



## Know Where Your Spend Goes

Manage Risk and  
Compliance in your  
Procurement Process

# INTRODUCTION: **THE HIGH COST OF NOT KNOWING**

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Whether you're part of a higher education institution, a K-12 school system, a nonprofit or a government agency, a sound procurement process is key to protecting and enhancing your organization.

Sourcing, procurement and contract management are part of the day-to-day operation of any organization. All, however, carry risk. Off-contract purchasing; new, unfamiliar vendors; non-compliant vendors; Title IV fraud audits; financial reporting requirement changes; new state and federal financial guidelines—the list goes on and on.

The bottom line? Lack of control and visibility into your sourcing, purchasing, and contract management activities can come at a high cost. Because of the many pitfalls, risk management and compliance considerations should be an integral part of your procurement process.

RISK MANAGEMENT AND  
COMPLIANCE CONSIDERATIONS  
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OF YOUR PROCUREMENT PROCESS.

# CHAPTER 1: WHAT ARE THE RISKS?

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There's simply no wiggle room for any organization that relies, at least in part, on public funding.

**Higher education institutions** are braving lower revenues, higher costs and more competition for students. Smaller, private colleges, especially are hurting. Some have closed their doors, including Dowling College, the alma mater of ESM co-CEO Anthony Rotoli. Others are merging to stay in business.

**K-12 school systems** face the one-two punch of dwindling budgets and escalating mandates. In fact, one study from the Center on Budget and Policy Priorities found that most states provide less funding per students in elementary and secondary schools now than before the Great Recession.

**Local, state and federal government agencies** also are experiencing the belt tightening as they attempt to square up multi-million dollar budget deficits with the need to shore up pension systems, roads, law enforcement and more.

And **nonprofits**, faced with growing needs in the communities they serve, also are suffering. In fact, according to [Grants to Green](#), which helps nonprofits go green, 56 percent of nonprofits don't have the funds to meet all of their community's needs.

In other words, every penny counts. But, when rogue spending, unauthorized contracts and non-compliant spending are allowed to proliferate, thousands - even millions of dollars - can be wasted.

Automating procurement, sourcing and contract management can create visibility into your organization's spend so you can uncover the gaps, take control of the spend and keep your organization from leaking even more money.



WHAT ARE THE RISKS OF NOT KNOWING?  
**THEY ARE MANY. THEY ARE HIGH.**

# DID YOU KNOW?

When Ivy Tech Community College in Indiana automated procurement with ESM, they cut the number of office suppliers from 52 to 1 and reduced office spend by 40 percent ([infographic](#)).

The California State University system enjoyed positive ROI in just five months and reduced the cost of a purchase order from \$150 to \$25 after deploying ESM's eProcurement solution ([infographic](#)).

What ARE the risks of not having a full picture of your organization's spend? How many of these can you identify with?

- » You're paying too much because of the lack of a competitive bidding process.
- » Contracts that have automatic and built-in price escalators that drive up costs are hiding in your filing cabinets.
- » You're exposed to high prices because you aren't vetting your vendors.
- » You're paying for goods you never received because poor supplier performance is left unchecked.
- » Spending on a dead contract pushes you over budget and puts other expenditures at risk.
- » Grant funding is at risk because individuals are buying items that are off-contract.
- » Fragmented procurement efforts lead to lost negotiating leverage.
- » Poor visibility of purchasing activity leaves you vulnerable to internal or external fraud.
- » Maverick spending and noncompliance can damage an individual's or the organization's reputation.

With the right tools in place, however, you can achieve the perfect balance of visibility and control for finance and usability for your organization.

**WHAT IF:**  
YOU HAD THE TOOLS TO GIVE YOU QUICK  
ACCESS TO INFORMATION ACROSS THE  
SPECTRUM OF PROCUREMENT ACTIVITIES?

Ivy Tech Community  
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## THE HIGH COST OF NOT KNOWING

One of the departments in your organization is looking to purchase a \$50,000 piece of equipment. You think you may have a vendor that offers that product. After spending some time flipping through contracts and catalogs, you find that you can save \$10,000 by purchasing from a source you already have a relationship and contract with.

**WHAT IF.....**you had an intuitive online tool that showed you (and your rogue department) groups of compliant vendors in categories that would make it easy to invite them to bid?

# CHAPTER 2: BIDS & SOLICITATIONS

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Let's start with bidding and vendor solicitation: the process of collecting requirements, inviting vendors, and evaluating bids.

### A LITTLE COMPETITION IS HEALTHY

It's common for people to take the path of least resistance when it comes to sourcing goods, which often gives the advantage to entrenched suppliers. However, inviting additional suppliers to the bidding selection process increases competition, drives price down, improves terms and enables informed decisions. By comparison, when suppliers are selected outside of a formal sourcing process, it's more likely that certain criteria, such as regulatory requirements, may not be met.

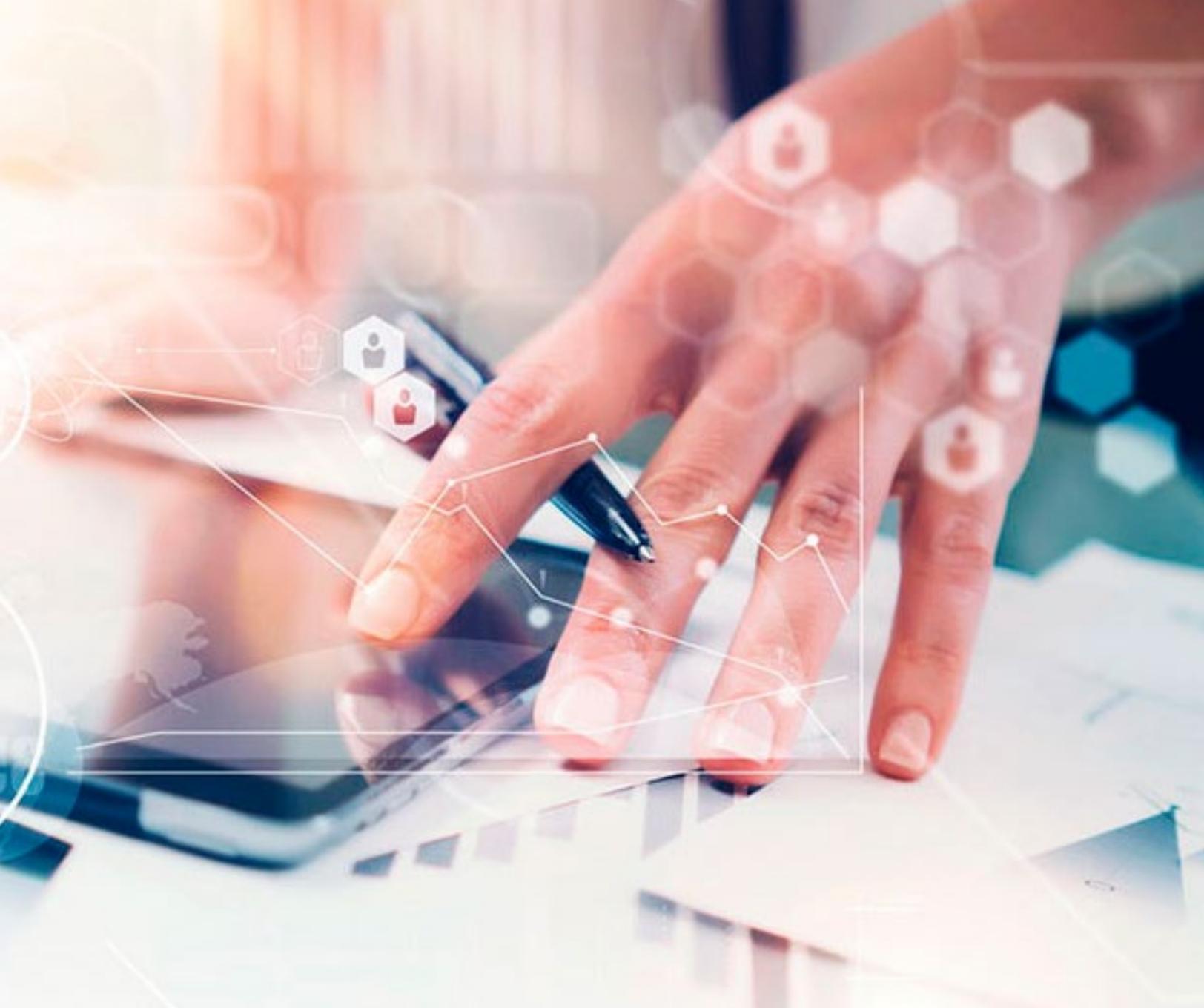
### TIPS TO STAY ON TOP OF SOURCING

» Evaluate your options - even when an existing supplier is performing well. It keeps the field competitive and helps you make the most of your limited budgets.

- » Insist on a standard, centralized sourcing process to ensure that good intentions also lead to good results.
- » Publish standards, guidelines and templates in cases where centralization isn't possible.
- » Widely communicate your sourcing process so it's clearly understood. When it isn't, you wind up with people negotiating and signing contracts when they don't have legitimate authority to do so.

### SOURCING: WHAT ARE THE RISKS?

- » Failure to run a competitive bidding process leaves value behind and potentially violates requirements.
- » Insufficient vetting of new suppliers yields higher costs.
- » Poorly documented requirements lead to confusion and disagreements with the vendor when issues come up.
- » Unauthorized signatures are risky for both the person who signs the agreement, as well as the organization.



## **DON'T DILUTE YOUR PURCHASING POWER**

Walking across the campus one day, an employee noticed a truck making a bottled water delivery. The following week, she noticed another water delivery, this time from a different vendor to a different building. Hmm, why do we have two bottled water vendors? After poking around and doing some digging for a few months, she learned that the organization actually had seven bottled water vendors! By negotiating with one vendor, this organization was able to save \$20,000 a year. And that's just for bottled water!

Check out our "[Control Your Contracts](#)" e-book

## WHAT IF

Everyone could shop online in a marketplace of approved vendors, negotiated contracts and favorable pricing? The organization would have more control over and greater visibility into addressable spend.

# CHAPTER 3: **PROCUREMENT**

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## MANAGING YOUR SPEND

One of the biggest issues for business and procurement officers is managing maverick spending. A good example: The purchasing department has a well-negotiated contract in place for office supplies — favorable pricing, free shipping and frequent deliveries. Still, employees buy from another vendor's store around the corner because it seems more convenient.

Employees who do their own sourcing and buy off-contract do so for a number of different reasons: lack of training; too many suppliers or catalogs to sort through; little trust that items will arrive as described in a reasonable amount of time; and simply not knowing the contract exists. Regardless of the reason, the impact to the organization can be significant.

## PROCUREMENT: WHAT ARE THE RISKS?

- » Transactions spread across multiple vendors dilutes your purchasing and negotiating power.
- » Purchasing with some vendors may violate contracts with other vendors.
- » Buying off-contract and with non-approved vendors results in savings leakage, quality risk and missed spending goals (for example where guidelines require a given percentage of spend to certain kinds of products and businesses).

Another commonly overlooked issue with maverick purchases is the damage to sustainability and corporate social responsibility initiatives. Securing the lowest cost is not always the most pressing factor in procurement. Organizations often make the decision to pay incrementally more for a product or service in order to support environmentally friendly, minority-owned or local suppliers.

Check out our e-book on sustainable procurement



“IF YOU PLACE TODAY YOU’LL  
HAVE IT ON YOUR DESK  
TOMORROW. **PEOPLE LOVE THAT**”

### ...THE BOTTOM LINE

- » Difficult business processes encourage users to find ways around policy and increase the risk of using non-approved vendors.
- » Off-contract spending leads to higher prices; duplication of efforts; audit and compliance issues; and possible lawsuits.
- » A centralized shopping environment makes it easier to get visibility into trends and patterns.
- » A balance between the need for centralized control and the need for easy access to the goods and services to keep your organization running should always be the goal.
- » The best response to non-compliant purchases is a combination of communication, monitoring and simplified processes to encourage more on-contract spend.
- » Organizations can ensure buying power is reflected in new contract negotiations when they track spend data by vendor and category.

### WHAT THEY SAY

Procurement automation has saved Delaware Valley University money, by directing spend to less expensive, negotiated contracts, and time, by streamlining procurement. ESM Purchase has allowed the small university to cut the ordering process down by 90 percent. In fact, ESM’s eProcurement application has simply become part of the “fabric of our lives,” says William Lyle, director of purchasing.

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“Once it was rolled out to campus and people began using it, the product is so effective at getting them what they need and so easy to use, that it just became that way. It was nothing that I had to do,” he said. “With our office supply contract, if you get on there and click away and place and order by 4 p.m. today, you’ll have it on your desk tomorrow. People just love that.”

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# CHAPTER 3: **CONTRACT MANAGEMENT**

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Contracts are the legally binding commitments made between your organization and your suppliers. They should only be negotiated by trained professionals and executed only by a handful of people who have legitimate and formal authority to act on behalf of the organization. All contracts should be thoroughly reviewed to prevent cost, risk and compliance exposure.

## TRAINED PROFESSIONALS

Only trained, authorized individuals should negotiate contracts. Otherwise, you may run into issues with indemnification, product ownership,

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**ONLY TRAINED, AUTHORIZED  
INDIVIDUALS SHOULD  
NEGOTIATE CONTRACTS**

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payment terms, termination, pricing, rights, warranty, obligations or general and specific risk assignment.

## RISK OF UNAUTHORIZED SIGNATURES

Many people (who are not procurement professionals) don't read contracts all the way through before they sign. A contract might have clauses in material consequences, such as personal guarantee clauses impacting the signer or automatic renewal clauses that expose the organization to undesired commitments.

These issues can lead to a dispute and potential lost time and money. Your organization may even be forced to use a supplier's terms and conditions, which rarely results in the best buy-side value.

With centralized administration over contracts, the procurement team should watch for missed expectations or changes in circumstances that require contract revisions or amendments. While some of these changes seem minor, they can be very important to the cost structure. The triggers, milestones and changes that justify contract revisions include:

- » Higher prices for raw materials or input components
- » Significantly reduced (or eliminated) demand for a product or service
- » Changes in relevant procedures and practices
- » Nullified warranties

## BEST PRACTICES

- » Pass all contracts through one team, system or person to ensure that your organizational requirements are upheld.
- » Adopt standard language or clauses for each type of contract across the organization to ensure consistency and minimize misunderstanding.
- » Implement contract management software to streamline the entire contract life cycle – enforce standards, centralize control and avoid unpleasant expiration surprises.

- » Collect as much information about each contract in a central location before filing it away so the right triggers or milestones can be tracked.
- » Make clear to everyone in the organization the risks (and associated penalties) for signing contracts when they do not have authority to do so.
- » Use a vendor scorecard and solicit feedback from throughout the organization to assess your vendors' performance and user satisfaction.

## FROM THE TRENCHES

With ESM's cloud-based contract management application, The University of Alabama **automated the contract management lifecycle**. The solution helps organizations manage business processes while improving compliance and managing risk. Reusable templates, reminder notifications and search capabilities make proactive contract management possible.

Managers and buyers now get email alerts well before a contract is set to expire. They meet with vendors and departments to determine if the contract is still needed and to discuss the contract's high points and low points and how to make it better.

"We now have the lead time to be proactive in bidding and renegotiation," said Kevin Stevens, director of procurement services. "It is a great management tool."

## THE MILLION DOLLAR BEVERAGE

Someone in a neighboring department with signing authority entered into a contract with an energy drink company. There's only one problem. Your organization already has an exclusive contract with a competing energy drink company. What's the cost of not knowing? In this case, a million dollar lawsuit.

## WHAT IF?

... your organization had a centralized, searchable repository where you could quickly gain visibility in all of the organization's contracts, including the existing energy drink contract, and avert legal action?

For more information read:

**"9 Tips to Better Contract Negotiations"**

Organizations must strike a balance between which activities are centralized by procurement and which are handled more effectively outside of the procurement team.

## CHAPTER 5: **CONCLUSION**

The procurement function can drive significant value in your organization. In order to achieve this, your organization needs visibility into past spending patterns, control over current transactions and the ability to control vendor relationships.

Of course, while negotiating and realizing savings is a key objective, it's not the only one. Good spend management includes a balanced focus on reducing cost, lowering risk and increasing compliance. At the same time, customer satisfaction also comes into play. Everyone in the organization must be aware of the importance of spend management and reasonably satisfied with how easy it is to purchase the goods and services they need to do their jobs.

Each time procurement considers establishing a new rule, process or requirement, it's important to consider the impact it will have on the buyers that must abide by it. In some cases, the inconvenience either outweighs the potential benefit to the organization or will cause buyers to go rogue, working outside the process because it is too burdensome.

Procurement and sourcing teams are successful when they are able to work well with internal stakeholders and external supply partners. Failure to identify and address problems or achieve objectives results in widespread dissatisfaction, regardless of the hard dollar savings, and will close more doors than it opens for future projects.



Regulations

Compliance

Specifications

Standards

Policies

# ESM EMBODIES PROCUREMENT AUTOMATION

## FOCUS

- » ESM is dedicated to helping customers save money and improve their procurement processes.
- » We provide a complete feature set that meets the specific needs of our customers.
- » ESM integrates to your GL or ERP system to augment your financial processes.
- » We automate your supplier sourcing activities.
- » We provide data analytics to enhance strategic sourcing with key suppliers and local and diverse entities.

## INTUITIVE USER DESIGN

- » Our user interface is designed to guide end-users through the purchasing steps.
- » End-users don't want to use old software. They want layouts and designs that mirror their personal shopping behaviors.
- » Our applications have been redesigned for tablets and, with our rapid approval mobile app, approving on the go is extremely easy to navigate.

## VALUE

- » We provide an annual subscription fee, which guarantees unlimited users. It includes the features you need at the budget you define.
- » Implementation and integration costs are not disproportionate to the subscription cost. Your one-time fees are manageable.
- » Time to value - Our deployment module gets you up and running quickly so you start saving money quickly. Our deployment methodology focuses on getting you up and running in a timeframe that supports your goals.

PeopleSoft

ORACLE®

SUNGARD®

**Quali**  
financial system

ellucian™

# ZERO TO SAVINGS IN MONTHS

How quickly can ESM's tools be deployed at your organization? In the California State University system, we rolled out to 10 marketplaces in just four months. At Ivy Tech Community College in Indiana, it took less than six months.

Our solutions and services are available at affordable prices that accelerate the ROI.

With ESM, you can be confident that our systems are designed with best practices in mind for your entire organization.

Learn more at <http://www.esmsolutions.com>

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# HAVE QUESTIONS?

Contact us to set up a demo

With ESM, organizations can automate the procure-to-pay process with a suite of cloud-based, mobile solutions that can be tailored to your specific business needs and requirements.

Implementation is easy. Adoption rates are high. Integration is key. And you get the benefits of more savings, improved visibility and better control.

Contact ESM to learn more about how our suite of spend management solutions can help your organization now.

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