

Overview

The following paper has been prepared by the LBMX Group Consultancy Practice, a division of LBMX focused on helping Purchasing Co-operatives, Buying Groups and Independent SME's (small medium enterprises) become more effective through strategic process improvement. This paper is part of a series of papers describing key business process improvement strategies for these kinds of organizations.

LBMX is pleased to provide this business discussion document on "The Value of Technology" to assist groups in understanding how the application of technology can address real "group" business issues in the areas of purchasing, rebate management and operational efficiencies. These advantages can be found by groups employing all billing models; central bill, direct bill or central pay.

The Current Environment

Although many groups have embraced some level of technology automation, most groups fall far behind with respect to invoice management and rebate processing. As a result, most groups do not understand what their members are buying at the category or item level. They also do not understand, at any point in time, what rebates they are owed from suppliers or what rebates they owe their members. Answers to these questions can result in business strategies that add real value to the group and increase rebate dollars earned as well as improve the overall viability of the group.

Typically, groups rely on purchase and rebate reports generated by suppliers which often arrive well after the fact. In addition, most groups, particularly central bill groups, are highly inefficient with respect to invoice processing, payment, rebate reconciliation and purchasing.

Groups which employ technology for advantage focus on receiving invoices from their suppliers electronically. Even groups which are direct bill (suppliers directly invoice the member) act as a central electronic hub for their members. This strategy allows the group to capture the invoice line item information, while at the same time sending the invoices to the group members for their processing. Typically group members will receive their invoices as PDFs in secure web-based portals or directly into their accounting systems as a data file (EDI). The capturing of the line item information allows the group to process rebates in real time and to deduct the value of the rebates from their monthly payments to the suppliers. This keeps the cash in the hands of the group rather than waiting for the supplier to process a rebate payment. As well, this provides the group with the necessary information to develop focused buying programs.

There are five main areas where groups can achieve real advantage through the use of technology versus traditional methods. These include: reduced administrative effort in

dealing with rebate management; reduced invoicing and payment processing effort in central bill situations; eliminating missed rebates; reducing missed rebate plateau attainment (which is inherent in systems based on historical data, especially when provided by the suppliers); providing opportunities for focused buying; and increasing the opportunities for the group to administer event buys. The remainder of this paper will discuss each of these areas and how, in addressing them, groups can provide significant value to their members and ensure overall success.

Administrative Effort

Technology provides the opportunity to redeploy headcount and free up direct costs associated with the processing of paper invoices. In most groups the effort associated with central bill invoice management and rebate management is significant. Groups which employ technology for advantage are able to receive well over 500,000 supplier invoices and forward them to members with just one person assigned to this task.

Key punching of invoices alone accounts for a significant commitment of resources. In addition there is the manual sorting and forwarding of invoices to members and the time dealing with invoice queries from members / suppliers. Rebate management adds an additional layer of work, such as assigning rebate categories / setting-up rebate programs, manually auditing supplier rebate reports and evaluating and communicating plateau rebate (threshold) attainment.

The addition of “smart” accounts payable statements, remittance advices, and electronic funds transfer (EFT), streamlines the process even more, so that staff can begin to work on projects that really add value to the group.

Although many groups choose to redeploy staff, the implementation of a sound technology solution means that should the group wish to grow their volume in the future, additional operational staff will not be required.

There are also direct savings from the implementation of technology. In a paper-based environment, invoices have to be mailed or couriered, fax machines have to be used, invoices need to be stored off site, documents need to be shredded, and paper, ink and photocopies need to be used, resulting in a sizeable outlay of expense funds.

Missed Rebates

Rebate management tends to be a process where groups depend upon suppliers to tell them what their members purchase, via “after-the-fact” monthly or quarterly reports. Some groups then attempt to get the member to “confirm” these purchases.

The problems with this approach are that it is not timely and that it is prone to error. Most supplier systems do not have sophisticated rebate management software, hence their calculations are often just sales reports exported to Excel, which can be inaccurate. The

members do not have the time, nor the technology to accurately access the data to confirm the validity of the supplier reports, so rebates often go missing. Even with labour-intensive rebate reconciliation processes, rebates will still be missed due to the after-the-fact reporting of the rebate.

Since this is the significant revenue line for most groups, many groups are now taking a proactive approach to managing this process. These groups are capturing the purchase information in real time as it flows electronically from the supplier to the member. This allows the group to calculate what the supplier “owes” the member in real time, ensuring purchases are not missed from the rebate calculations, and deducting the earned rebate from the payment to the supplier on a monthly basis.

Rebate reconciliation also becomes much less labour-intensive since the detail supporting the calculation is readily available for analysis. Finally, there is no need for the member to confirm purchases, since the group already has all of the purchases captured at the line item level. This kind of electronic process will eliminate most of the missed rebates and correct those reported incorrectly.

Missed Rebate Plateaus

Rebate plateaus (thresholds) provide an opportunity for the group to garner additional rebates by achieving a certain plateau of purchases. For example, a supplier may pay a rebate of 3% for purchases up to \$1M, but an additional 1% when purchases exceed \$1M (often this additional rebate is paid on all purchases both previous and future).

This can be a very enticing program; however the challenge is to know where the group is at any point in time relative to their plateau attainment. Since most reporting is after the fact, it is often too late to achieve the additional purchases needed to reach the next plateau level and the associated increased rebate, because the group doesn't know when they are close to the next plateau in enough time to react. Generally, suppliers do not volunteer this information.

A rebate management system based on real time reporting takes the guess work out of this problem and ensures the group can take action to encourage additional member purchases if the increased rebates warrant this happening.

Focused Buying

Focused buying is used when the current purchasing within a product category is highly fragmented amongst a wide number of suppliers, sometimes even from the same member. The harnessing of these purchases and the focusing of this volume with one or two preferred suppliers achieves a dramatic advantage for the chosen suppliers and for the participating members. Generally, groups begin the process, one category at a time with a view to achieving a focused buying strategy in the key categories over a period of a few

years.

A reasonable assumption is to choose one category each year and work with the membership to focus their purchases on one or two suppliers in that category. The next year, pick another category and continue the process so that after five years a sizeable percentage of the purchases of the group would be part of a focused buying strategy. These benefits increase year on year as new categories are added to the existing focused categories.

Focused buying tends to be the most significant strategy groups can employ to add value to the group and its members and is discussed in a separate paper in this series.

Event Buys

One of the key strategies the group can employ to become more effective and provide more value to their membership is through the use of event buys. The nature of these event buys can be characterized as bulk purchasing for sale events, seasonal events, opportunity buy events, core product category events and container events. The thread running through all of these events is that they are designed to provide pricing and rebate advantage to the membership.

The advantage to the group is that event buys often “earn” additional rebates over conventional purchases. In addition more members will often participate in these events, increasing both the overall spend through the group and the total rebate dollars earned. Because of the large volumes that are generally purchased through event buys, they also serve to focus member purchases to those suppliers that generate the largest rebates for the group and the members.

The advantage to the supplier is the ability to schedule production, imports, and delivery of larger-than-usual orders in an orderly, efficient manner, generating lower costs, which enables them to readily pass on some of the savings to the group.

A separate paper in this series is devoted to the concept of event buys and the strategies used to implement them.

Summary

Although this paper is titled “The Value of Technology” it is apparent that this document is about the power of information. Whether that information is delivered through technology or other means.

Those groups that recognize the power of this information will succeed. For example, groups that understand the benefits and uses of member purchase information at the line item level, or real time rebate information, will enjoy improved performance and competitiveness.

Imagine a scenario where Wal-Mart does not understand what each of their stores are buying; where they provide no guidance in focusing the store's purchasing decisions; or where they rely on their suppliers to tell them their revenue line for the period. It sounds far-fetched yet that is precisely where most buying groups and purchasing cooperatives find themselves.

The value of the information for groups puts them on a level playing field with their larger corporate competitors. Embracing this concept and truly understanding the value of technology is critical to ensuring the survival and success of group and their independent members.

About LBMX Inc.

LBMX is a leading provider of technology solutions for buying groups, purchasing co-operatives, independent members and their suppliers. These solutions comprise rebate and purchase analysis software, member electronic document delivery and complete EDI services to assist members and groups to connect to suppliers.

LBMX's close association with this specific supply chain model has allowed LBMX to develop a unique understanding of groups, their members and suppliers. This has resulted in the implementation of LBMX technology solutions that are a fit with both the strategic direction and operational priorities of their customers.

Based on LBMX's "many-to-many" technology, LBMX solutions are helping to connect suppliers, groups and independent member owners resulting in over 250,000 trading relationships. This has resulted in significant operational efficiencies for all members of the supply chain as well as providing groups with access to line item member purchase detail upon which better buying and rebate decisions can be made. LBMX has customers in Canada, United States, Australia and New Zealand.

LBMX

1402-148 Fullarton Street
London, Ontario, Canada N6A 5P3
877.429.5269 | 519.850.5269
info@LBMX.com www.LBMX.com