

A woman with dark hair tied back, wearing glasses and a yellow cable-knit sweater, is sitting at a wooden table with a light blue-painted base. She is looking at a silver laptop and has her hand to her chin in a thoughtful pose. The background shows a bright, modern interior with a window, a potted plant, and decorative Buddha statues on a windowsill.

Direct procurement digital transformation

Transforming direct spend with
EY and SAP solutions

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Focusing on effective direct materials has a profound impact not just on bottom-line reduction but on top-line growth.

– Hamish McKechnie-Sharma

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Abstract/introduction

In today's evolving world, organizations require advanced and interconnected direct procurement processes and technologies to efficiently and holistically manage direct spend and minimize risk. Direct purchases are critical to a manufacturing or supply chain organization, since they represent the materials used as direct inputs to cost of goods sold (COGS). Transforming to a future state solution/platform must be comprehensive and scalable, and must align with procurement and organization initiatives. Tightly integrated with manufacturing, planning, costing and inventory management, direct procurement is a high-stakes and highly complex environment to navigate. The constantly evolving world of direct procurement is multifaceted and covers tools and cross-functional areas, including market analysis, sourcing and contracting, materials management, production planning, manufacturing execution, logistics and inventory management. These are just a few of the areas that are dependent upon accurate and real-time data across the direct landscape and bring inherent risks and the potential to affect the organization's bottom line.

As organizations transform their direct procurement processes to a digital platform, careful and comprehensive consideration must be made across the organizations' people, processes, policies, data and technologies to ensure program success. The EY organization and SAP are making significant investments to expand use cases of leading indirect procurement solutions into innovative and cutting-edge direct spend solutions. These solutions will enable organizations to achieve strategic objectives while reducing COGS and increasing operational efficiency. Through our experience supporting client transformations, this document serves to delve into various areas across direct procurement and the associated SAP products to be evaluated when approaching your direct procurement transformation with S/4HANA.





Common problem statements and pain points

Technology has transformed the way procurement is executed across all industries and throughout the world. With constantly evolving technology, organizations struggle to keep outdated, customized, and siloed systems and processes integrated, causing inefficiencies for the business and organization. Procurement strives to gain further value and reduce inefficiencies that are commonly daunting organizations by addressing some of the below pain points:

- Slow product innovation cycles and poorly integrated procurement and PLM tools
- Poor collaboration between internal business functions (i.e., PD, Purchasing, Manufacturing, Finance)
- Higher costs due to design changes occurring later in the product life cycle
- Manual and/or lack of standardized sourcing process for direct and indirect spend
- Poor collaboration with suppliers around product development life cycle
- Limited spend visibility and ability to perform analysis by vendors and categories
- Lack of supply chain visibility, therefore high safety stock levels and inventory carrying costs
- Manual paper-based invoice processing and long invoice processing cycle times
- Non-standardized payment terms exposure
- Little to no exposure on third-party risk management or extended supply chains

A time for corrective action

Organizations today are under more pressure than ever from leadership to evolve and move digital. Company initiatives and mandates are underway across the world, striving to transform direct

procurement and bring higher value across the business enterprise. Organizations are working to achieve modern business benefits and assess the potential savings from improved control and compliance, and process efficiencies in Procurement and Accounts Payable, as well as improved cash management. Through leadership and collaboration with EY people, coupled with the right SAP technologies, organizations are moving digital with higher automation, greater visibility, increased savings and greater spend under management. Below is a subset of areas that organizations are successfully addressing:

- Simplified direct procurement solution portfolio
- Shorter cycle times and product time to market
- Enhanced user efficiency and end-user experience
- Enforcement of effective risk-free contracts
- Better and simplified collaboration across purchasing and manufacturing
- Reduction in procurement cost by eliminating time-consuming manual tasks
- Streamlined order processing
- Improved total cost of ownership
- More spend under management
- Demand-driven supply chains for fast and accurate delivery of goods
- Reduced inventories and significant working capital improvements
- Reduced supply chain cost, risk and carbon impact
- Increased accuracy and efficiency of tax compliance, reporting and planning
- Secure material tracking
- Greater visibility to drive ethical behavior throughout the supply chain
- Enhanced spend analytics, which leverage real-time reports across purchasing



From a solution perspective, only SAP has all the components needed for a fully integrated end-to-end direct Material Solution: IBP, S4/HANA, EWM, Ariba's full suite, Supply Chain Collaboration, and the Ariba Network.

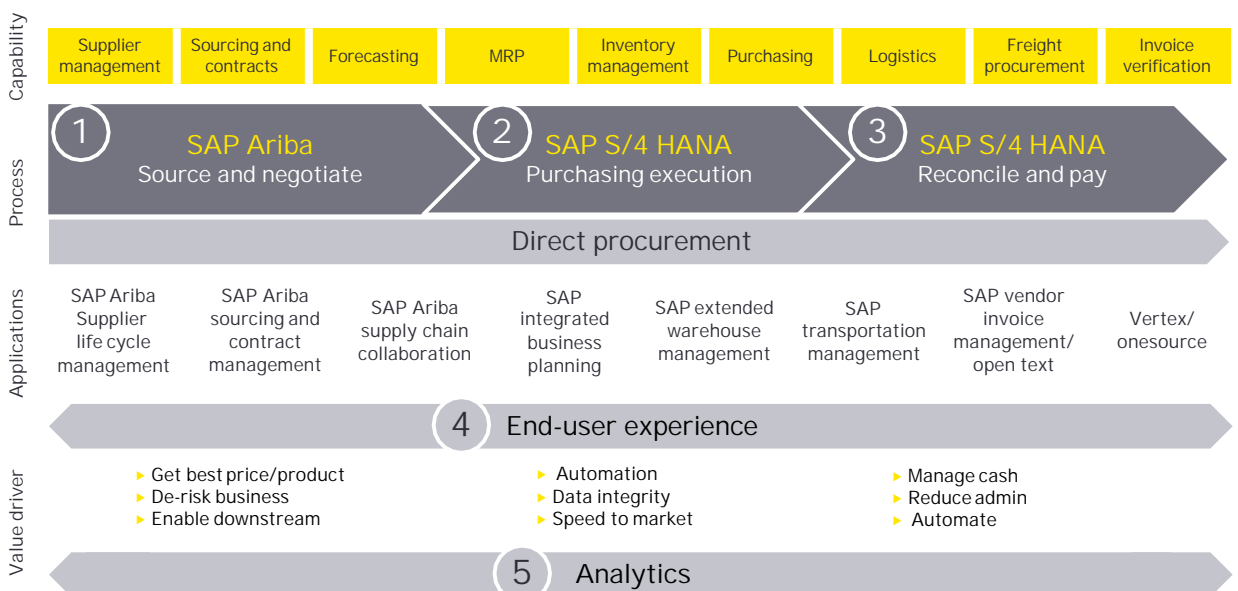
– Dan Kowal

Key considerations for the direct procurement transformation

As an organization prepares for the procurement transformation journey, evaluating the full technical and process landscape is a must. Sure, procurement is naturally the foundational pillar of the journey, but Finance, Product Development, Accounting, the wider Supply Chain footprint and various other stakeholder groups all have an integral role to deliver a fully reinvented end-to-end solution. A fully integrated SAP platform anchored by SAP S/4 HANA serves as the anchor that converts material requirements planning (MRP) requirements to purchase orders, including digital collaboration across the entire supply chain

ecosystem with SAP Analytics Cloud (SAC), SAP Ariba, Integrated Business Planning (IBP), Transportation Management (TM), Extended Warehouse Management (EWM), Global Trade Services (GTS), Open Text Vendor Invoice Management (VIM), and the extended suite of tax and regulatory solutions. Leveraging our transformational experience and the EY view of market-leading solutions offered by SAP, the following outlines key foundational areas within direct procurement and important components to assess when planning for the future state.

Figure 1 – Direct procurement digital transformation with SAP solutions



Source and negotiate

Sourcing and negotiation compose the initial stages that take place prior to the transactional procurement of goods and services. The strategic sourcing stage comprises three primary areas involving Supplier Management, Sourcing and Contracting processes – each playing an integral role in enabling and streamlining downstream direct procurement activities. Each of these areas requires not only detailed strategic planning, but also a holistic view on the organization's people, processes, policies, data and technology leveraged across the landscape. Ensuring that master data have been fully sensitized for direct and indirect tax reporting is an important part of this exercise.

Supplier management

Supplier management can be defined as the capabilities to develop and manage suppliers throughout the entire supplier life cycle to ensure that maximum value is received. This is inclusive of supplier onboarding, performance, evaluation based on set criteria, assessing and reducing supply risk, and corporate responsibility. Ultimately, an organization's suppliers will have a major impact on its business, goals and the bottom line – these suppliers create goods and services for the business, which, in turn, are directly or indirectly incorporated into the organization's end product that is delivered to customers. In today's world, global organizations face the constant challenges of multiple back-end systems and data, disparate onboarding procedures

and inconsistent qualification processes. Organizations struggle to analyze reliable vendor information to assess performance and risk, and gain a true comprehensive view for the benefits that the supplier brings to the organization.

The EY approach to supplier management begins with establishing a consistent and structured approach to the supplier management process and associated data. It starts with a strong foundation of a clear supplier life cycle process (onboarding, qualification, disqualification, etc.) that fits the client's industry and organization, coupled with fully cleansed supplier data to be leveraged throughout the organization. Our experience in this area concentrates on a streamlined process that brings accurate real-time data throughout the organization, reducing bottlenecks, lowering risk and arming procurement to make more informed decisions.

SAP's offering of SAP Ariba Supplier Lifecycle Management provides organizations with the platform to drive efficiency and reliability in supplier data. With features addressing supplier onboarding, registration, qualification and disqualification processes, organizations can gain insights to accurate and standardized data sets, which natively integrate to back-end platforms, such as SAP MDGS. A single point of supplier registration/onboarding, transitioning into qualification and segmentation establishes the base information to be leveraged to ensure that downstream activities that are related to preferred and qualified suppliers are adhered to and strategically





driven. Creating a single organizational source of truth to originating and maintaining supplier data and performance is an integral step when considering how the direct procurement organization will function in the future state and how the application housing the data will interact with other applications and supplier users themselves.

Sourcing

Sourcing is the process of identifying, assessing and selecting the appropriate supplier that offers the best value to the organization to support business operations for a given need. Within direct procurement, this can involve analyzing the category and market, benchmarking against competitor products, obtaining bids through competitive events, conducting third-party due diligence, and analyzing and tracking results. Many organizations today are challenged with manual and inefficient processes when it comes to direct sourcing. Poor collaboration between the procurement organization and other stakeholders, such as product development and finance, often lead to a “black hole” of cost creep in the product development life cycle. Organizations need efficient processes, policies, and mechanisms to share accurate and real-time data to ensure an efficient and reliable strategic sourcing process.

Technology is only half the battle; therefore, the EY organization leads to examine and update processes and policies that may currently be leading to inefficiencies in existing processes. The transformation to digital in direct procurement is an opportunity for EY people and the organization to visit often long-standing policies and procedures, and implement and revise them to be a more efficient and comprehensive fit for the organization. In addition, standardization of processes and templates further enables the organization to gather more consistent and structured data, allowing for further insights into product costs and analytical capabilities.

Within the SAP product suite, the SAP Ariba Sourcing module (including Product Sourcing) provides organizations with the ability to transform their strategic sourcing processes and enable state-of-the-art sourcing features. The OnDemand Ariba module enables visibility and collaboration across the organization, including the sharing of an accurate Bill of Materials (BOM) between Ariba and PLM or SAP ERP back ends, such as S/4 HANA via Material Master. Additional features, such as Cost Breakdown Analysis (CBA), enable organizations to quote at a consistent detailed level and gain complete visibility into suppliers’ hidden costs. The ability to arm procurement with accurate and reliable information, advanced bid analysis and negotiation tools – coupled with minimizing manual data entry – drives process efficiencies across all spend categories and often leads to decreased time to market and cost savings. Digitally capturing quoting against an accurate BOM further provides procurement with analytical visibility to track pricing over the course of the life cycle and improve the ability to accurately predict the final product cost.

Contract management

Contract management is the process of managing contract creation, negotiation, and execution to drive the operational and financial performance of an organization while concurrently protecting the organization from inherent risk. Contracting is an integral piece of the procurement process that creates the base legal agreement to pricing achieved via sourcing, but, equally important, it ensures that appropriate legal language is leveraged to protect the organization’s interests. Organizations need a clearly defined set of standardized, legally approved contract agreements and clauses – a lack of this fundamental base can be detrimental to an organization, creating unnecessary, extended review cycles and extended inefficiencies.

Direct contracts are complex in nature and difficult to negotiate; therefore, collaboration between Procurement and Legal (as well as additional stakeholders) is required on clause language to ensure an efficient process and lead to shorter negotiation cycles. Often, organizations hold these agreements throughout multiple tools, creating a lack of visibility throughout procurement and the inability to leverage the information within downstream applications.

EY teams brings a structured and client-oriented approach to the complex world of contracting. A detailed design process brings with it an intuitive approach to establish the right processes and policies for the organization and negotiation playbooks to ensure the lowest risk for the organization. Clients often benefit from the removal of unnecessary approvals, consolidation of agreements and language, aligned procedures and policies, and a clear and understandable process that brings further efficiencies to procurement.

Within the direct procurement space, the SAP Ariba Contracts module enables organizations to streamline and standardize the way that direct agreements are authored, reviewed and transferred to downstream applications. The use of features such as Enhanced Contract Authoring and clause libraries, coupled with cleansed and standardized client agreement templates, enables organizations to truly automate the authoring and review processes, which can be cumbersome. The interconnected platform automates information initiated from Ariba Sourcing and passes through to downstream applications, such as S/4 HANA, enabling scheduling and outline agreements and accurate pricing for compliance via Contract Line Item Document integration. A proper deployment of SAP Ariba Contracts, coupled with standardized processes and agreements, enables organizations to further de-risk legal and financial exposure to the organization.



Purchasing execution

Following the foundation set by the source and negotiate phase, purchasing execution is where further strategic and tactical activities within the direct procurement process transpire. Various activities, such as forecasting, supplier collaboration, material resource planning, freight procurement, and warehousing and inventory, take shape in the execution of ordering and procuring goods and services. Highly complex and integrated across the direct landscape, these processes are the backbone of the execution component of direct operations procurement.

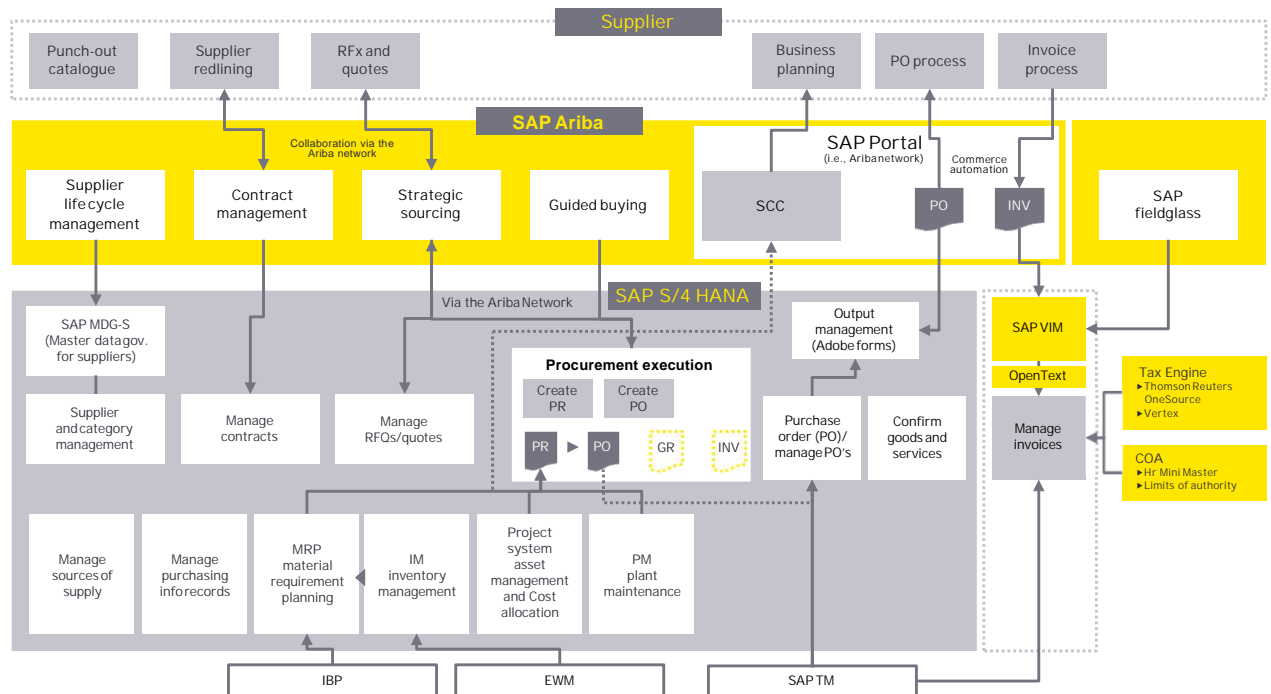
Forecasting

Predicting future customer demand enables a business to make informed decisions downstream in supply-chain planning processes, including production and inventory planning. Due to ever-changing variability in product demand, as well as reliance on historical

data, forecasting is often a time-consuming, unreliable process. Forecasting is frequently done in spreadsheets, or in multiple tools, creating a lack of visibility and coherence in a single set of numbers. As a result, there is a business value in an interconnected, digital forecasting solution to increase accuracy in revenue projections and improve supply chain efficiency.

EY teams not only focus on the digital implementation to improve efficiencies, but it also brings along an IBP planning framework to define the end-to-end planning processes right from long-term planning to short-term execution. Defining these planning horizons and handoffs for each process is key to the success and the operating model of the organization, along with defining a groupwide standard template for demand planning and supply planning, as well as sales and operations planning.

Figure 2 – S2P Direct procurement SAP solutions landscape





SAP IBP is a robust supply chain solution that features a Demand Planning module with a wide range of forecasting capabilities. IBP offers a multitude of statistical forecasting algorithms to improve accuracy on mid- and long-term demand planning, as well as Demand Sensing, a short-term forecasting solution capable of reacting to real-time changes in order to drive improved fulfillment. Additionally, with exception management and embedded analytics, IBP performs real-time analysis identifying trends and pain points to drive proactive decision-making. With an Excel front-end interface, the change management effort and overall learning curve for IBP are low, allowing planners more time to focus on value-add activities.

Supplier collaboration

As an organization transforms to the digital platform, naturally moving from paper to electronic processing can expedite and automate collaboration internally within the organization, but also externally with suppliers and vendors. Collaboration enabled via a digital network provides real-time insights and information to better manage procurement, inventory, replenishment and material quality. Digital collaboration of sourcing, planning/forecasting and inventory can strengthen supplier relationships by providing a robust framework to communicate organizations' supply planning needs to suppliers. Organizations today commonly struggle to gain visibility into accurate and trustworthy data to provide true insights to the organization. They hold manual and outdated processes collaborating with external partners to gain forecasting insights, and manage inventory, purchase orders, advanced ship notices, invoices and various other components across the supply chain. Furthermore, the lack of a digital collaboration can lead to unnecessary inventories, poor working capital, poor goods tracking and higher overall supply chain risks.

EY teams are highly qualified to support supply chain collaboration transformations due to deep-rooted experience in direct planning and procurement capabilities. Our SAP Procurement & Planning capability groups possess deep implementation knowledge in designing and implementing business process improvements focused on demand planning, and on PO execution and supplier collaboration areas. In addition to standard integration methods provided, EY consultants have gained technical acumen in solving custom integration requirements to integrate products, such as the Ariba Supply Chain Collaboration (SCC) solution with varied customers' ERP landscapes (e.g., TIBCO, JDE, Informatica integration with Ariba SCC solution). Additionally, our supplier enablement approach (defined by category/operating locations/supplier capability) assists customers with a successful and sustainable supplier onboarding journey.

Digital advancements for procurement execution activities and collaboration between buyers and suppliers have historically been primarily focused on indirect spend via the Ariba Network – enter SAP Ariba's SCC module. SCC is tailored specifically to address the aforementioned open pain points within the direct space. Easy collaboration is enabled between buyers and suppliers via the SAP Portal (aka Ariba Network) to increase visibility and more effective planning. Standard integration is also offered to products such as SAP IBP and SAP S/4 HANA to create a fully integrated and global planning environment for the supply chain. SCC enables forecasting collaboration and reduces the uncertainty between trading partners, leading to consolidated supply chain inventories and optimization of inventory levels. Organizations gain not only visibility into supply with continuous monitoring, benchmarking and enhancement of supplier performance, but also the ability to respond intelligently to changes in supply and demand with real-time visibility into supply chain metrics.



MRP

Direct procurement is mainly controlled by MRP as the source of most direct requirements from production or sales. As customer demand changes, there are high pressures around accurate and efficient MRP to guarantee material availability, and determine the requirements in term of assemblies, individual parts and raw materials for fulfilling the agreed demand. MRP defines the required quantity and the requirement date based on consideration of multiple elements, such as forecasting, existing inventory levels, demands, supplies and planning parameters.

EY teams have the experience from advanced manufacturing and S/4 HANA engagements to set a strong foundation for strategic discussions, and to challenge and transform end-to-end Source-to-Pay processes and modernize old mainframe systems. EY teams deploy an S/4 HANA-based, user-friendly solution, streamlining procurement processes with Supplier Collaboration, Forecasting, MRP, Inventory, Warehousing and Transportation activities. Our procurement transformations ultimately lead to buyer efficiency and an increased visibility across your supply chain to support growth.

Using MRP Live on S/4 HANA, MRP controllers can benefit from improved performance and execute the planning run in much shorter cycles – allowing for matching demand and supply more efficiently and reacting to issues far faster than before. S/4 HANA MRP functionality helps production managers accurately plan production and put together a reliable production schedule. Thus, management can stay on top of processes and follow how the customer orders or operations are carried out from a master production schedule. With full visibility of the manufacturing process from vendors to finishing the end products, MRP helps to empower decision-makers, simplifying production and efficient downstream purchasing to optimize the customer service level and minimizing costs and capital lockup.

Freight procurement

Companies, especially those with manufacturing operations, have evolved direct materials sourcing and freight procurement from an administrative function to a strategic procurement process. Strategic freight procurement helps an organization identify and negotiate the best rates from carriers to transport items between specific locations and then agree a contract (agreement) with the carriers. Transportation management solutions automate administrative tasks and make smarter decisions. They supply the tools needed to request rate quotations, evaluate responses and award the transportation business to carriers to maximize your operational efficiency and service excellence while minimizing transportation cost.

Our experience in this space combines highly specific transportation management systems knowledge with the broad spectrum of digital supply chain solutions to be able to work with organizations on the vision of end-to-end planning, logistics and fulfillment excellence. With a high emphasis on transportation improvement opportunities, EY clients have achieved harmonized and streamlined processes across regions; appropriate governance models supporting the business; and end-to-end visibility across customer services, logistics and finance, as well as a global integrated and scalable TMS solution.

SAP TM aids with the planning and execution of the physical movement of goods across the supply chain. TM enables organizations to manage the transportation logistic network with a holistic view, reduce operational costs, maximize assets utilization and meet customer service expectations while remaining agile responsive about the unexpected events. The product offers solutions to minimize risk factors across an organizations' entire supply chain and ensure compliance with regulations and policies. TM has experienced significant growth in the recent year, with 200+ new customers, as they migrate to S/4 HANA. TM developed innovative capabilities in

carrier rating, contract management and appointment scheduling, as well as SAP Logistics Business Network (LBN), launching in 2019 providing partnerships with Uber Freight.

SAP GTS helps facilitate global trade and customs compliance activities by automating the processing and screening of import (procure-to-pay) and export (order-to-cash) transactions to detect sanctioned parties and embargoed countries, determine import and export controls and licensing requirements, and facilitate electronic Customs filing.

Additionally, GTS can be configured to generate global trade, Customs, transportation and shipping documents, which can lead to reduced brokerage and service provider fees and expenses. When GTS is integrated with TM, companies benefit from seamless end-to-end compliance with international trade regulations from order processing through proof of delivery while ensuring that Customs Declarations reflect the most current transportation data, reducing filing errors and Customs clearance times.

Warehousing and inventory

To guarantee customer expectation or a production process, or to avoid delays, various goods need to be held in stock. Inventory management is all about knowing what goods you have, where they are stocked and how much you will require to meet your customer or internal production demand. The inventory and warehouse management system helps an organization manage and intelligently execute the operations of a warehouse or distribution center. Warehouse management (WM) applications offer capabilities such as receiving, put-away, stock locating, inventory management, cycle counting, task interleaving, wave planning, order allocation, order picking, replenishment, packing, shipping, labor management and automated materials handling equipment (MHE) interfaces.





EY people are highly qualified to support warehouse transformation due to the firm's deep WM functional and technical experience, coupled with a wide variety of successful WM deployments. EY has a leading global and integrated supply chain network solving clients' most complex supply chain issues and delivering high-quality and sustainable results. The EY supply chain and operations practice has core capabilities to provide specific business process/warehouse design capabilities, including business process improvement, logistics operations, warehouse design, labor management and experience with third-party logistics. In addition to our pioneering experience with warehouse management applications, our team and the project and solution leaders hold deep roots in WM implementations, and our collective experiences date back to the late 1990s, supporting hundreds of WM site deployments around the world in various industries.

SAP has two main warehousing solutions: SAP EWM and SAP WM – its legacy solution. Help optimizing your inventory means the right products in the right warehouse without tying up too much capital in inventory. Inventory optimization takes seasonality and campaigns into account, as well as supplier lead times and demand. Furthermore, integration with demand planning offers the ability to adjust your stocks based on patterns in demand. Organizations that have transformed business processes enabled by SAP EWM have achieved key benefits of increased scalability, reduced costs from lower maintenance efforts and globally streamlined business processes, and they have enabled themselves to leverage digital technologies in a "plug and play" manner.

Industrial materials

To maintain competitiveness in today's market, manufacturers must control their industrial materials costs, which may, at times, account for up to 4.5% of total revenue. The impact of poorly managed industrial materials processes can result in increased maintenance costs, inventory levels and freight costs, adversely affecting plant performance. The industry today is aspiring toward integrated standard processes that cross lines of business to plan, design, and execute capital and O&M work, which can then be easily managed and produce consistent and verifiable results. The starting point is not a blank sheet of paper, and there are typically many challenges to overcome from the onset, such as determining insource vs. outsource strategy for managing materials. Many organizations additionally often struggle with a lack of demand plan/visibility by procurement, inadequate material traceability capabilities, unclear supplier performance expectations and no clear system of record for inventory. These issues can additionally be further compounded with non-standardized item masters, non-user-friendly buying channels, and cumbersome accounting processes or structures.

Digitalization and enabling information integration mechanisms between ERP/EAM and procurement applications would be a welcome step forward in driving this change and helping overcome challenges that are faced. The aim to drive toward a closer integration between EAM/ERP and digital procurement applications may offer various benefits to the organization, such as enhanced business unit visibility of material availability, increased ability to match inventory levels with demand signals and an improved business user consumer experience. This digitalization and integration further benefit the organization by creating a lesser need for field employees to be working in multiple systems, and it further aligns with a digital and mobile strategy.

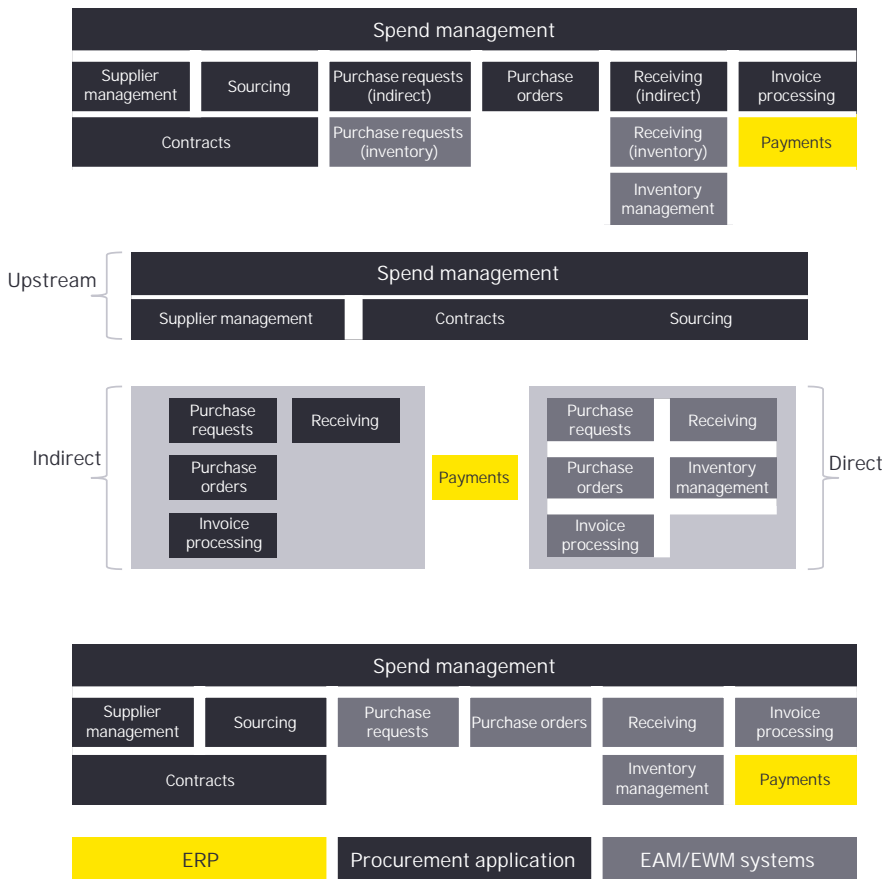


Through this transformation, organizations hold the opportunity to augment procurement's skills and processes through effective change management, global interaction, and analytics to improve cloud processes and the organizations future direction.

Through engagement experience, the makeup of a company's business units, organization structure and specific requirements, among other factors,

can also drive toward different solution design answers. EY teams have worked with many of the leading automotive and advanced manufacturing organizations to define their industrial materials strategy and implement supporting technology solutions. Outlined below are key solution options that organizations could consider to drive close integration of industrial materials management with supply chain.

Figure 3 – Industrial materials management



Option A – Purchasing in eProcurement Application

- Buyers have to work in one application only
- Broader ability to leverage supplier networks
- Complex interfaces and integrations to connect with work and asset management processes and records

Option B – Hybrid

- Direct purchasing in EAM application, indirect purchasing in eProcurement application
- Preserves integration with asset records for direct spend, but leverages functionality and supplier networks for indirect spend
- Broader ability to leverage supplier networks
- Complex interfaces and integrations

Option C – Purchasing in EAM Application

- Purchasing history is more easily tied to asset record
- Fewer systems for business to work within
- Limited support for indirect spending
- More limited supplier network options

Reconcile and pay

Succeeding the purchasing execution phase is reconciliation and payment. Two large components and considerations of this area surround how an organization will handle invoice management and indirect and direct tax compliance leading to the payment of the vendor via S/4 HANA. Given the complex areas of exception management within procurement, we discuss the following two components in this section:

Invoice management

OpenText™ VIM optimizes and simplifies the process of receiving, managing, routing, and monitoring invoices and related documentation. Stakeholders involved in any invoice problem quickly and efficiently access invoice information. Additionally, VIM has the ability to further extend its capabilities to archiving and automating capture and extraction of invoice data. For most companies, invoice processing requires too much manual effort, causing a drain on resources internally and for the vendors involved. Manual keying of invoice data and resolution efforts involve time-consuming historical research, communication with the vendor, documentation and involvement of multiple parties, etc. With that, invoice processing is wrought with many opportunities for error, loss and delay. Lengthy

invoice cycle time results in missed payment incentives and discounts due to untimely payment. Audit and compliance concerns arise as well due to contradictory documents or user error.

EY people have the experience deploying the OpenText VIM solution to optimize the process of receiving, scanning and managing incoming supplier invoices. We recently teamed with a leading agribusiness company to streamline its accounts payable function. Our solution automated invoice processing, transforming a legacy paper-based solution to a 100% digital invoice operation, reducing manual entries and decreasing invoice processing costs more than 50%.

With VIM, invoices are routed automatically to the right person for resolution, approval and payment. Cash flow can be significantly improved by streamlining workflows, initiating reminders and shortening the payment cycle. It also enhances vendor relations with better access to current and accurate vendor information. With build-in reports, VIM provides accurate and on-time financial reporting with automatic access to accounts payable information. Organizations enabling VIM additionally promote regulatory compliance with a well-managed process using preconfigured rules, roles and actions.





Tax compliance

Tax compliance is the degree to which a company complies (or fails to comply) with the tax rules of the country (e.g., by declaring income, filing a return, paying the taxes due in a timely manner). Indirect taxes, such as value-added tax (VAT), goods and services tax (GST), and customs duties/tariffs represent a significant revenue component for many governments worldwide. While direct corporate income tax rates have fallen in many countries, the combined tax burden represents a significant expense and compliance responsibility. Given this changing environment, it has become more critical than ever to manage indirect taxes with a view to optimizing cash flow and reducing risk.

Tax authorities are driving changes for transparency reporting, requiring filing through digital methods, requesting more information provided, increasing real-time filing, and employing the use of data analytics for risk profiling and auditing. This means that the compliance process model needs to become quicker, more efficient and more streamlined. As tax reporting becomes increasingly closer to real time, a key consideration for indirect tax is streamlining the flow of source data for purchasing between the procurement tool and the ERP/tax engine to aid accurate reporting and reducing manual effort downstream.

With over 400 dedicated tax technology resources throughout all major markets around the world, EY brings a dedicated tax network and skill set to address tax. EY supports its clients in their development of global tax policies and the translation of those policies into consistent finance processes across jurisdictions, helping them optimize the balance between insourced and outsourced processes/resources, and frame control policies and procedures around finance processes to facilitate the completeness and accuracy of financial data.

Simplification of period-end processes, as well as streamlining reporting processes, places organizations in an improved state to be integrated into the overall SAP landscape.

Automating tax determination leveraging third-party tax engines (such as Vertex and Thomson Reuters' One Source) can reduce under- and overpayment errors, further driving the concept of touchless procurement. The solution should have the capability to validate tax charged by a vendor before an invoice is processed for payment. On top of location and addresses are other factors, such as status of the vendor, established vs. VAT registered and country VAT/Tax ID validation. The higher level of accuracy achieved by automating VAT/GST/SUT within the solution will reduce significantly the risk of manual errors and related tax recovery opportunities.

SAP tax compliance delivers a complete cycle covering the detection and investigation of tax issues, and it can help reduce compliance issues in tax processes going forward. Automating tax-checking processes with a unified, standardized set of rules reduces time and effort, and allows anomalies to be identified more accurately. The solution provides the ability to view and analyze country- or sector-specific data and drill down to individual tests and transactional data. This enables organizations to manage compliance, focus on major cost drivers, and develop an Indirect tax strategy on a local and global basis.

End-user experience

As organizations look to transform processes and move to advanced digital platforms, oftentimes they can lose track of the true end-user experience. Within direct procurement, there is a wide range of stakeholders that will interact with the solutions and adopt new processes implemented. Creating a seamless environment for these individuals across integrated applications and job functions will ultimately lead to stronger adoptions and better return on investment. End users need their voices to be heard – involving cross-functional stakeholders up front early in the process and ensuring that proper communication and training plans are established are imperative to success. Often, the key foundational aspect of the enhanced user experience can be blurred by stakeholder groups with competing interests and complex requirements. A choppy interaction among drastically different user interfaces, inconsistent metadata and duplicative tasks can lead to lower adoption, unrealized savings and, ultimately, unrealized return on investment. EY teams approaches the end-user experience with a persona-based approach throughout the design process. This user-centric-based approach brings representation from various personas into account and emphasizes the importance of the “voice of the customer” and user satisfaction.

Creating the “ideal” user experience may, at times, seem to be a stretch; however, organizations that are successful in enhancing the everyday working life of their workforce will ultimately lead to increased productivity and satisfaction. The SAP Fiori user experience creates an integrated and seamless interface to provide a consistent and intuitive experience for end users. Understanding how users will interact with various applications and leveraging a persona-based view during the design process ensures that the voice of the customer is heard. EY people work hand in hand with the organization through the persona-based approach to ensure that the optimal design for the end users is tailored to the organization’s goals.

Organizations must consider not only how users will interact with the tool itself, but also how the rollout will be communicated, trained and transitioned, ensuring no disruption to the business. Not only will EY support the digital transformation from a process and technology perspective, but it will also bring leading-class change management resourcing and perspective that are tailored to align with an organization’s culture and new ways of working. Managing change while equipping end users with the right tools and streamlined processes will translate into a successful impact to the organization, driving further savings and return on investment for the program.



Analytics

As more information becomes readily available in the digital age, a key question for any organization is – What can we do with this data to further drive proactive decision-making and gain a competitive edge? Analytics is the use of data, statistical and quantitative analysis, explanatory and predictive models, and fact-based management to drive decisions and actions within an organization to create strategic value. Today, analytics is used by world-class procurement organizations to create insights and drive decisions. Analytics enables a procurement function to identify and prioritize purchasing savings opportunities and then take action upon those bringing increased negotiation power to procurement. Today, many organizations struggle with a lack of visibility over general spend due to a lack of consistent classification and poor master data quality. Procurement continues to wrestle with an unknown range of opportunities to leverage cost savings, performance improvement and risk mitigation. When moving digital, clients have the opportunity to further transform themselves by available data and advanced analytical tools.

SAP Analytics Cloud provides the analytical tool within the SAP family that integrates seamlessly with the suite of SAP products and allows individuals to discover, visualize, plan and predict in a single solution. Leveraging the Analytics Cloud, organizations can create dashboards that provide insights to spend, and arm the procurement function with data to make quicker and more educated decisions. Working with clients, EY teams have helped enable organizations to understand what their people need, and how they are looking to see it – all while streamlining the process and removing the manual efforts previously required to mine data.

With advanced analytics, EY clients have helped data-driven communications to all stakeholders, improved compliance with policies and contracts, and a more robust and productive sourcing function providing increased savings and return on investment.



Conclusion



With the high-paced flow of business and operations, organizations need to pause and ask themselves – Where is the organization now, and where do we want to be? An important aspect of any company is having a detailed technical road map outlining the technology of the future. This road map will be unique for a given organization based on its complexity and set of defined goals and technology landscape. Understanding

where processes can be improved, and then enabling new processes with the right technology, can lead to new ways of working and increased productivity and satisfaction among the user base.

Consider the following questions associated with their subtopics. Are there better ways of working and efficiencies to be gained to make direct procurement run more effectively in the digital age?

Direct procurement process	Key questions for the organization
Supplier management	<ul style="list-style-type: none"> • How are onboarding, qualification and master data associated with the supplier managed across applications and shared with relevant internal stakeholders? • How is the organization measuring and providing visibility into a supplier's performance, compliance and external risk factors? • How is the organization ensuring that preferred suppliers for given categories are being properly leveraged within downstream activities?
Sourcing	<ul style="list-style-type: none"> • How can procurement better collaborate with product development/engineering and other stakeholders? • How can procurement better track pricing over the course of the product development life cycle? • How can the organization better communicate BOM information and documentation across procurement and product development?
Contract management	<ul style="list-style-type: none"> • How are contract agreements stored across the organization today? • Does the organization hold and maintain unnecessary or duplicative contract agreements and clauses? • What is the process for negotiation and clearly defining alternate and fallback clauses to incorporate when needed?
Forecasting	<ul style="list-style-type: none"> • How would you rank your products in terms of importance and predictability? • What are the quality and consistency of your historical sales data? • How frequent is forecasting needed and over what period of time?
Supplier collaboration	<ul style="list-style-type: none"> • How is the organization collaborating with external stakeholders to align on supply and demand planning? • How are suppliers being provided with transparency into long-term and near-term demands? • How is the organization anticipating and resolving supply assurance problems?
Material resource planning	<ul style="list-style-type: none"> • How you do manage your planning horizons? • How integrated and accessible are you to shop floor, inventory and quality data? • How do you balance production objectives, resources and capacity?
Freight procurement	<ul style="list-style-type: none"> • How accurate, forward-looking and aligned is your transportation and demand planning? • Do you have access to disaggregate spend data and visibility into a detail overview of your freight rates and charges? • Do you have the flexibility in your freight procurement process to quickly leverage spot rates or negotiate discounts with carriers?

Direct procurement process	Key questions for the organization
Warehousing and inventory	<ul style="list-style-type: none"> • In which environment do you operate: a pull system (based on demand/customer orders) or a push environment (stock to prepare for future orders)? • How do you monitor and manage safety stock? • How do you avoid overstocking certain items by stocking based on current demands?
Industrial materials	<ul style="list-style-type: none"> • What internal resources and processes are used to plan and manage industrial materials inventory, and what percentage of industrial materials are managed externally? • When the reorder process is run, does it consider WM service and material needs? • Does your supplier place materials in the customer's possession, but not charge for the inventory until it is consumed?
Invoice management	<ul style="list-style-type: none"> • What is the organization's average invoice processing cycle time? • What is the common bottleneck in invoice processing? • How does the organization monitor invoice processing steps?
Tax compliance and planning	<ul style="list-style-type: none"> • Are there any internal data/information points that you are not getting today that result in organizational process inefficiencies and elevated financial risks? • What planning opportunities may be available through better leverage of enterprise analytics? • Has the organization captured the full tax value case – enterprise-wide – from enhanced automation across direct and indirect tax?
User experience	<ul style="list-style-type: none"> • Is your organization considering how your digital transformation and the applications and user interfaces leveraged will affect productivity and user satisfaction? • How will the individual behaviors and needs of end users be addressed to increase user adoption? • How do you ensure the proper level of engagement across the organization to support and drive purposeful change?
Analytics	<ul style="list-style-type: none"> • Where are your biggest areas of risk throughout the supply chain, and what is the current exposure for each area? • How can procurement decipher which finished products are leveraging the same specific raw material component, and who is your most strategic supplier? • What type of information and analytics would allow buyers to think more strategically?

Organizations today are global and complex, and are evolving with innovative technology at an accelerated pace. Selecting the right team for a digital transformation who knows the industry, processes and technologies is crucial to ensuring program success. Our approach to direct procurement transformations brings not only accelerators and experience within the technology and data aspects of SAP, but highly talented professionals from procurement, manufacturing, risk, tax, change management and other functions to provide the most comprehensive approach to fit an organization's needs.

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Don't underestimate both the effort to make significant improvements and value gained with transforming this part of your business. With the right solution and partner, you'll have a sustainable foundation and leading-edge platform for the long term.

– Brad Durst

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