Empowering your suppliers and your business: How combining direct and indirect spend creates agility

KPMG unifies spend management on a single Coupa platform to enhance business resiliency

Procurement and finance functions have long struggled to combine direct and indirect spend on a single, cloud-based eProcurement platform. For decades, organizations have required multiple procurement platforms to issue purchase orders, process invoices, and collaborate with suppliers. Only massive, on-premise enterprise resource planning (ERP) systems were able to give organizations the full visibility they needed. But ERP solutions are not known for their user interface and do not typically have full source-to-pay functionality, like contract lifecycle management or third-party risk management.

In recent years, however, we have seen an uptick in eProcurement technologies that focus on acquiring products and services at the best price and giving organizations visibility into where spend happens. This data helps control non-compliant spend and identifies areas for consolidating suppliers or sourcing events.

The shift to eProcurement solutions has been a revolution for procurement and finance teams, allowing them to optimize costs to fund growth, manage third-party risk, drive efficiency and productivity, and improve margins, even in industries known for their thin margins. However, few organizations have been willing to shift their direct spend into these solutions, given the critical nature of the spend and the historic lack of capabilities within the digital solutions themselves. But that balance is shifting.

As a quick reminder, here is how we define direct and indirect spend:

Direct spend encompasses the purchase of goods and services directly related to the production of end products.

Indirect spend in procurement includes spending for day-to-day operations that do not directly contribute to a finished product, like office supplies and IT services.

Because direct spend accounts for the majority of a company's total procurement, it has considerable impact on the bottom line. Direct spend also plays a vital role in the top line. Most value creation processes within a value chain lie in the hands of suppliers, which means that quality aspects and innovations within an end product are highly dependent on direct procurement.

The challenges of direct procurement

Because the impact of direct procurement is so substantial, it brings a host of challenges that differ markedly from those in the indirect space. Case in point: If a business faces a three-day delay in landscaping services (indirect spend), its lawn may not be properly mowed. But if a consumer packaged goods company faces a three-day delay in the delivery of aluminum (direct spend), its factories may shut down.

Typical direct spend challenges include:

Ongoing uncertainty regarding supply shortages and long lead times. More than 80 percent of supply chain executives reported at least one major supply chain disruption in the last 12[1] months. Of these, 50 percent of supply chain decision-makers ranked increased costs related to transportation, production, and raw materials as a leading reason for disruption.

Ineffective communication between organizations and their suppliers about orders, shipments, and so forth.

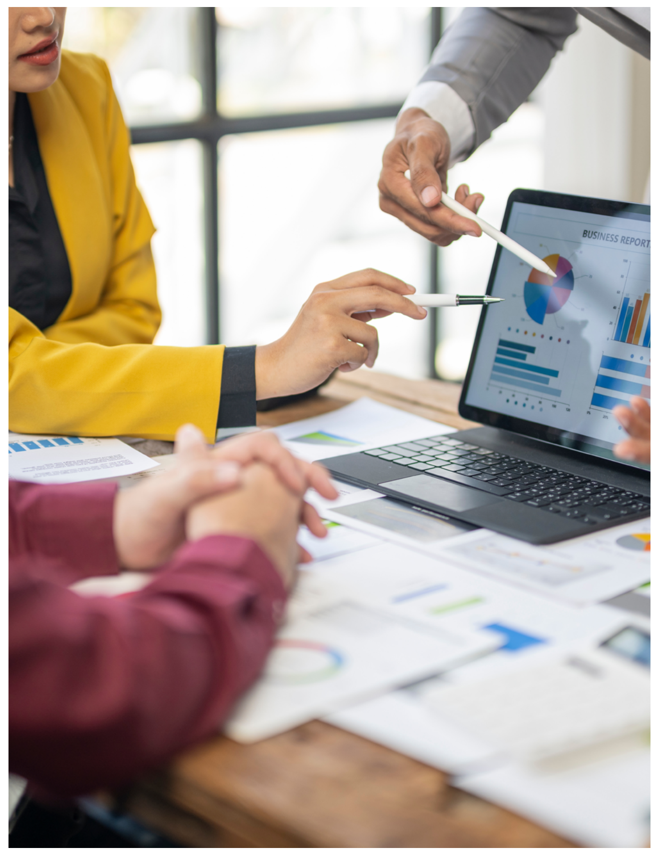
Disconnect in processing direct vs. indirect spend, leading to multiple supplier portals and processes. As a result, suppliers become confused on where to invoice, how to check payment status, etc.

Servicing end users on changes when the supplier needs to change shipment or order status, yet the customer is unaware.

What organizations require now

Regardless of these challenges, supply chain collaboration has become imperative to help manage material shortages, demand changes, excess inventory, and shipping delays.

> **Supply chain collaboration refers to partnership with suppliers on critical spend to improve operations and achieve common goals.**



[1] Coupa Software, 2023 State of Supply Chains report

Supply chain collaboration is critical to help organizations reduce uncertainty, improve communication, and reduce costs and revenue loss. Modern solutions to solve direct spend challenges must include supply chain collaboration. In doing so, they should:

Improve supply assurance for critical raw materials and reduce uncertainty, even in complex environments.

Improve end-to-end visibility of the supply chain, reducing the risk of severe impacts from material shortages, excess inventory, or unexpected delays.

Enable easy communication and collaboration between buyers and suppliers

Connect and integrate direct and indirect spend for a comprehensive picture of all spend.

By implementing a comprehensive solution, companies can streamline their spending processes, enhance visibility, mitigate risks, and make more strategic, data-driven decisions. An integrated approach improves operational efficiency and positions organizations to better navigate the complexities of modern business landscapes and drive sustainable growth.

eProcurement platforms like Coupa have excelled in spend management across indirect procurement. In recent years, Coupa also has invested heavily in direct spend procurement capabilities, including through its supply chain collaboration offering. The company recognizes the critical importance of combining direct and indirect spend, including complex material procurement, for a comprehensive, connected, and agile solution to prevent revenue loss, free up working capital, and ensure supply of critical materials.

- PO Collaboration at the line-item level helps provide complete visibility into an organization's order fulfillment process. It also enables suppliers to review, confirm, or request changes to orders from one central location.
- Forecast Collaboration proactively identifies and aims to resolve demand mismatches before they impact an organization. Demand can be shared in real time with suppliers so they can work together with customers to adjust shipments and minimize unnecessary inventory.
- Inventory Collaboration provides real-time visibility into inventory availability to reduce redundant and wasteful spend. Inventory levels can be tracked and managed more effectively by replenishing stock at the right time and reducing excess inventory to minimize carrying costs.
- Large amounts of unstructured data from emails and other sources can be quickly converted using generative AI, which can offer crucial contextual understanding to increase processing and execution speed, accuracy, and efficiency. Consequently, this can optimize working capital and cash flow.

The biggest benefits

By far the biggest benefit of supply chain collaboration is gaining the single view and greater control of critical material orders and inventory, regardless of whether they're categorized as direct or indirect.

A collaborative ecosystem with end-to-end visibility helps organizations' supply chains escape high-risk, fragmented environments. It also helps them address disruptions, capacity constraints, and mitigate losses, ultimately reducing operational costs and avoiding lost revenue. A collaborative supply chain is a more adaptive, resilient supply chain.

According to Coupa experience, additional value drivers include:

20–40 percent — less business disruption thanks to alignment of PO commitments, real-time visibility of order status, and communication of unforeseen events.

02–10 percent — lower carrying cost due to improved inventory management

10–25 percent — fewer lost sales and customer order cancellations from minimizing unplanned or extended downtime.

10–30 percent — lower logistics expediting costs because fewer MRO items need to be expedited.

05–20 percent — higher buyer productivity because the procurement process itself has become easier and more streamlined.

PO Collaboration in action

A large U.S. oil and gas company had already deployed the Coupa platform for indirect spend when it hired KPMG to deploy Coupa for direct spend across 11 refinery sites. The company sought to improve the end-user buying experience through expanded catalogs and better visibility into its supply chain. One of the core challenges faced was a lack of communication between buyer and supplier, leading to shipment delays and lack of order confirmation for critical spend.

Leveraging our past experience deploying Coupa within the oil and gas industry, we recommended implementing Coupa's PO Collaboration module to help maximize visibility and control over the company's direct and complex procurement with a real-time communication tool. This Coupa module allowed the client to receive real-time updates on ERP-generated orders, confirming or denying proposed changes and automatically integrating updates to the originating purchase order in the ERP. The client agreed and became an early adopter for our first implementation.

PO Collaboration was piloted with the client's top 10 suppliers, representing $91 million in spend and over 20,000 invoices (23 percent of invoice transactions). We also prioritized key suppliers for data cleansing before enablement occurred. When different refinery locations had unique needs, we worked with refinery leadership to gain support for the rollout and provide change management.

After the nine-month project was completed, the company deployed Coupa PO Collaboration, Requisitioning, Storefront, and Invoicing modules. Now, direct material suppliers could confirm order fulfillment (price, quantity, and need-by date) for ERP-generated orders, and also propose suggested changes without manual input from the buyer, increasing touchless invoicing downstream. Changes route to a buyer queue for review and approval; if approved, changes are automatically integrated to the original PO, creating a revised version.

The remaining 80 percent of suppliers (approximately 250) are being processed in waves through 2024, supported by a supplier enablement playbook KPMG developed.

Collaborating with KPMG and Coupa

As a long-time Coupa alliance partner, KPMG is well positioned to help organizations digitize their eProcurement systems and address their PO collaboration needs, as this graphic shows.

Longest standing relationship of any Coupa partner with over **10 years** of joint implementation experience

Approximately **500 certified and experienced** Coupa implementation resources located worldwide

Holistic transformation methodology, approach and accelerators **powered procurement enabled by Coupa**

Over **175 Coupa deployments** spanning 100+ countries with multiple go-lives with many deployments

Cloud integration framework containing pre-built integrations for the most common use cases

Our collective client base put through **$1 Trillion in spend** on the platform in the last 12 months

Received the **2024 Coupa North America Strategic Partner of the Year**

> **KPMG was one of Coupa's first alliance partners and they have continued to invest heavily in building excellent Coupa capabilities globally. They bring a structured methodology, collaborative approach, robust set of accelerators and a strong set of skilled and certified resources which have worked on many of Coupa's most complex implementations. We are thrilled to have such a strong alliance with KPMG that has and continues to deliver sustainable client value!**
>
> – **Sean Granfield**
> VP, Americas Partner Organization, Coupa

By leveraging the benefits of Coupa's supply chain collaboration software, businesses can optimize their supply chain operations, increase efficiency, reduce costs, and improve supplier collaboration. Coupa enables the adaptive supply chain, giving enterprises the ability to predict and act on disruptions before they occur. An adaptive supply chain enables resiliency and optimizes efficiencies to deliver a margin multiplier effect across the entire supply chain network.

By combining the extensive knowledge, unique insights, and industry experience of KPMG with innovative technology from Coupa, organizations can unlock new levels of supply chain excellence.

Connect with one of our team members to learn more.

Visit our website to learn more about: KPMG Supply Chain | Coupa Supply Chain | KPMG and Coupa Alliance

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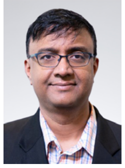

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