March 21, 2019

"the tools and insight to develop accurate internal data and be empowered to identify costs associated as well as mitigation strategies.

What Does Procurement Cost?
Agenda

1. Panelist introduction
2. Feature presentation
3. Q&A
4. Final Wrap-up
About the Alliance

- Convene and Engage Networks of Thought Leaders
- Provide Training to help Organizations Build and Sustain a Culture of Innovation
- Identify, Distribute Leading & Emerging Practices/ Trends Important to Local Gov
How To: GoToWebinar

1. Clicking the rectangle will place you in full screen mode.

2. Clicking the arrow on your Go To Webinar Toolbox opens and closes your viewer.

3. All attendees are muted, but we do want your participation!

Please ask your questions using your Go To Webinar Toolbox throughout the webinar.
Panelists

Bret Conard
Vice President at Edict Systems
What does Procurement Cost?
Bret Conard, MBA
Vice President of Sales and Marketing
Edict Systems

Bret joined Edict Systems in 2015 with over 20 years of experience in software development, professional services delivery, and sales management in several industries. During his IT and consulting careers at Levi Strauss, RCM Technologies, and United HealthCare, he played key roles in implementing and managing global supply chain and compliance initiatives. His diverse background allows Bret to function fluently at all levels within the complex world of EDI and enterprises of all sizes. Bret holds a BS in Information Technology from American Intercontinental University and an MBA from Western Governors University.
Procurement

Basic building blocks of procurement

Buyer

[Diagram showing a buyer and seller with a flow of communication and basic building blocks: Purchase Order (PO) and Invoice (INV)]

Seller
Common Procurement Process

Requisition Process

Purchasing generates a Purchase Order

Sales / Customer Service enters Order

Approved Req

Buyer

Transmission

Vendor

AP Enters the Invoice

AR generates an Invoice

Approval Process

Route for approval
The cost of procurement is calculated on costs incurred by activities and process after the PO is created (beginning with the dispatch) through entering the data for the invoice into the payables system (prior to approval).
Finding the numbers

- OpenText currently reports a $35 cost for manual / paper based PO. This is reported as a “Global” average across all industries and sectors. It includes all segments of a product’s lifecycle from manufacture to end user.

- 10 year old study at a consumer electronics company calculated at $85. A more specific, and detailed study on the actual cost of wide scale purchasing of raw materials, components and manufacturing sundries.

- 18 Year old Kroger study was $138.00 to issue a PO. A highly detailed analysis of the actual costs involved in every phase of the Req-to-Check process. And included data entry errors, catalog discrepancies and error remediation.
Many people initially find the $35 - $138 cost per transaction a difficult estimate to believe. To start checking the numbers, we need to make some assumptions.

Assumptions:

FTE (Full Time Equivalent) @ $40,000 annually
($15 hr. + 17% Payroll Expense + $400 monthly insurance = $41,304.00)

FTE Invoice Per Day Range: 18 – 50
(1 per 26.6 – 9.6 minutes)

1,134 – 3,150 POs @ $1,000 average spend per month and 3 FTE
(Between: 18 X 3 X 21 = 1,134 to 50 X 3 X 21 = 3,150)

Server – Hardware, administration, OS, updates, security, etc.
(“Medium” sized server: $5,385.00 to $10,350.00)

FTE Infrastructure @ $3,000 per FTE
(Deskspace, Phone, Network, Amenities, Parking, Badge/ID)

“1% Net 15” discount available on 50% of invoices

$25.00 late fee on invoices

21 Working day month
Not included

- Overtime
- Vacation / Time Off
- % Productive Time
- Undelivered (Lost) Docs
- Illegible / Damaged
- Incorrect SKU
<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery PO</td>
<td>$0.01</td>
<td>$0.06</td>
</tr>
<tr>
<td>Receipt (INV)</td>
<td>$0.01</td>
<td>$0.06</td>
</tr>
<tr>
<td>Data Entry (Inv)</td>
<td>$3.17</td>
<td>$8.81</td>
</tr>
<tr>
<td>AP Mgr</td>
<td>$1.19</td>
<td>$3.30</td>
</tr>
<tr>
<td>Software / Systems</td>
<td>$0.13</td>
<td>$0.36</td>
</tr>
<tr>
<td>FTE Infrastructure</td>
<td>$0.31</td>
<td>$0.88</td>
</tr>
<tr>
<td>Discount</td>
<td>$5.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>Late</td>
<td>$2.50</td>
<td>$5.00</td>
</tr>
<tr>
<td>Verify</td>
<td>$0.80</td>
<td>$1.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13.12</strong></td>
<td><strong>$30.07</strong></td>
</tr>
</tbody>
</table>

Delivery & Receipt
- Email fax mail - $0.01 - $0.06

Data Entry
- \( \frac{\$40,000/12}{3150/3} = $3.17 \) or \( \frac{\$40,000/12}{1134/3} = $8.81 \)

AP Mgr
- \( \frac{\$45,000/12}{3150} = $1.05 \) or \( \frac{\$45,000/12}{1134} = $2.93 \)

Software / Systems
- 1 server @ $4,000, Hosted or Onsite email scanning etc @ $1,000.00
  - \( \frac{\$5,000/12}{3150} = $0.13 \) or \( \frac{\$5,000/12}{1134} = $0.36 \)

FTE Infrastructure
- \( \frac{(\$3,000/12) \times 4}{3150} = $0.31 \) or \( \frac{(\$3,000/12) \times 4}{1134} = $0.88 \)

Discount @ 1% on half of invoices or 2% on half of invoices
- \( \frac{(567 \times 1000) \times .01}{1134} = $5.00 \) or \( \frac{(567 \times 1000) \times .02}{1134} = $10.00 \)

Late @ 1 in 10 or 2 in 10
- \( \frac{113 \times 25}{1134} = $2.50 \) or \( \frac{226 \times 25}{1134} = $5.00 \)

Verify @ 1 call on half of POs or @ 1 call each PO
- \( \frac{567 \times 5 \text{(min)} = 47.25 \text{hrs.}}{X 19.23 \text{hr.}} / 1134 = $0.80 \)
  - or \( \frac{1134 \times 5 \text{(min)} = 131.25 \text{hrs.}}{X 19.23 \text{hr.}} / 1134 = $1.60 \)
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Somewhere between $13.12 and $30.07

Still to be factored in is the cost of errors

Data Entry personnel are graded based on 2 criteria;
- Keystrokes Per Minute
- Errors Per Minute

Human induced error is a known entity in the procurement process
<table>
<thead>
<tr>
<th>SKU</th>
<th>Price</th>
<th>Discount</th>
<th>Quantity</th>
<th>Ship To</th>
<th>Ship Date</th>
</tr>
</thead>
</table>

Scenario 1:
1000 of an item ordered for delivery in 2 weeks. Order entry clerk (vendor) enters 100. Buyer is unaware until items arrive. New order placed for missing 900.
- Higher cost per unit
- Expedited shipping
- Overtime on dock/receiving.

Scenario 2:
Item ordered. Order entry clerk (vendor) enters incorrect SKU. Buyer is unaware until items arrive. New order placed for missing items.
- Return cost
- Requesting and processing credits
- Additional labor (receiving, AP, Procurement)

Scenario 3:
Item ordered. Order entry clerk (vendor) enters incorrect Ship To DUNS.
- Re-shipping cost
- Delayed receipt may require reorder
- Duplicate labor (receiving, shipping, AP)

Infinite types and combinations of errors. “Ripple Effect” cost permeates procurement activities and is frequently undocumented.
EDI Procurement Process

Requisition Process

- Purchasing generates a Purchase Order
- Order data loaded into system
- Invoice data loaded into system
- Route for approval
- Approved Req

Approval Process

- AR generates an Invoice using PO data
EDI Costs:

<table>
<thead>
<tr>
<th>Software (Translation, Delivery, Validation)</th>
<th>$ 45.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Transaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 0.06</td>
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<td></td>
<td>$ 0.06</td>
</tr>
<tr>
<td></td>
<td>$ 0.06</td>
</tr>
<tr>
<td></td>
<td><strong>Total $ 0.18</strong></td>
</tr>
</tbody>
</table>

**EDI Costs:**

- **Software and Systems**
  - PO Delivery (fax, email, other)
  - Invoice receipt (fax, scanning, archive)

- **Labor (FTE costs)**
  - Verification
  - PO arrived
  - Ship date
  - Price
  - Data entry (Invoice)
  - Error remediation
  - Qty
  - Price
  - SKU / Item
  - Re-ordering
  - Scanning / Filing

- **Operational Costs**
  - Expedited shipping
  - Higher unit prices for reorders
  - Re-sourcing
  - Missed discounts
  - Late fees

The majority of associated costs are eliminated (or reduced to the point of insignificance)
Quantify and total the remaining costs and divide by number of transactions. Global average is $2 - $4.
Q&A

Bret Conard
Vice President at Edict Systems
Access the Emerging Practices in Local Government

Questions? Need Handout Copies? Contact Ryan Spillers at rspillers@transformgov.org
Save the Date!

Upcoming learning events:

http://transformgov.org/virtual-events

- **4/03**: Building Capacity for Managing Performance – [FREE WEBINAR](http://transformgov.org/virtual-events)
- **4/18**: Find Your Voice: Creating A Narrative For Local Government Innovation - [Standard Reg & Bundle Subscriber](http://transformgov.org/virtual-events)
- **4/25**: Engaged & Empowered: Capacity Building for Innovation Through Employee Committees - [Standard Reg & Bundle Subscriber](http://transformgov.org/virtual-events)
- **April 9 – 12, 2019**: Transforming Local Government (TLG) in Reno, NV! Register today!
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