

August 28, 2007

Finance Enterprises: The Spendthrifts of Procurement Transactions

Fact: Finance enterprises exhibit higher requisition-to-order processing costs, when compared to Best-in-Class, Industry-Average, and even Laggard enterprises.

Research: The average cost of requisition-to-order processing demonstrated by Best-In-Class and High-Tech enterprises is \$13 and \$17, respectively. In comparison, Finance enterprises exhibit a significantly higher processing cost of \$29 per transaction.

Recommendations: To reduce their requisition-to-order processing costs, Finance organizations must increase their spend under management by enabling high-dollar volume suppliers, while embracing technology solutions that automate labor-intensive supplier management activities.

Overview

Across most industries, one of the top objectives behind an enterprise's e-procurement initiative is a reduction in the procurement department's operating costs. Finance organizations, while not sharing cost savings as their top driver, display an average requisition-to-order processing cost that is significantly higher than Best-In-Class and High-Tech enterprises.

Finance: Procurement Operating Cost

As displayed in Figure 1, while organizations across most sectors consider reduction in procurement processing cost as the top driver behind their supplier enablement activities, only 39% of finance enterprises regard reduction in procurement processing cost as their top priority.

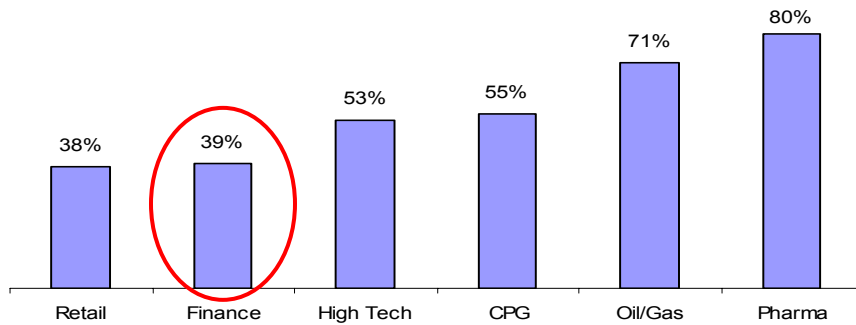
Recommendations

- √ Recognize savings as top objective of procurement initiative
- √ Increase the number of suppliers enabled
- √ Increase spend under management
- √ Automate supplier management activities

Spend Under Management

The classic measure of procurement's impact upon an enterprise is the percentage of non-payroll-related spend that falls under management of this group, what is commonly referred to as **spend under management**. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

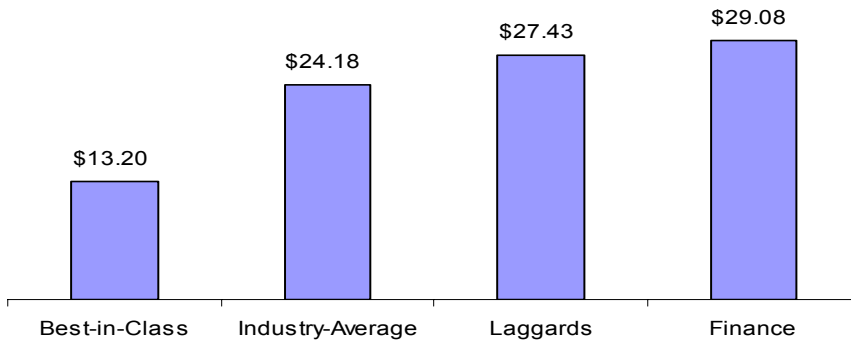
Figure 1: Cost Reduction: Priority by Sector



Source: Aberdeen Group, August 2007

It is partly this lack of prioritization for procurement departmental efficiencies that contributes to the average requisition-to-order processing costs for the financial sector (\$29 per cycle, Figure 2) that are significantly higher than Best-in-Class organizations. In fact, the processing costs reported by Finance enterprises are higher than both Industry-Average (\$24) and Laggard enterprises (\$27), demonstrating that Finance organizations should increase their focus on transaction cost reduction.

Figure 2: Average Requisition-to-Order Processing Costs



Source: Aberdeen Group, August 2007

The high requisition-to-order transaction cost demonstrated by Finance enterprises is attributed to two main factors:

- Enablement of a small supplier base
- Low utilization of technology solutions to automate supplier management activities

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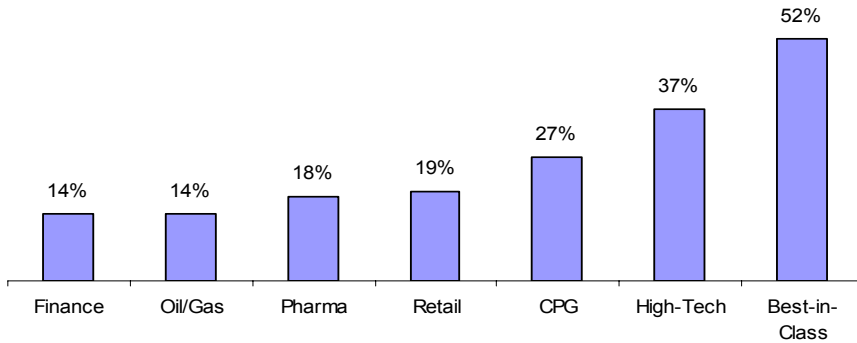
- √ Globalization
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Enabled Supplier Base

Finance enterprises have enabled the lowest percentage of their supplier base (14%), when compared to all other sectors (Figure 3).

Figure 3: Percentage of Total Suppliers Enabled



Source: Aberdeen Group, August 2007

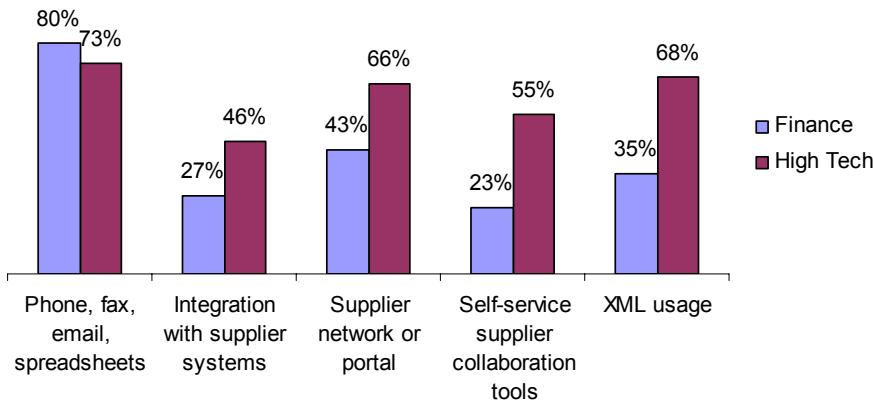
A low number of enabled suppliers requires higher usage of manual paper-based processes as opposed to low-cost electronic processing during the procure-to-pay cycle. Additionally, a larger enabled supplier-base drives a greater spend under the management of procurement system, resulting in greater spend visibility and process efficiency. This subsequently allows an organization to leverage opportunities of spend aggregation and cost savings.

Technology Utilization

Figure 4 compares the usage of technology solutions by Finance with a segment of the market that shines in its use of e-procurement technology and demonstrates the lowest requisition-to-order cost, High-Tech. Finance enterprises exhibit a greater usage of manual processes such as phone, fax, e-mail and spreadsheets, whereas High-Tech enterprises have adopted solutions that directly integrate with the supplier order management system. Additionally, High-Tech enterprises demonstrate a greater usage of new technologies such as supplier networks, online-self service tools, and XML-based purchase order processing (Figure 4).

"We've worked hard to transform and move our procurement department forward. In addition to a company-wide strategic sourcing effort initiated a couple years ago, we have been trying to automate and use different technologies for the different parts of the procure-to-pay process, from managing supplier performance to the transactional aspects of purchasing like invoice processing"
~ CPO, Large U.S. Bank

Figure 4: Technology Usage: Finance Vs. High-Tech



Source: Aberdeen Group, August 2007

Following the footsteps of High-Tech, Finance organizations should embrace technology solutions to automate their supplier management activities, with the goal of reducing their procurement processing cost.

Recommendations

To reduce their procurement processing costs, enterprises in the finance industry, first and foremost, must recognize the tangible benefit of procurement saving to the bottom line, and identify procurement saving as the top objective of their procurement initiative. Additionally, Finance organizations must increase the percentage of spend under management by enabling a higher percentage of its supplier base by first focusing on the high-dollar volume suppliers. Furthermore, Finance enterprises must adopt technology solutions that automate labor-intensive supplier management activities.

For more information on this or other research topics, please visit <http://www.aberdeen.com/channel/procs.asp>

Related Research

[The Supplier Enablement
Benchmark Report](#); May 2007

[The CPO's Strategic Agenda:
Managing People, Managing
Spend](#); November 2006

[The E-Procurement Benchmark
Report](#); August 2006

[Financial Firms Sees Big Gains in
TCM Investment](#), January 2008

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