \$ 120,000 | |
| Leasing ¹⁴ | \$ - | \$ 27,705 | \$ 27,705 | \$ 27,705 | \$ 27,705 | |
| Audit ¹⁵ | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Sub-total | \$ 140,000 | \$ 357,705 | \$ 357,705 | \$ 357,705 | \$ 357,705 | \$ 1,570,820 |
| Other | | | | | | |
| SAP Investment Protection ¹⁶ | | \$ 500,000 | | | | |
| KPI Management (PLMS, IT) ¹⁸ | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Sub-total | \$ - | \$ 500,000 | \$ - | \$ - | \$ - | \$ 500,000 |
| Total Other Savings | \$ 140,000 | \$ 857,705 | \$ 357,705 | \$ 357,705 | \$ 357,705 | \$ 2,070,820 |
| NET COST | \$ (240,606) | \$ (2,042,491) | \$ (1,542,491) | \$ (1,542,491) | \$ (1,542,491) | \$ (6,910,572) |

Results

The SAP E-Sourcing solution was implemented on-time and on-budget in the 17 weeks forecast in the project plan. The new supply chain technology helped centralize contract management, automated compliance with the new procurement policies, created a Vendor portal to facilitate sourcing and supplier management, optimized procurement process efficiency through electronic bidding and contract negotiation, automated the tracking and reporting of key contract performance indicators, provided a more efficient mechanism to report on procurement activity and compliance.

Early benefits achieved within the first three months after implementation of e-Sourcing included the realization of two KPIs, which were critical department Goals:

- Procurement Cycle Times of 85% (Projects Executed "On Time")
- Average Annual Supplier Performance of 3.9 (out of 5), measured by electronic Supplier Scorecards.