



# Buying Channel Strategy: The secret to ending procurement value leakage

**What you buy determines  
how you should buy**





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# 1.

## Corporate procurement (B2B) learnings from B2C

Outside their 9 to 5 corporate lives, every corporate employee is also a consumer who regularly experiences the wonders of a modern retail consumer experience which is simple, intuitive and tailored to them. By comparison, the 9 to 5 corporate Procurement experience is positively antiquated.

Instead of retail consumer simplicity, intuitive interactions, and delight from easily finding and pricing purchases after assessing product and sellers reputation, corporate Procurement users face clunky, unintuitive, and often onerous processes and systems. A daunting experience also makes it less likely that users will comply with the Procurement function's standard systems and processes and preferred suppliers. The result is leakage of value and lost savings from Procurement's category management and sourcing activities. It does not come as a surprise that 88% of B2B (Business to Business) buyers have reported using a credit card or debit card as a purchase option for work related purchases in comparison to the 36% who have used an eProcurement portal<sup>0</sup>.

56% of respondents reported that B2B purchasing does not fully meet their needs<sup>1</sup>. Corporate Procurement can address this gap by redesigning its systems, processes, and capabilities using the lessons of B2C (Business to Consumer) retail. That also means embracing customer centricity where the design reflects the needs and behaviors of the customer. Influencing customers through thoughtful product design (as part of a broader "Design Thinking" approach) can go a long way in improving adoption, increasing spend in compliance and delivering value.

To address this opportunity, organizations need to define a set of processes and tools that will establish buying channels and then direct specific purchases to the channels that align with the business requirements such as efficiency, compliance, control etc. For example, using catalogs for purchases that are of standard specification but high frequency such as business cards.

In the following sections we explore the process for selecting and designing buying channels and for targeting specific purchases to those channels.

<sup>0</sup> Source: Forrester, "Building Omni-Channel Commerce Platform" (November 2014)

<sup>1</sup> Source: Oracle, "What B2B Organizations Are Doing to Make the Grade" (November 2014)

## 1.1. User experience is central to procurement performance

Buying behavior can be influenced through a greater understanding of end user behaviors, challenges and aspirations. With these insights, the Procurement function can design an end-to-end Procurement process to improve spend compliance, process efficiency, ease of use, and visibility of purchasing activities. Illustration 1 shows how an improvement in end user experience can lead to an increase in value from the procurement organization.

*Illustration 1—Impact of improving end user experience on the overall value delivered by procurement*



# 2.

## What are buying channels?

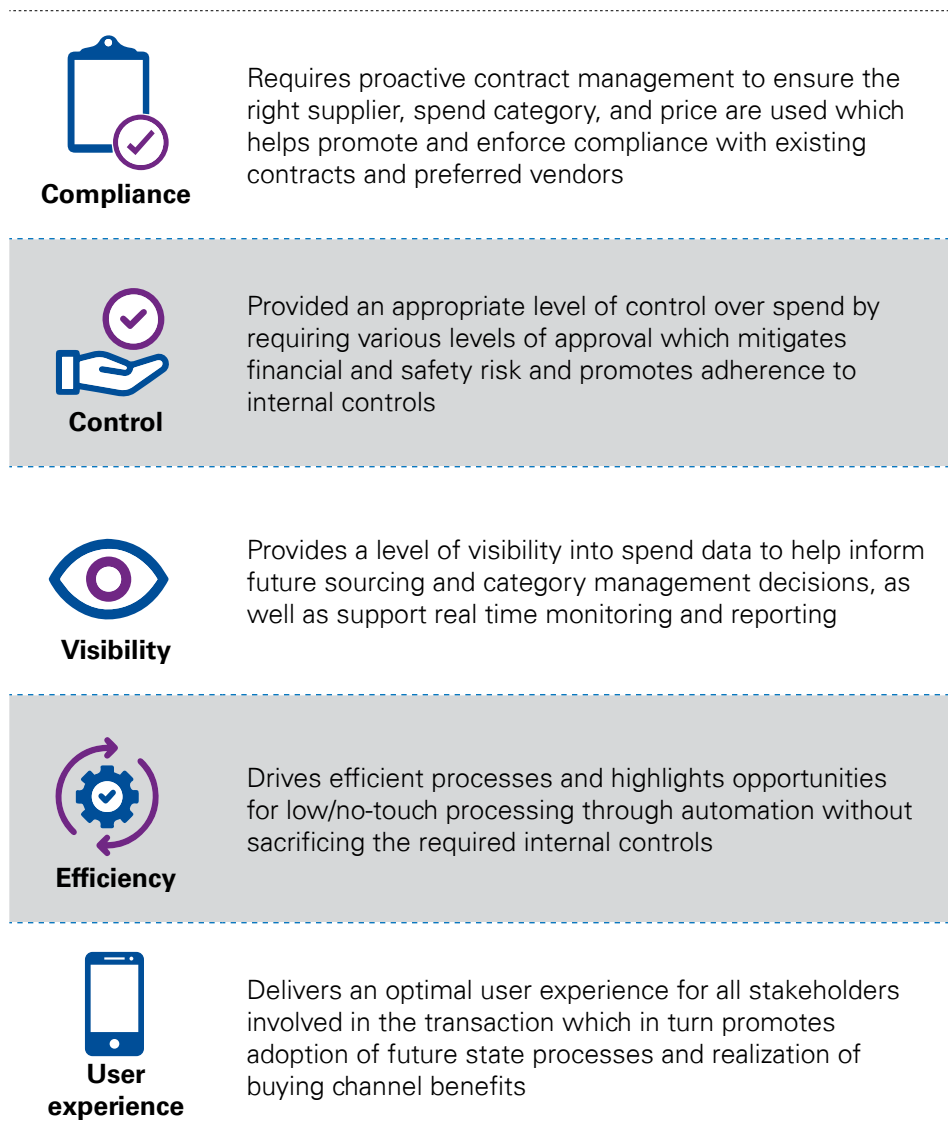
What you buy determines how you should buy it. A Buying channel is the end-to-end series of steps to request, approve, purchase, receive and pay for goods and services. These steps are aligned and optimized as per the characteristics of the category in focus. View illustration 2, for an overview of these category characteristics.

*Illustration 2—Category Characteristics*

Category characteristics		
Characteristics	Description	Possible values
<b>Transaction volume</b>	Total number of transactions processed. It is calculated by computing percentile rank of Invoice Volume	High, Medium, Low
<b>Transaction value</b>	Transaction value is a qualitative representation or ranking of the Invoice Value (\$) calculated on the basis of percentile based computation of Invoice Value (\$)	High, Medium, Low
<b>Requisition base</b>	The requisition base is used for calculating the total number of requisitions that are raised as per the category characteristics. E.g. Requisition Base for Office products is high as everyone in the organization is allowed to order these products but may be low for "Audit services" which can only be ordered by selected individuals in the organization	Many, Few
<b>Product or service specs</b>	The product or service specification is used for purchasing the product or service. E.g. Product specification for Office products may be standard due to fixed SKU but Dynamic for Professional services as the requirements change across each request. An example of a One-off product or service specs is Construction project where the requirements may be one-off.	Standard, Dynamic, One-Off
<b>Demand trigger</b>	The point at which demand gets triggered and by whom? Demand may reside within the system or may have to be user initiated.	Standard, Category Specific, Business Specific
<b>Purchase type</b>	The Purchase Type is used for calculating how many times you are purchasing an item. E.g. Building, design and renovation may be considered One time whereas Office services may be considered recurring	Recurring, One Time)
<b>Purchase timing</b>	Differentiates transactions based on urgency. Purchases that do not follow a standard purchase timing are considered under Rush.	Standard, Rush

Buying channels should be aligned to each purchase type based on the relative priorities for that purchase, as shown in Illustration 3. What is most important for the particular purchase? Is it maximizing compliance or maximizing user experience or balancing those with the other priorities? The answer may differ based on the purchase.

*Illustration 3—Buying Channel Qualitative Impacts*









## 2.1. Why are buying channels needed?

Buying Channels are needed to establish an efficient and effective P2P process. It is important to match individual purchase type to buying channels in order to balance the cost of processing the transaction with control and visibility of the purchase. Sub-optimal buying channel design can quickly lead to inefficiencies in processing, lack of control over purchases, ineffective contract compliance, and a less than ideal experience for Procurement users.

38% of procurement organizations consider reduction of maverick spending as their number one priority<sup>2</sup>. Well-designed Buying Channels can address the most common breakdown in the P2P process that directly impacts the amount of spend channeled to negotiated contracts. This can reduce maverick spending and offer better tail spend management.

## 2.2. What are some sample buying channels?

To understand Buying Channels, it's important to consider the P2P (Procure to Pay) process which spans activities from Request to Payment. Illustration 4 contains a few examples of Buying Channels at the point of request initiation. Each of these requests may follow a specific path through the P2P process (from Request to Payment). Buying Channel optimization aligns channels with each particular category spend type and transaction frequency.

Illustration 4—Sample buying channels

Buying channel process flow—overview									
Request		Order			Receive		Invoice		
Create request	Approve request	Create PO	Approve order	Transmit order	Confirm order	Receive goods/ services	Receive invoice	Approve invoice	Payment
Materials or service requisition	No approval	Standard PO	Financial	EDI	EDI	Goods receipt	EDI	Workflow	ACH
Shop via punch out	Manager approval	Contract based PO	None	Portal	Portal	Service entry	Portal	3 way match	Wire
Shop via catalog	Budget owner approval	System generated PO		Email	No confirm	ASN*	Paper	2 way match	Check
Shop via free text		Blanket PO		Fax	Fax	No receipt		Manual signature	P card
Recurring system generated request		None		Manual	Manual			None	
Invoice only									

<sup>2</sup> Source: Coupa & Level Research, "Procurement Insight Report" (2019)



# 3.

## Buying channel priorities, efficiencies and selection

### 3.1. Priorities










Procurement can finalize the most optimized buying channel for a given category through an alignment with the organizational requirements. E.g. at the point of creating a requisition, the selection of a particular channel may have a significant qualitative impact across compliance, control, visibility, efficiency and User experience. Illustration 5 shows a client's evaluation of the impacts of individual buying channels.

*Illustration 5—Qualitative impact for the initial requisitioning process*

Characteristics of buying channels				
	 <b>Compliance</b>		 <b>Control</b>	
Create request	Contract compliance	Drives users to purchase from preferred suppliers	Control spend through upfront approvals	Allows users to create receipts
Materials or service requisition	Medium	Medium	✓	✓
Shop via punch out	High	High	✓	✓
Shop via catalog	High	High	✓	✓
Shop via free text	Low	Low	✓	✓
Recurring system generated request	High	High	✓	✓
Invoice only	Low	Low	✗	✗





Characteristics of buying channels						
	 Visibility	 Efficiency		 User experience		
Create request	Spend visibility	Efficiency through minimized manual purchases	Allows for invoice auto matching	User friendliness	Drives correct and complete requests	Maintenance required
<b>Materials or service requisition</b>	Medium	Medium		Medium	Medium	Low
<b>Shop via punch out</b>	High	High		High	High	Low
<b>Shop via catalog</b>	High	High		High	High	High
<b>Shop via free text</b>	Low	Low		Medium	Low	Low
<b>Recurring system generated request</b>	High	High		High	High	High
<b>Invoice only</b>	Low	Low		High	Low	Low

## 3.2. Up-front vs after-the-fact control

In designing channels and assigning those to individual purchases, organizations must consider both Pre and Post purchase visibility needs.

- **Visibility and control prior to purchase commitment**—E.g. in a Travel category, the system can be configured to suggest cheaper options when a user selects a particular itinerary. A user override of the suggested alternatives may trigger need for additional approvals. In these examples, the purchase can be made with sufficient controls in place without manual involvement from the procurement team.
- **Visibility post-purchase agreement**—E.g. in a Chemical category, purchases may go through a system generated requisition due to automated triggers (e.g. drop of chemical below a 10% level in a tank). Similarly, purchases for packaging material may be triggered based on MRP replenishment requirements. In these examples, no manual intervention may be required from the procurement team.

## 3.3. Efficiency—quantitative impact

Buying Channel efficiency can be quantified, deriving a cost per transaction, aiding in the selection of the appropriate buying channel for each purchase type. Costs typically vary based on the number of manual “touches”; the effort involved, and the cost of resources involved.

Cost quantification can be helpful in evaluating the opportunity to move from a current Buying channel to an alternative future state channel.

It’s important to note that buying channel selection should balance qualitative impact with quantitative (cost) impact.

### 3.3.1. Cost of a free text requisition vs cost of a catalog requisition

Cost per transaction may differ based on the choice of buying channel. Illustration 6 shows the cost of Free Text transaction as \$20.19 per transaction as compared to \$6.75 per Hosted Catalog transaction. The cost differential is due to the differences in the amount of manual intervention required by Procurement in a Free Text vs use of a relatively automated workflow to support a Hosted Catalog purchases.



Illustration 6—Cost of free text transaction vs a hosted catalog transaction

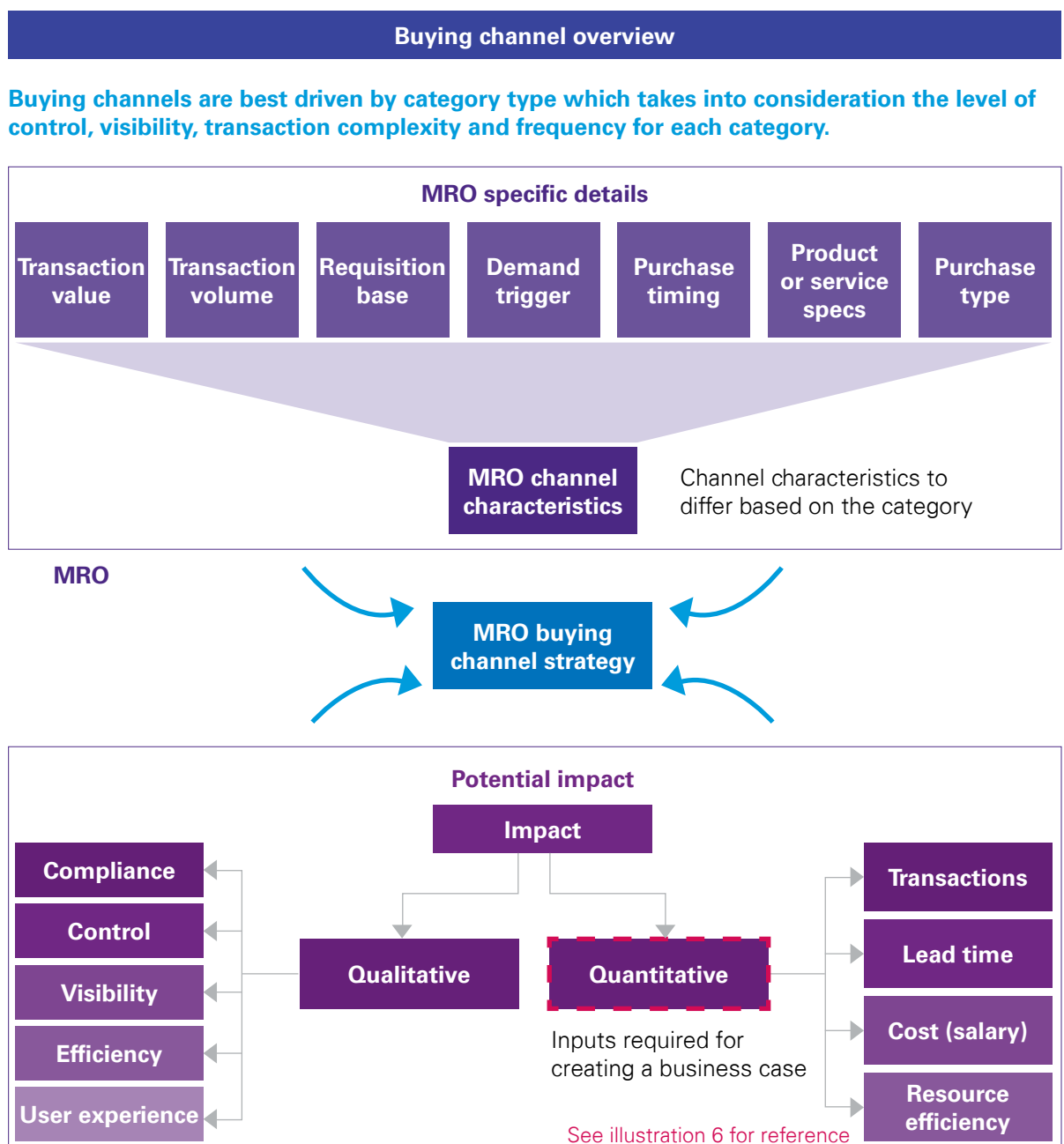
Cost of "create request"			
S No	Impact/Calculation	Organization X	Organization Y
A	Total number of annual transactions	82000	30000
B	Avg. time taken by Sourcing Operations FTE to support* create request channel (Free Text) per week	0	0
C	Avg. time taken by requester per create request channel (Free Text) transaction	15	10
D	Avg. time taken by buyer per create request channel (Free Text) transaction	30	20
E	Average annual salary (CTC) of a "Sourcing Operations" FTE per annum	\$ 150,000	\$ 120,000
F	Average annual salary (CTC) of a "Buyer" per annum	\$ 100,000	\$ 75,000
G	Average annual salary (CTC) of a "Requisitioner" per annum	\$ 100,000	\$ 75,000
H	Cost per minute for "Sourcing Operations" FTE ( D/(52 Weeks * 40 Hours * 60 Min))	\$ 1.20	\$ 0.96
I	Cost per minute for a "Buyer" (F/(52 Weeks * 40 Hours * 60 Min))	\$ 0.80	\$ 0.60
J	Cost per minute for a "Requisitioner" (G/(52 Weeks * 40 Hours * 60 Min))	\$ 0.80	\$ 0.60
K	Cost per transaction impact due to "Sourcing Operations" FTE	–	–
L	Cost per transaction impact due to "Buyer" (D * I)	\$ 24.04	\$ 12.02
M	Cost per transaction impact due to "Requisitioner" (C * J)	\$ 12.02	\$ 6.01
N	Total cost per transaction (K + L + M)	\$ 36.06	\$ 18.03
O	Resource efficiency	60%	60%
P	Actual cost per transaction (N * O)	\$ 21.63	\$ 10.82

### 3.4. Buying channel selection

Illustration 7 describes the selection of buying channel through an understanding of the category characteristic's and the impact. E.g. for the MRO category, the current channel may be a purchase at the local store through use of personal credit card or company given P-cards. Based on an understanding of the characteristics and impact, the future state buying channel recommendation may be to use a "Punch Out" catalog supported by a system-generated PO as a primary buying channel and "Material Requisition" supported by "Contract Based PO" as a secondary buying channel option.

Once a channel strategy is defined for each purchase type, the organization can consider the technology enablement required to implement the channel strategy.

*Illustration 7—Buying channel selection criteria*







# 4.

## Case study

### 4.1. Client need

The client need was focused on three key areas

- Provide a uniform and unified buying experience across end users
- Optimize the transactional savings
- Effective tail spend management

With these key objective in mind, the client approached KPMG for potential solutions to address these needs through redesign of their “Buying Channel” strategy.

### 4.2. Client challenges

The client had challenges across the following areas

- Lack of alignment between the current practices and the recommended category specific buying channels
- Lack of technology standardization due to multiple ERP platforms integrated as a result of acquisitions over the last several years
- Lack of an understanding on the types of channels, pros and cons of individual buying channels and the cost impact of moving transactions through a particular channel
- Impact of Buying Channel on user experience and transactional efficiency
- Low spend under management as compared to peers and issues around effective management of tail spend

### 4.3. Our approach

Our team used KPMG leading practice assessment methodology to address the needs of the client organization and provide a bespoke “Buying Channel” strategy. Here is a high level overview of the approach that was followed during this project.

#### — Current state assessment

The current state assessment comprised of gaining an understanding of the category spend, current buying channels, transactional flows and challenges associated with these buying channels by conducting interviews with key stakeholders represented by Procurement (including Buyers) and Business stakeholders.

#### — Buying channel maturity

The next step was to assess the maturity of the Buying Channel process flow as compared to peers and the industry as a whole. Let’s take a few examples

- Comparison of client catalog spend as % of total Indirect Spend (Leading 33% and Average of 7.1%)



- Pcard spend as % of total indirect spend (Leading 5.2% and Average of 1.1%)
- Spend under contract as a % of addressable spend (Leading 66% and Average: 30%)

The comparison of the current buying channels helped align the stakeholders on the existing challenges, overall maturity and create a case for change.

#### — Future state buying channels

Through the use of extensive workshops, KPMG took a deep dive into “Why,” “What” and the “How” associated with the buying channel strategy at a category level. These inputs were carefully assessed for creating recommendations around buying channels which were “Fit for use” and “Fit for purpose” for a particular category. E.g. Use of Pcards was considered relevant for a particular category but considering the technology environment, the use of Ghost Pcards was suggested as a customized solution which would lead to better user experience for that particular category. These recommendations were reviewed and signed off with the individual category managers and relevant business partners.

#### — Transition impact

Finally the transition impact was calculated across the following two areas

- **Qualitative**—The qualitative impact was focused on the impact of moving transactions associated with specific category between the current and the future state buying channels. This impact was assessed in terms of Compliance, Control, Visibility, Data Accuracy, Price adherence and Transactional efficiency.
- **Quantitative**—The Quantitative impact was focused on the cost of moving transactions between the current buying channel for a particular category to a future recommended buying channel. The cost of transaction was calculated after a detailed exercise involving Buyers, Category managers and Business partners. This helped the client understand the quantitative impact of the transition by calculating the cost differential associated with transactions flowing through the current Primary channels vs the Future (proposed) Primary and Secondary channels.



5.

# How can KPMG help?

KPMG has extensive experience, across industries, developing and implementing Buying Channel strategies from creation of an overarching strategy to implementation.

KPMG can not only help you identify opportunities by revisiting your Buying Channel strategy, we can help you take action. To learn how KPMG's Procurement and Operations team can help you in your journey, please visit [kpmg.com/us/procurement](http://kpmg.com/us/procurement)



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