

University of Kansas
Changing for Excellence

Phase II Business Case Executive Summary
Procurement - All Campuses

November 4, 2011

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Phase I – Procurement – findings

Huron identified opportunities across campuses related to procurement in the range of \$1,550K - \$2,750K.

Current Opportunities

- The Lawrence campus has invested in many of the tools necessary to support best in class performance: PeopleSoft, SciQuest, ImageNow and Spend Compass
- The initial deployment of the KU Procure to Pay System (KUPPS) did not deliver the full functionality available within the system. While plans are in place to enhance functionality, additional opportunities exist to improve KUPPS utilization and efficiencies for procurement and payables operations
- KUMC stakeholders have expressed the desire to implement an eprocurement system; however, funding the initial deployment, integration with PeopleSoft and supporting long term operations are key concerns
- Purchasing staff from both campuses have limited focus on broad commodity management, spend analysis, and strategic sourcing functions due to their largely transactional role in the purchasing process

Goals

- Focus purchasing staff on commodity management & strategic sourcing activities and increase collaboration on supplier contracts
- Optimize technology and operations to address the drivers behind the low utilization and efficiencies of procure to pay technologies
- Share procurement/payables technology (all or partial) to automate processes and reduce involvement in routine transactions
- Increase collaboration among the procurement organizations in strategic sourcing activities, sharing supplier contracts and leveraging commodity experience

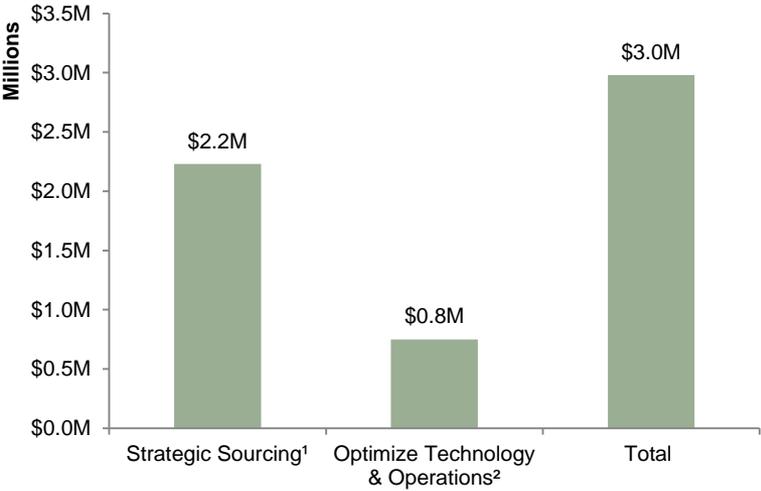
Annual Financial Opportunity – Minimum Potential

Cost Savings	Resource Reallocation	New Revenue
\$1,550K - \$2,750K	N/A	N/A

Phase II – Procurement – opportunity

Both cost savings and operational efficiencies can be achieved through targeted strategic sourcing and improved utilization of technology.

Phase II Steady State Annual Impact



¹ Estimated opportunities range based on savings achievable for the Phase II focus commodity areas: Office Related Products, Scientific Supply Distributor, and KU Dell.

² Optimization savings represent hard dollar opportunities and do not include the benefits of improved organizational efficiencies.

Phase II – Business Case Financial Summary

- Sourcing savings estimations are based on opportunities available for the recommended implementation strategy for each of the focused commodity areas.
- The P2P cost savings are calculated based on the Industry standards for sourceable spend, external/supplier compliance, internal compliance and prompt payment discounts
- The P2P optimization defined requirements to complete/fix the KU eProcurement system (KUPPS) and streamline the approval and settlement processes to address the low utilization and efficiencies. The team identified with KUMC collaborative opportunities to share catalogs, with options to share the full procurement system or maintain separate systems

Five Year Cumulative Impact ³ (Expected Case)	\$000s (parentheses denote costs)
Labor	\$0
Non-Labor	\$13,437
Investment Requirement (total)	(\$2,790)
Net Benefit	\$10,647

³ Year 1 is FY12, which is a partial year

Update – Phase II findings (1 of 4)

Implementing a strategic sourcing program and completing the KUPPS solution to facilitate a procurement transformation across campus offers a financial and operational benefit to KU and KUMC.

Findings

- The Lawrence campus has invested in many of the tools necessary to support best in class performance: PeopleSoft, SciQuest, ImageNow and Spend Compass
- The initial deployment of the KU Procure to Pay System (KUPPS) did not deliver the full functionality available within the system. While plans are in place to enhance functionality, additional opportunities exist to improve KUPPS utilization and efficiencies for procurement and payables operations
- KUMC stakeholders have expressed the desire to implement an eprocurement system; however, funding the initial deployment, integration with PeopleSoft and supporting long term operations are key concerns
- Purchasing staff from both campuses have limited focus on broad commodity management, spend analysis, and strategic sourcing functions due to their largely transactional role in the purchasing process



Proposed Solutions

- Pursue identified strategic sourcing savings across multiple commodity areas (KU and KUMC collaboration)
- Develop strategic sourcing program as part of ongoing operations and shift focus to commodity management
- KU: Complete/Fix KUPPS and streamline the approval and settlement process to address the low utilization and efficiencies of procure to pay technologies
- Leverage technology to share University catalogs between KU and KUMC via single solution (SciQuest)
- KUMC: Implement an eProcurement solution to channel spend to University contracts, improve end user efficiencies and drive supplier compliance. Continue to evaluate KU and KUMC collaboration opportunities
- Merging procurement organizations, resulting in additional resources for commodity management expertise and strategic sourcing activities

Update – Phase II findings (2 of 4)

Implementing a strategic sourcing program and completing the KUPPS solution to facilitate a procurement transformation across campus offers a financial and operational benefit to KU and KUMC.



Anticipated Results

Strategic Sourcing

- New market competitive strategic supplier agreements for Phase II target commodity areas including:
 - KU/KUMC joint scientific supply distributor agreement with Fisher, estimated first year opportunities of \$680K – \$830K
 - KU/KUMC joint office supplies preferred agreement with one vendor, estimated first year opportunities of \$900K – \$1,150K
 - New negotiated KU Dell agreement with updated KU standard models, estimated first year opportunities of \$295K - \$605K
- Increased contract supplier performance management and monitoring
- Realization of the benefit of developing a joint or highly collaborative strategic sourcing program across KU and KUMC
- Wave II of joint strategic sourcing efforts including the following commodity areas, IT peripherals distributors, niche scientific vendors, office equipment, and MRO supplies with estimated annual savings opportunities of approximately \$775K
- Participate in construction strategic sourcing initiatives
- Subsequent waves of joint strategic sourcing efforts on additional commodity areas, potential opportunities TBD

Update – Phase II findings (3 of 4)

Implementing a strategic sourcing program and completing the KUPPS solution to facilitate a procurement transformation across campus offers a financial and operational benefit to KU and KUMC.



Anticipated Results

Procure to Pay

- Develop commodity specialists with advanced product knowledge to provide proactive and value-added customer service, and to more actively manage supplier relationships and performance
- Standardized procurement processes driving University spend to KUPPS, thus ensuring contract pricing and providing visibility to all purchasing activities (detailed product and service requests, online approvals, supporting documents and supplier performance)
- Operational purchasing efficiencies increased with the implementation of:
 - Automated approval workflow, which is configurable to support University and departmental needs. Workflow streamlines the approval process, while maintaining audit history and links to related documents
 - Supplier integration between KUPPS and PeopleSoft to eliminate the current state requirement to manually enter suppliers in both systems, creating a one-stop purchasing platform in KUPPS. Increase supplier catalog enablement and utilization of custom forms to provide broader spend coverage and easier shopping for end users
 - Centralized and automated dispatch of all Purchase Orders to suppliers eliminates the current manual process of mailing, emailing or faxing Purchase Orders (covers goods and services under the University's standard terms and conditions)
 - Purchase Order integration between KUPPS and PeopleSoft to eliminates the current state process of re-entering Purchase Orders in PeopleSoft to establish the budget commitment. This interface ensures PSFT is updated as the system of record, existing financial controls are met and DEMIS budget reporting reflects Purchase Order commitments

Update – Phase II findings (4 of 4)

Implementing a strategic sourcing program and completing the KUPPS solution to facilitate a procurement transformation across campus offers a financial and operational benefit to KU and KUMC.



Anticipated Results

Procure to Pay

- Operational settlement efficiencies increased with the implementation of:
 - Automated invoice approval workflow to streamline the approval process and eliminate the current state approach of manually routing invoices via office mail for approval and payment
 - Utilize PeopleSoft Receiving to record the timely receipt of goods and services
 - Receiving, along with centralized invoice delivery to AP, facilitates reduced invoice processing times because invoices can process for payment without manual intervention. Centralized invoice delivery to Accounts Payable also facilitates prompt pay discounts and eliminates tedious paper processing and document handling within departments
 - Utilize PeopleSoft Matching, which systematically compares purchase order, receipt and invoice transactions to ensure accuracy and compliance. The matching process automates many of the manual current state steps
 - Audit sampling. Sampling of invoice transactions, rather than maintaining the current state 100% audit requirement, can be supported by system controls and reporting. This would allow resources to focus on more strategic activities

Financial model – notes & assumptions (1 of 2)

A series of assumptions were made in the estimation of the financial impact of implementing the recommended sourcing procure to pay recommendations.

Notes	Assumptions
<p>Sourcing savings estimations based on opportunities available for the recommended implementation strategy for each of the focused commodity areas</p> <p>Savings estimations for Phase II sourcing areas (Wave I) are based on supplier usage history report estimated 12 months spend; Wave II sourcing estimated savings are based on FY10 total annual spend amount</p> <p>KU SciQuest integration services fees represent a net increase over the existing SOW/Scope</p> <p>The P2P cost savings is calculated based on the following components:</p> <p>Industry standards indicate that approximately 5% of an institution's estimated total annual spend is eProcurement sourceable spend</p> <p>External / Supplier Compliance: conservative industry benchmark suggests that approximately 3% external compliance savings is achievable on the overall eProcurement sourceable spend</p> <p>Internal Compliance: experience suggests that an estimated 25% of eProcurement sourceable spend is maverick spend of which approximately 40% can be addressed. A 10% cost savings is projected for this bucket of spend</p> <p>Prompt Payment: experience indicates that a 2% prompt payment discount can be achieved for approximately 25% of total eProcurement sourceable spend</p>	<p>KU and KUMC will follow the recommended strategies for each commodity area indicated in this business case; area strategies have been presented and agreed upon by each institution's Procurement Workgroup</p> <p>High end of the opportunities range assumes at least moderate level of demand management and internal compliance; for example core items utilization, increased computer standard models utilization, general preferred supplier contract utilization, etc.</p> <p>High end of the first year opportunities range also assumes KU and KUMC are successful in negotiating aggressive one-time contract signing bonus</p> <p>Model does not include consulting or project management support; however we recommend outside assistance to implement faster and maximize success</p> <p>SciQuest annual subscription fees for KU is expected to increase 10% upon renewal</p> <p>Sourcing cost savings utilized in the financial model summaries do not include potential additional savings through sourcing activities beyond Wave II commodities; cost to hire the new strategic sourcing individual(s) is not included in the model</p>

Financial model – notes & assumptions (2 of 2)

A series of assumptions were made in the estimation of the financial impact of implementing the recommended sourcing procure to pay recommendations.

Notes	Assumptions
<p>The P2P cost savings is calculated based on the following components:</p> <ul style="list-style-type: none">– Industry standards indicate that approximately 5% of an institution’s estimated total annual spend is eProcurement sourceable spend– External / Supplier Compliance: conservative industry benchmark suggests that approximately 3% external compliance savings is achievable on the overall eProcurement sourceable spend– Internal Compliance: experience suggests that an estimated 25% of eProcurement sourceable spend is maverick spend of which approximately 40% can be addressed. A 10% cost savings is projected for this bucket of spend– Prompt Payment: experience indicates that a 2% prompt payment discount can be achieved for approximately 25% of total eProcurement sourceable spend	<p>The KUMC ePro implementation is based on the PeopleSoft/SciQuest “sandwich” model which leverages PSFT for core transaction and workflow processing and SciQuest for eCatalogs, ePO and eInvoice processing. Alternatively the workgroup assessed the “KU model” (SciQuest full suite Purchasing with Receiving and eInvoice) to explore technology collaboration between campuses. KUMC leadership supports the sandwich model which enables KU and KUMC to share eCatalogs and contracts, while pursuing different purchasing solutions (PSFT and SciQuest).</p>

Financial model – KU procurement

The expected benefits case examines a case for Strategic Sourcing wave I and II as well as P2P optimization for KU.

Expected Case (\$000's)

(assumed medium range savings opportunities achieved)

Benefits	FY2012	FY2013	FY2014	FY2015	FY2016
Sourcing One Time Incentives	\$504	\$0	\$0	\$0	\$0
Sourcing Cost Savings	\$409	\$1,142	\$1,251	\$1,251	\$1,251
Sourcing Rebate Revenue	\$65	\$139	\$143	\$143	\$143
P2P Optimization ¹	\$261	\$522	\$522	\$522	\$522
Total	\$1,238	\$1,804	\$1,916	\$1,916	\$1,916
Costs					
SciQuest Integration Fees	\$77	\$0	\$0	\$0	\$0
SciQuest Annual Subscription Fees	\$114	\$228	\$228	\$251	\$251
Total	\$191	\$228	\$228	\$251	\$251
Net	\$1,047	\$1,576	\$1,688	\$1,665	\$1,665

Net Present Value (Expected Case): \$7,415,000

Low Benefits Case
(assumed low end of savings range)

Net Present Value **\$5.6M**

High Benefits Case
(assumed high end of savings range)

Net Present Value **\$9.2M**

¹⁰ Note: 0.95% discount rate (5 year municipal bond, 8/18/11) ; ¹ Optimization savings represent hard dollar opportunities and do not include the benefits of improved organizational efficiencies.

Financial model – KUMC procurement

The expected benefits case examines a case for Strategic Sourcing wave I and II as well as eProcurement implementation for KUMC.

Expected Case (\$000's)

(assumed medium range savings opportunities achieved)

Benefits	FY2012	FY2013	FY2014	FY2015	FY2016
Sourcing One Time Incentives	\$396	\$0	\$0	\$0	\$0
Sourcing Cost Savings	\$172	\$601	\$686	\$686	\$686
Sourcing Rebate Revenue	\$51	\$110	\$112	\$112	\$112
eProcurement Implementation ¹	\$0	\$231	\$231	\$231	\$231
Total	\$619	\$941	\$1,029	\$1,029	\$1,029
Costs					
ePro Implementation Services	\$750	\$0	\$0	\$0	\$0
SciQuest Implementation Services	\$180	\$0	\$0	\$0	\$0
SciQuest Licensing Services	\$79	\$158	\$158	\$158	\$158
Total	\$1,009	\$158	\$158	\$158	\$158
Net	(\$390)	\$783	\$871	\$871	\$871

Low Benefits Case
(assumed low end of savings range)

Net Present Value **\$1.9M**

High Benefits Case
(assumed high end of savings range)

Net Present Value **\$3.6M**

Net Present Value (Expected Case): \$2,898,000

¹¹ Note: 0.95% discount rate (5 year municipal bond, 8/18/11) ; ¹ Savings represent hard dollar opportunities and do not include the benefits of improved organizational efficiencies.

Risk assessment summary

Change management risk presents a significant challenge to the implementation of strategic sourcing and procurement transformation.

- Significant sourcing implementation value could be lost without effective supplier management and internal compliance monitoring activities such as periodic supplier performance review, core list and standard models refresh, preferred supplier utilization compliance, etc.
- Implementation of KU standard computer models needs to be a joint effort between IT and Purchasing in order to be successful; the joint effort will provide campus users appropriately configured machines that meet their technology needs and at market competitive prices
- High end of the opportunities range can only be achieved through demand management activities such as increased computer standard models utilization, core list item purchases, etc., as well as effective KU and KUMC collaboration on strategic sourcing efforts
- The implementation best in class procurement will have a dramatic impact on the way in which decentralized departments carry out their purchasing and settlement activities. Staff may feel frustrated by the change, with departments perceiving that they will lose control over their ability to purchase independently without oversight from central purchasing
- There will be pushback across campus to implement KUPPS with the minimal amount of change possible; however, unless the business process is standardized, efficiencies will not be realized
- Many users do not perceive value from KUPPS or procurement transformation

Change management risk can be addressed through executive support, communication and project management and will be a significant hurdle to the success of this implementation.

Approach

The table below depicts the high level tasks necessary to implement the strategic sourcing and procure to pay recommendations.

Mobilize	Wave 1	Wave 2	Wave 3
Aug. – Oct. 2011	Nov. 2011 – May 2012	Jun. 2012 – Dec. 2012	Jan. 2013 – Jun. 2013
<p>Tasks</p> <ul style="list-style-type: none"> • Develop frameworks for implementation • Develop communication plan • Establish implementation timeframe • Estimate implementation budget 	<p>Tasks</p> <ul style="list-style-type: none"> • Implement Wave I sourcing commodity areas • Complete/Fix KUPPS solution • Redesign requisition workflow • Standardize PO delivery to suppliers 	<p>Tasks</p> <ul style="list-style-type: none"> • Implement the Strategic Sourcing Program • Conduct Wave II commodity areas sourcing activities • Implement settlement redesign with pilot then campus • Centralize invoice delivery • Begin transition to Commodity Management roles 	<p>Tasks</p> <ul style="list-style-type: none"> • Conduct Wave III commodity area sourcing activities • Merge Procurement Organization
<p>Deliverables</p> <ul style="list-style-type: none"> • Business case • Executive committee decision 	<p>Deliverables</p> <ul style="list-style-type: none"> • Wave I new supplier agreements and catalogs • Fully integrated KUPPS solution • Streamlined purchasing and approval workflow • Strategic Purchasing 	<p>Deliverables</p> <ul style="list-style-type: none"> • Wave II new supplier agreements • Fully functioning procurement systems to support KU procurement • KU best-in-class operations • Strategic Settlement 	<p>Deliverables</p> <ul style="list-style-type: none"> • Wave III new supplier agreements • Commodity Management focused • Strategic Procurement

The detailed implementation plan, provided as a MS Project Plan, details the individuals responsible for each of the tasks involved in the next steps implementation plan.



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