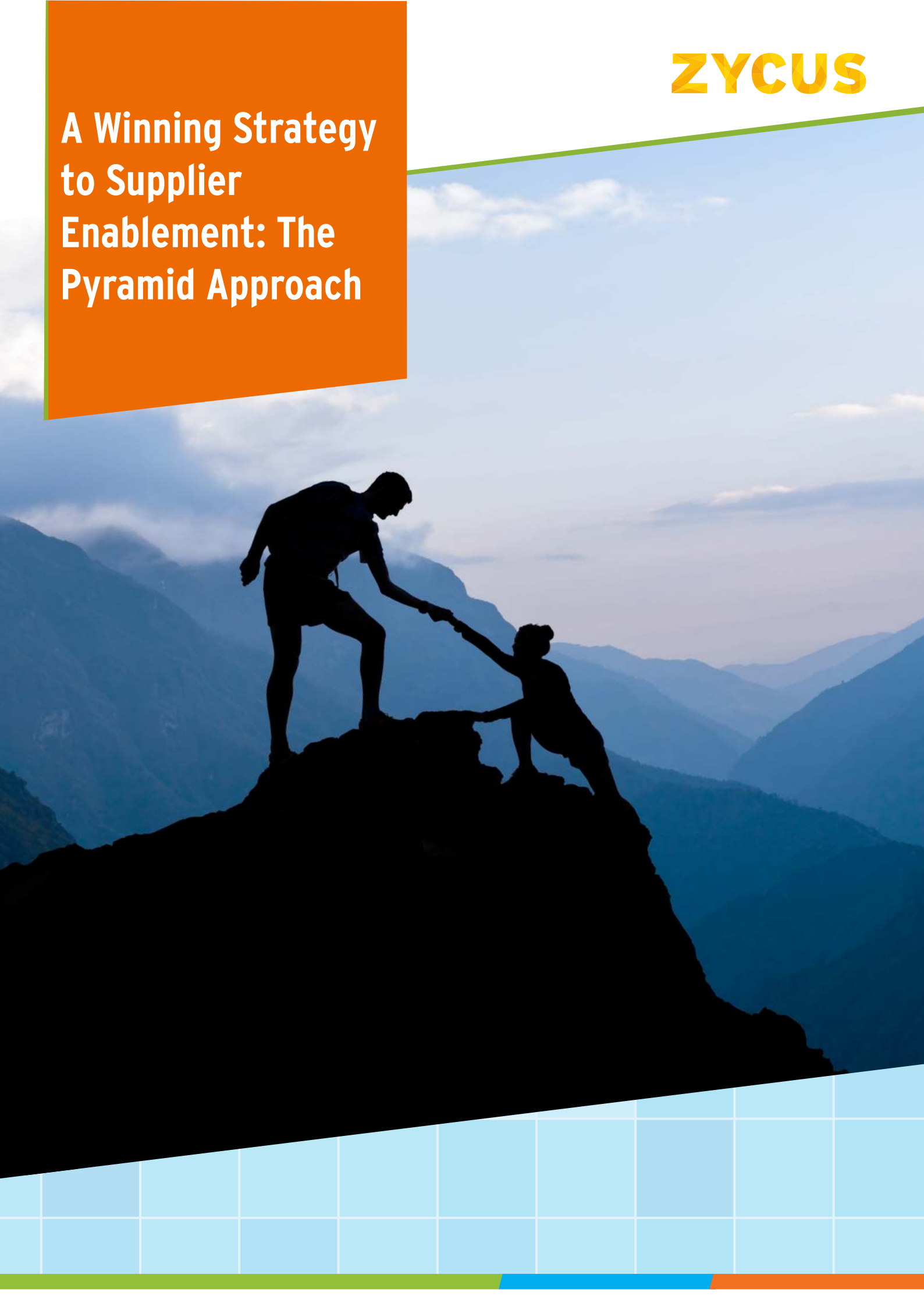# A Winning Strategy to Supplier Enablement: The Pyramid Approach

ZYCUS

Introduction

E-invoicing and procurement have now revolutionized and are both going the electronic way. However, an electronic enterprise system can be of minimal benefit if the suppliers are not on-boarded satisfactorily. Hence additional importance is being given to the supplier enablement process by companies.

Supplier enablement is a streamlined process that connects an organization's suppliers to the enterprise's supplier management technology used by the business. A supplier enablement effort is said to be a success when the suppliers of an organization are connected to the company's e-Invoicing and e-Procurement suite and the exchange of critical business documents such as a purchase order(PO), invoice and contract are processed through the system employed back and forth between buyer and supplier. This also means that less time is spent on manual intervention by users and more time is spent on core business tasks and value added activities.

Enabling tens and thousands of suppliers across the business, into a new automated system is no minial feat, especially for a small or a mid-sized enterprise. These organizations, unlike the global 1000 companies, do not have the support systems or resources dedicated to change management, which makes the transition from manual to automated a more difficult phase for them.

Many bigger sized organizations are eager to make the switch and become myopic due to their ambition. Their focus is solely on digitizing their procurement and invoicing functions while attributing less or no importance to the pre-requisites like setting up the eco-system for supplier enablement. As a result, key steps in supplier enablement and on-boarding are delayed and are carried out in a haphazard, unorganized manner.

The idea of enabling suppliers to an organization's supply chain has garnered a lot of importance in the past few years because the process reduces resistance and increases the system's effectiveness. Successful supplier enablement strategies require a streamlined approach and attention to elements that are specifically unique to suppliers.

The Role Supplier Enablement plays in Digital Transformation Projects

In this day and age of technological advancement, every organization is eager to revel in the glory of e-Invoicing and e-Procurement. They majorly focus on getting returns on the amount invested in automation and want immediate results due to high pressure. Coming closer to the changing trends observed in the recent past, more organizations have started attributing importance to the supplier enablement and its vital role in making a digital transformation project a success. A research report by Aberdeen Group shows the level of priority organizations assign to supplier enablement (Table 1)
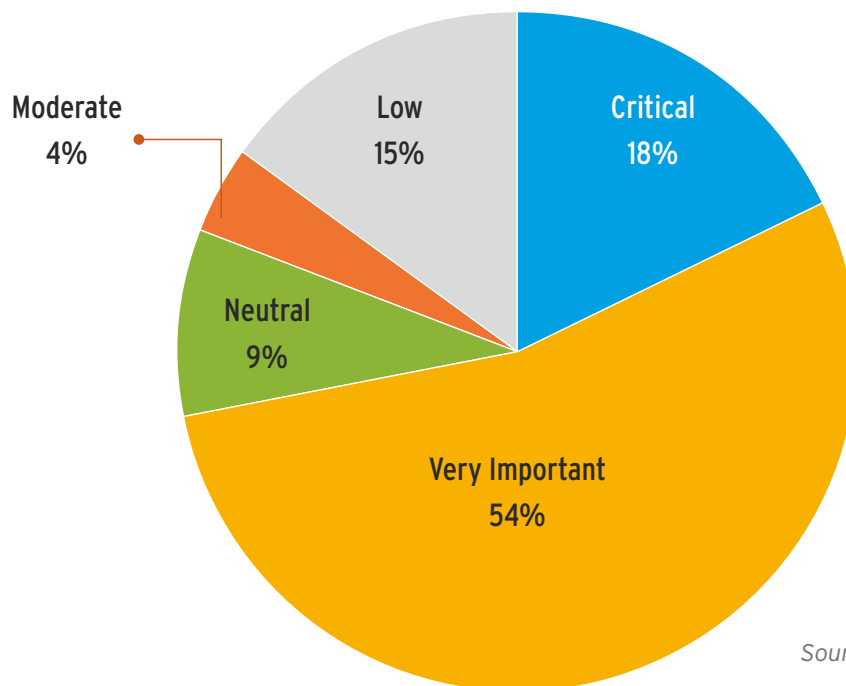
Source : Aberdeen Group, April 2008

Table 1: Level of Priority Assigned to Supplier Enablement

The figure above shows that 18% organizations that participated in the poll say supplier enablement is a very critical aspect of AP and Procurement digitization, while 54% state it is a very important aspect. An effective and methodical supplier enablement strategy will not only make the automation initiative adhere to the timelines set but also have an impact on:

- Increasing the supplier acceptance and participation rates

- Effectively reducing supply and labor costs

- Yielding fewer transaction costs

- Shortening the timeline for measuring the ROI for the digitization project

- Eliminating technical barriers by providing complete tech support

- Ensuring timely payments and discounts (if any)

- Providing complete visibility into transactions

Top Pressures that hinder Supplier Enablement

In the previous section, we've seen the impact a streamlined supplier enablement plan has on various elements of cost and process efficiencies. However, there are very few organizations that put efforts in designing an elaborate supplier enablement strategy. Listed below are a few hurdles with supplier enablement:

Resistance to Change:

Any new technology always comes with inertia to adapt it. Similarly, this digitization project will also face some resistance. The initiators of this project will have to pre-empt and prepare to deal with these objections that various stakeholders might have. One of the main resistances in supplier enablement plan comes from suppliers themselves as they are not comfortable with technology and favor traditional processes and channels. Businesses should identify and address these concerns accordingly.

Limited Budget:

The integration with ERPs and onboarding cost may prove to be costly to the small and medium sized suppliers. Hence the organization must be mindful of the technical maturity as well as the volume of transaction from the supplier while suggesting automation as an initiative (so that it acts as win-win for both)

Ambiguity:

There's often a misconception that this automation only proves to be beneficial for the buyers. This myth must be broken by making them aware of the benefits suppliers would receive, like better visibility, elimination of costs incurred due to manual intervention, increased process efficiencies due to streamlined processes, and reduction in time taken to receive payments. These benefits go a long way in improving supplier relationships with the buyer.

Limited Availability of Resources:

Small and medium-sized organizations may face hurdles in terms of availability of man-force and experts to see the integration of ERP and the automation suite through.

Pre-requisites for Successful Supplier Enablement Program

Complete and updated Supplier Information Database

The error most organizations commit when it comes to supplier information management is that they wait too long to build their supplier database as there are no proper processes and validation rules in place for supplier on-boarding. For Supplier enablement programs to be successful, it is of utmost importance to have a Supplier Information database that is accurate and updated with documented, structured processes in place.

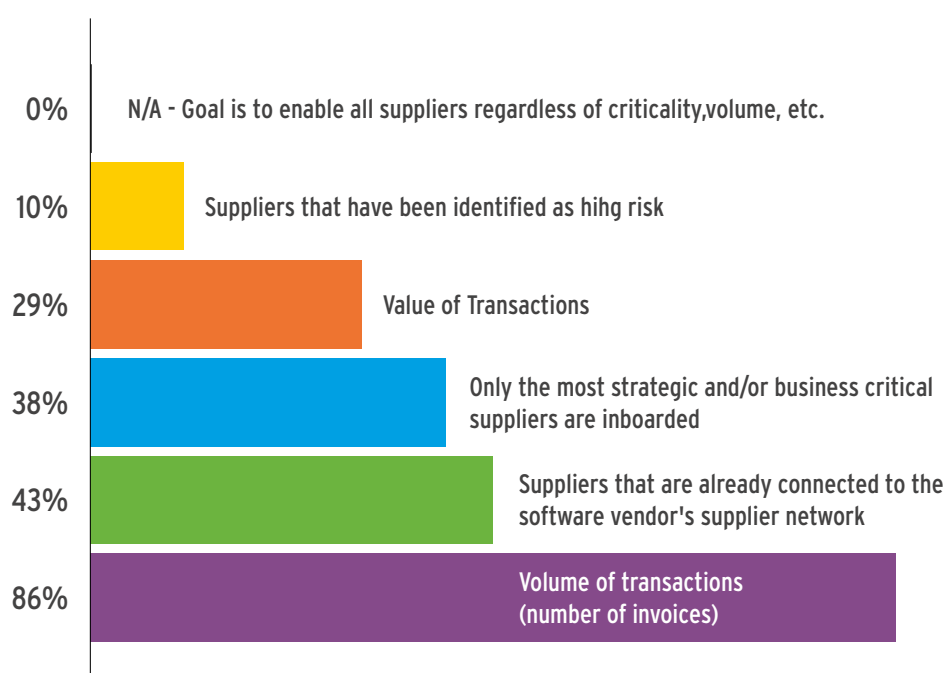Given below are the minimum data fields about suppliers that need to be captured to call a database complete:

Supplier Contact Information	Invoice count
Category Information	Supplier performance
Tenure	Risk scores
Spend amount	Technological capability (cXML)

Supplier Categorization

With a complete supplier information management system or process in place, the next step is categorization of the suppliers. This can be done basis the various parameters listed below to determine the apt strategy for each category.

0%	N/A - Goal is to enable all suppliers regardless of criticality,volume, etc.
10%	Suppliers that have been identified as hihg risk
29%	Value of Transactions
38%	Only the most strategic and/or business critical suppliers are inboarded
43%	Suppliers that are already connected to the software vendor's supplier network
86%	Volume of transactions (number of invoices)

Source : EInvoicing Supplier Onboarding Poll, The Hackett Group 2015

Table 2: How companies prioritize which suppliers to on-board first

Table 2 depicts a supplier enablement poll conducted by Hackett Group to determine which parameters most companies use to categorize their suppliers before the commencement of a supplier enablement plan. While most companies use the volume of transactions with a supplier to determine the category he/she should fall under, there are many other parameters that could be used to segment suppliers as per the businesses specific requirement and need. 43% of the organizations that participated in the poll look at whether the supplier is already connected to the vendor's supplier network; another approach most commonly adapted by organizations is to categorize them based on the suppliers that are most critical to the business.

The Pyramid Approach to Supplier Enablement
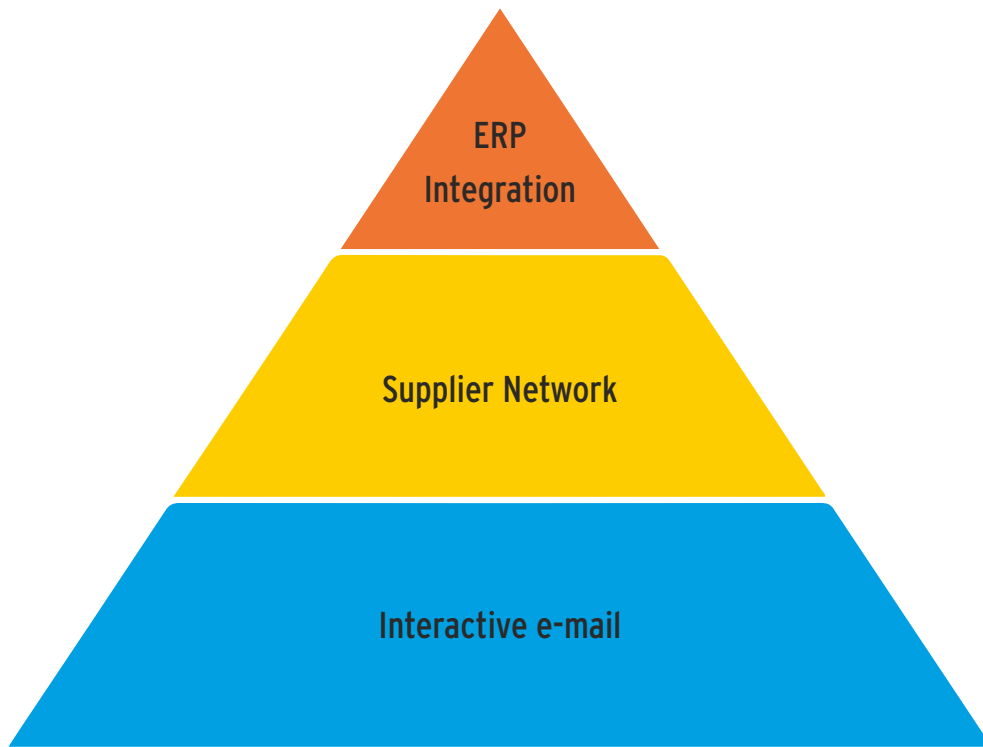
The Pyramid approach is an extremely efficient approach to supplier enablement. It segments and categorizes the supplier Database of an organization into three tiers based on the volume of transactions and the amount spent on each supplier. This approach ensures that based on the segmentation, suppliers that contribute to more than 50% of the total spend are on-boarded in the least duration.

The 3 parts of the pyramid approach are explained in detailed below:

Interactive Email:

This is the simplest and the most basic option devised for suppliers that are used to traditional means. The tier 3 or the interactive email approach can be used for suppliers who only have occasional or very low volume transactions with the buyer. The functionalities offered to them are also pretty basic like, PO-Invoice Flips, Invoice Approvals etc. They are usually not offered historical transaction data or any reports and analytics.

The suppliers that fall under this category are those that are not very critical for the organization. They are entities with whom occasional business is conducted. Usually the technical maturity of the suppliers falling under this category is also relatively low. Even though the transaction volume is low, the number of suppliers coming in this category is high because of which it is tier 3 of the pyramid with the largest area.

Supplier Network:

The suppliers that fall under the tier 2 of the pyramid or the "Supplier Network" category are those with medium to low transactions with the organization. The spend volume here will be higher than Tier 1 and these suppliers will be more critical to the organization. The functionalities offered in this tier ensure the supplier is more connected and engaged with the organization than the ones in tier 1 and hence are provided with supplier portals in addition to the tier 1 functionalities. The implementation and enablement takes more time in tier 2 as compared to tier 1 owing to the time taken for suppliers to register to the supplier portal.

ERP Integration:

Tier 1 or the ERP integration approach will comprise of suppliers with the highest volumes of transactions or the highest volume of spend. The suppliers in this tier will be of strategic importance to the organization even though they will be less in number. The ERP integration category would take more time to implement than both the tiers mentioned above, since the E-Invoicing or P2P Automation suite will be integrated to the ERP that the suppliers use. This will require significant amount of coding and effort to set up.

The suppliers that fall under this category will also be the most mature technologically and will have the highest technical capabilities. The communication flowing between the ERP and the automation suite will be two-directional.

Conclusion

Supplier adoption of new digital technology maybe a difficult feat to achieve if a 'one-size-fits-all' approach is adopted for same. A well-thought-out strategy that takes into consideration all the factors which will hinder the change, which segregates the suppliers and customizes the technology implementation keeping in mind the needs of the will make supplier adoption an easy and smooth process. The Pyramid Approach to Supplier Enablement will ensure that your digitization initiatives adhere to the set timelines and derive maximum ROI out of the automation initiative.

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About us

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management, Financial Savings Management, Project Management and Request Management Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.

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Wheel diagram labels: AutoClass, iAnalyze, iCost, iSource, iContract Authoring, iContract Repository, iPerform, iSupplier, eProcurement, eInvoicing, iSave. Spend Analysis, eSourcing, Contract Management, Supplier Management, Procure-to-Pay, Financial Savings Management. iManage, iRequest, One View, Supplier Network.