Rabobank Deploys DIY E-Procurement for White-Collar MRO

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How will e-business adoption improve operational performance, increase revenue, reduce expenses and accelerate earnings growth?

Rabobank Group (www.rabobank.com) is a cooperative financial services organization based in The Netherlands. With 50,000 employees in the Netherlands and another 5,000 in 142 offices in 38 countries, the group provides services to 397 member banks using 1,727 branches.

Problem: In the mid-1990s, the group had fragmented procurement practices for white-collar maintenance, repair and operations (MRO) materials. At an annual expenditure of approximately 250 million gulden ($100 million), these items represented only 10 percent of the group's external expenditure, but accounted for 50 percent of the purchase-order lines. Individual member banks and business units had created their own internal catalogs (both paper and electronic), and the group was failing to leverage buying power with suppliers because there was no consolidated view of spending with each supplier. Processing costs were high, particularly in accounts payable, with many buying centers lacking the critical mass to use more-efficient processes. The group also recognized that some off-contract buying was occurring, but had no way to monitor or correct this.

Objective: The group set two objectives for a project team established in 1995:

> To reduce the administrative cost of processing purchase orders and invoices for white-collar MRO materials
> To leverage the buying power of the group to achieve optimized pricing from a smaller supplier base

Approach: The scope of the program was defined as dealing with four categories of procurement comprising a $100 million white-collar MRO expenditure. These categories were:

> General office supplies
> Promotional materials
> Printing
> Desktop automation (e.g., PCs and printers)

The project team started by developing a business architecture that was independent of the technology base and closely aligned to the culture of the organization. At the heart of this business architecture was a definition of the four roles that the solution would need to support:

> Internal customers - Employees of the group who need to buy white-collar materials.
> Product specialists - These define the specifications of materials and select approved suppliers.

Suppliers
"Broker" - This was a new system role developed by the team

The broker's role was to deliver the reduction in processing costs. By ensuring that all order lines used a common process, it would be possible to identify points of administrative pain and adjust the role model to improve efficiency. The product specialists' role was to achieve the objective of optimized pricing. By consolidating the group purchasing into a smaller number of dedicated product specialists, and directing all the category spending through their contracts, the group would be able to enter into more-effective negotiations with suppliers.

At a systems level, it was clear that the solution would need to provide access to a list of goods - i.e., a catalog. The project team decided to avoid centralized catalog management, opting instead for a catalog service that would allow each product specialist to manage his or her own catalog entries. This approach was deemed to be suitable because, although some categories contained more than 1000 products, most product categories would only contain a few dozen line entries. It also allowed the product specialists to have direct control over their domains. Some e-procurement implementations have been creating catalogs of white-collar MRO with tens of thousands of products. The vast majority of products in such catalogs are never ordered, but the enterprise pays the price of managing the large catalog.

The system would also need to support the workflow processes associated with requisition and purchase-order approval. However, the project team decided that they would not attempt to implement budget management within the solution, opting instead for simple cost center allocation on the requisition, supported by online management information to provide notification of anomalous transactions. The system would also lead to simplified processes in accounts payable, including a substantial increase in the use of an electronic funds transfer system for payments.

The technology implementation of this business architecture has gone through three generations. The initial implementation in 1995 was based on modem access from bank branches to a centralized service. This was replaced in 1997 by a system exploiting a common enterprise resource planning platform for purchase-order management as a back-end processor, with access provided through the corporate intranet. The third and final implementation is a dedicated Web-based application. The project team report development costs across the five years of implementation at approximately $4 million, with hardware costs of about $1 million.

Connectivity to suppliers was kept deliberately "low tech," to be as inclusive as possible. Suppliers may receive order notification via fax, e-mail or conventional print letter, and may provide simple data files to update order status. Since the dedicated Web-based solution was made available, suppliers have been able to access their orders via a browser and can update order status online.

Results: The system, known as Raboshop, is currently used by 10,000 employees, and processes 3,000 order lines each day - more than one million order lines a year. The system receives more than six million order status changes each year. It now controls all expenditure within the four categories of white-collar MRO. There has been a reduction in headcount in both product specialists and administrative support in accounts payable, and the improved management reporting has enabled buyers to negotiate more effectively with suppliers. The system is deemed to be a success within the company. Users like the simplicity of the order management process and the online visibility of order status. Suppliers like the accuracy and consistency of the order information, and managers like the level of detailed reporting that is available.

Critical Success Factors/Lessons Learned: The project was initiated before the term "e-procurement" had been invented. The project team had business goals, and they maintained

focus on these goals. This is in marked contrast with many current e-procurement projects, which behave as though the objective is to implement a software solution. By maintaining tight control of the project scope, the team was able to focus on achieving a limited set of objectives well. The technology selection has been based on readily available and mature components and is comparatively low tech. However, probably the most important contributor to the success of the project has been the alignment with the corporate culture. For example, rather than trying to impose central catalog management, the team realized that it could support the value of the product specialists by allowing them to maintain their own catalogs. In this way, they gained buy-in from an essential community.

The project has not been without its problems. From a technology perspective, there have been issues around the scalability of the application, and its ability to deal with a level of concurrency that had not been anticipated at its inception. This has been addressed through re-architecting part of the technology solution and increasing the amount of hardware involved in delivering the service. From a business process perspective, the original project had not anticipated the level of support that would be required for employee self-service purchasing. The system has a dedicated help desk of five people providing support to internal customers, product specialists and suppliers.

Bottom Line: White-collar MRO procurement is never going to be a strategic process. It is basically a simple housekeeping function. It needs to be done efficiently, with a minimum of fuss and at the lowest possible administrative cost. Because Rabobank started to tackle process improvement for white-collar MRO before e-procurement had become so hyped, it was able to concentrate on the business objectives without the unhelpful label of "e." By maintaining focus on the key business benefits, e-procurement project managers in other enterprises should be able to deliver business benefits within a reasonable time frame. By contrast, those who become mesmerized by "implementing the application" are likely to find themselves implementing a system that will never be properly adopted and cannot justify the project costs.