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Examining SMB Procurement Tech Needs: Do E-Procurement and SAP Ariba Snap Hit the Mark?

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SAP Ariba is making a bet on the small and medium-sized business (SMB) market with its new Snap offering. But to fully understand this bet, some context is in order.

Smaller middle-market companies are generally late to the procurement technology game, especially compared with Global 2000 and Fortune 500 organizations. The most fully adopted procurement technology component within the SMB market, accounts payable automation (including basic invoice-to-pay capability), is more likely owned by the finance function than by procurement. And while travel and expense software is also valued by smaller organizations, its impact on procurement goals and metrics is generally limited relative to other initiatives organizations can pursue.

So where does e-procurement fit into the SMB equation, and if SAP Ariba Snap does hit the mark, where might that middle-market sweet spot be? This Spend Matters PRO brief explores how e-procurement solutions, including SAP Ariba Snap, fit into the SMB procurement agenda. It also provides a checklist for middle-market firms to think through when it might make sense to prioritize procure-to-pay (e-procurement and invoice-to-pay) investments relative to other areas such as strategic sourcing, analytics and supplier management.

Is E-Procurement a Top Fit for the SMB Market?

Perhaps the most important item SAP Ariba gets right with Snap is its industry orientation in which it prepackages solutions (e.g., categories, templates, suppliers) for different SMB vertical sectors. One size for procurement technology never fits all, and the middle market is no exception.

But there is a broader question of whether the SMB market is an optimal fit for e-procurement as an initial — or high — priority technology purchase in the procurement area. Without question, if it is, SAP Ariba will have a winner on its hand with Snap. To be sure, the product would still benefit from certain improvements, such areas as adding prenegotiated pricing/leveraged contracts in key areas to create more of a “solution.” But the “if” remains an important consideration, as our own experience suggests that there is not nearly as often a burning platform driving SMBs to e-procurement necessarily over other procurement investments

One challenge is that SMBs are often used to getting solutions, or at least advice, inexpensively. For example, larger MRO distributors (e.g., Grainger) offer free or subsidized consulting services centered on reducing working capital and inventory (although tied to the distributor’s own portfolio of solutions it can deliver on the back-end.) And both Grainger, Amazon and others offer "free" requisitioning solutions that deliver some of the functionality one would expect in a full e-procurement solution.

Before "free" or "subsidized" solutions were available, the Azul Partners team (the parent company of Spend Matters) has spent over two decades working with a range of middle-market procurement organizations, and our own experience suggests that SMBs have focused procurement solution investments (not just technology) around other initiatives to date, including:

- Strategic sourcing for strategic categories
- Travel and expense (T&E)
- Accounts payable automation
- Specialized direct materials procurement areas (in the case of manufacturers)

Manufacturers: The Direct Materials Example

To illustrate different areas of priority for middle-market firms, let's look at the final area outlined in the previous section: specialized direct materials procurement areas. Within manufacturing, the "80/20" of spend is direct materials sourcing and procurement, primarily because this spend is often heavily concentrated in commodities, semifinished and finished materials, and parts and components. Because of this, the largest chance for procurement to have a positive (or negative) effect on the business is in these areas.

This is nothing new. SMB procurement solution needs in manufacturing have not evolved considerably in recent years. In 2013, a Spend Matters PRO brief segmented specialized direct material solution areas into a number of categories (the majority of which can be of similar concern in the SMB market as they are with larger industrial firms):

Design/engineering and sourcing enablement. This class of direct materials solution can help bridge the gap between engineering and procurement, sometimes helping influence decisions in the design and prototype phase of the lifecycle of a part, component or product, before cost is "engineered" into a product based on design decisions. It can include sourcing components, synchronous collaboration (design drawings), asynchronous collaboration and secured information sharing. This category of solution can include individual or combined elements centered on:

- Bridging design/engineering and procurement activities through enabling components that complement computer-assisted design (CAD) and product lifecycle management (PLM) tools while replacing less-specialized e-sourcing tools
- Introducing supplier product, component and part attribute information at the core of the sourcing process (rather than simply attaching PDFs or design drawings to a line item or lot)
- Enabling secure design and related specifications and information sharing between internal parties, potential suppliers and selected suppliers (with the ability to grant and revoke access permissions)
- Offering design and procurement specific collaboration, ideally in a CAD-neutral format, to enable internal and external constituents to ask questions and iterate on potential design elements of a prototype or production sourcing program. For example, such collaborations might allow for suppliers to refine their bids based on greater insight into tooling or machining requirements, or to provide alternative material specifications
- Providing basic sourcing and negotiation capability (RFX, RFI, reverse auctions, sealed bidding) on the item and lot level tied to the above capabilities
- Offering best practice category templates for sourcing specific categories and information
- Qualifying and documenting suppliers, supply chains and bills of materials based on new product introduction (NPI) processes or first article testing requirements
- Managing total cost elements across a range of variables, including price decomposition,

freight costs, finance/inventory carrying charts and aggregate cost factors
- Bill of materials (BOM) integration, extraction and collaboration
- Providing a means of either identifying new suppliers or matching design/engineering requirements to an established set of suppliers based on capability profiles

Supplier management and materials compliance. When launching a new product or attempting to achieve required compliance, it is becoming increasingly critical to link sourcing, supplier selection, contracting, and item- and supplier-specific master data management efforts. These tools, some of which also include sourcing capabilities, can help bridge the visibility and compliance gap through enabling capture, validation and management of all related information from initial registration and upfront supplier on-boarding to specific prequalification efforts and audits.

Sourcing optimization. These tools change negotiation approaches entirely by helping procurement organizations evaluate different supplier-submitted alternatives and then apply buyer-specific constraints to explore different award scenarios. For example, a metals category lead may opt to explore different commodity scenarios using optimization, including who buys, from whom, how much, when, from what geographies/plants and on what terms.

Commodity management. For both hedgeable and non-hedgeable commodities, this class of solutions links the physical and financial worlds for basic accounting, product scheduling, contract and pricing effectiveness. They enable a shared understanding and language, allowing different groups to collectively optimize their strategies and goals rather than pursue individual objectives.

Demand aggregation. These solutions help manufacturers buy more effectively on behalf of their supply base by combining capabilities focused on the acquisition, analysis and reporting of material demand data down to the unit level for raw materials. Access to this information on a multitier supply chain basis can enable a range of sourcing and related strategies, helping reduce costs and supply risk for suppliers purchasing raw materials. The demand aggregation model is applicable to a range of categories, including metals, food/CPG ingredients, plastics, packaging and electronics.

Network hubs and multitier supplier collaboration. This class of solution is useful for sharing production scheduling, demand planning, forecasting and related information between trading partners, potentially as part of a process that can automatically enable a spot-buying or sourcing effort between two supplier tiers. These tools can also be used for product costing. For example, one provider offers a network hub that enables different costing scenarios and multiple cost types per bill of materials, which can be especially valuable when demand or input prices and capacities are volatile and total (predicted) landed cost has to be monitored vigilantly.

SMB Considerations for SAP Ariba Snap

Of course, the SMB market comprises not just industrial manufacturers. But even in other vertical segments, similar parallels exist, such as a focus orientation in which specialized areas get outsized attention from an overall procurement perspective.

What does this mean for SAP Ariba Snap? Most immediately, SAP Ariba will need to not only position Snap successfully against alternative providers but to also create and drive market demand for a solution area that might not be top of mind for SMBs. Fortunately, given the economics of Snap, this is not an insurmountable task, as the solution cost is comparatively low relative to other cloud application investments. We believe that success will require SAP Ariba to:

- Tap into an expanding awareness of the need for fraud reduction, procurement controls and compliance globally (especially outside of North America and Western Europe) and to put e-procurement and P2P at the center of the solution to this challenge

- Position the value of industry-enablement packages out of the box (including for those vertical market segments where services and direct catalog/MRO spend are important to control)
- Show the hard dollar business case for e-procurement and why making it "easier to spend" can actually save an organization money (e.g., through inventory look-up, budget controls, preferred suppliers, controls, approval processes)
- Play up the value of integrated AP automation with e-procurement (and why traditional AP automation solutions are of less value when standing alone)
- Show why using "free" or "subsidized" solutions alone (as core e-procurement tools) from intermediaries such as Amazon Business can create lock-in and limit options/savings
- Continue to expand the value proposition for Snap by bring together (more efficiently) a total spend solution through a packaged SAP Ariba/SAP Fieldglass/Concur offering and create opportunities for additional savings through integrated leveraged contracts and other areas (e.g., spot buying services)

SMB Checklist: Deciding When to Prioritize E-Procurement and P2P

To conclude this discussion, below we share a checklist for SMB organizations to consider using when deciding whether to prioritize investments in SAP Snap or competing e-procurement and P2P solutions compared with other areas. Collectively, the selection of multiple items (four or more) would suggest a compelling case for e-procurement and P2P; however, certain items alone (e.g., fraud prevention/controls/detection) may justify investment:

- Indirect, non-contingent labor services and other "addressable" spend via a P2P solution exceeds $20 million annually (this may include spend outside of SG&A) or there is a compelling reason to "manage" spend at the board/executive level in the case of lower amounts
- Visibility into the breakdown of non-cost of goods sold (COGS) expenditure is limited or non-existent
- Business users are buying from non-approved suppliers and channels as a default
- There is no efficient and seamless way to implement budget and spending controls
- Procurement fraud prevention/controls/detection is a clear business need (especially important in developing markets)
- Procurement controls/compliance is a priority (e.g., based on regulatory requirements)
- Accounts payable is still managing paper or scanned PDFs as its default receiving mechanisms and management mechanism for invoices
- There are limited or no means to track payment controls and compliance (e.g., duplicate payments, rebates, credits, contract compliance)
- Supplier communication must be done manually (e.g., phone, email) in the case of routine communication (e.g., notification of a change in payment terms) ■