

SAP Customer Success Story Higher Education & Research



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Stephen Whittaker, Director of Procurement Services, University of Toronto

AT A GLANCE

Summary

The University of Toronto is a huge consumer of items ranging from paper clips to the most sophisticated scientific devices. The institution turned to SAP and its mySAP™ Supplier Relationship Management (mySAP SRM) solution to help streamline procurement processes – and reduce associated costs.

Web Site

www.utoronto.ca

Key Challenges

- Significant cost constraints
- Escalating costs for managing suppliers and processing purchase requisitions and orders
- Limited visibility and control over budget and procurement activities

Project Objective

Replace cumbersome, paper-based processes with e-procurement solution

Solutions and Services

- mySAP SRM
- SAP NetWeaver™ platform

Why SAP® Solution

- Easy integration with SAP® financial software
- World's first standardized e-procurement solution for higher education

Implementation Highlights

- Leveraged current funds management process and SAP R/3® infrastructure (SAP R/3 functionality now available in mySAP ERP)
- Created a Web-based self-service desktop process, supporting 120,000 transactions per year

Key Benefits

- Reduced processing costs by CAN\$117 per transaction, with potential total savings of CAN\$14 million annually
- Reduced process steps from 29 to 7, resulting in a process time reduction from 3.46 hours to 20 minutes, or 90% faster
- Consolidated vendor supply base, resulting in savings between CAN\$5 million and CAN\$8 million per year
- Provided visibility into budget status for 1,200 independent purchasers

Implementation Partner

SAP Consulting, an SAP service

Existing Environment

SAP R/3

UNIVERSITY OF TORONTO

University of Toronto Dramatically Slashes Purchasing Costs with mySAP™ Supplier Relationship Management

At the University of Toronto (U of T), e-procurement is an extremely intensive process, involving the purchase of thousands of items ranging from paper clips to the most sophisticated scientific devices – which is precisely why the institution uses the mySAP™ Supplier Relationship Management (mySAP SRM) solution from SAP. “mySAP SRM helps us reduce costs, increase productivity, and simultaneously improve accountability, transparency, and control. It is exactly what we need,” says Stephen Whittaker, director of procurement services, University of Toronto.

Total annual spend for procurement tops CAN\$300 million at the university. Discounting construction, operating the U of T for a year means spending between CAN\$75 million and CAN\$100 million on everyday items. Its largest single non-construction item is desktop computers; desktops consume about CAN\$7 million a year from a fixed and finite annual budget. At the bottom of the spending scale are specialty scientific purchases. Even then, that can amount to CAN\$500,000 most years.

Outdated, Paper-Based Processes

At the turn of this decade, the U of T faced a particular challenge: to a large extent its procurement system was paper-based and outdated. About 1,200 employees had the ability to purchase supplies. The system they used involved up to 29 steps and took an average of 3.46 hours of effort by the time the purchase order was processed internally and the goods were dispatched. Equally important, managers found it almost impossible to track what remained in operating budgets. Budgets independently maintained by business officers in each department added to the limited visibility the university had concerning its spending.

Unlike private industry, where spending on necessary supplies and equipment is generally an ongoing and open-ended process, universities operate on fixed budgets. They often use corporate credit cards, but that spend information is not always linked to the university's funds management system. The risk exists that personnel could in fact overspend allotted monies, with the faculty having to cover cost overruns. In short, when the money for the year is gone, spending has to stop.

While knowing what remained in department budgets might seem fundamental, the U of T's web of paper-based and dated systems offered business officers limited capability – and visibility. Further complicating the situation was continuing government restraint of financial support for Canadian universities and colleges. The U of T, like its sister institutions across Ontario, would have to do more with less.

Heavy Demands

When Whittaker became the U of T's director of procurement services, one of his first goals was to borrow from the private sector and create a new technology-based solution to streamline the university's procurement system. When soliciting potential vendors, he laid out five requirements. First, the new e-procurement system must deliver the maximum in transactional savings. It had to enable the university to considerably reduce the number of steps or "touch points" to purchase everyday items as well as the time spent on each step in the process. Second, any new solution must direct users first to suppliers with negotiated contracts. Third, the system must enable the U of T to negotiate favorable bulk buying terms with suppliers.

Fourth, the new solution must streamline the entire supply chain process for both the university and for suppliers. The fifth and final point was crucial. The solution must do more than just allow online purchasing. It must offer other tangible benefits to users – benefits obvious enough and strong enough to quickly draw the maximum number of users online. As Whittaker explains, a university is unlike private industry. The principle of academic freedom extends beyond research and teaching. Each of the university's hundreds of departments, sub-departments, laboratories, and researchers rigorously defend their independence. A new procurement system could not be mandated from above as in private industry. Instead, it must be embraced for its obvious benefits to users.

The SAP® Solution

The University of Toronto's original intent was to create an online e-marketplace, a form of virtual department store where suppliers would post catalogs on a Web site and university staff would make their purchases accordingly. The university approached two e-marketplace companies and asked them to submit proposals. Word of the university's search for e-procurement technology reached Patrick Lamb, an account executive with SAP in Canada. "The university equated SAP with financial systems; in fact the system the U of T uses is from SAP. They didn't know of our different initiatives in e-procurement in the private sector," Lamb explains. "I called Mr. Whittaker and we began discussing what role SAP could play in making this new system a success."

Those discussions quickly revealed a number of significant faults in the models the university had been investigating. Chief among them was the lack of consideration shown to seamless integration of any future procurement system with the existing SAP® software for financials. "Without that ability to integrate smoothly and transparently, nothing we did would have generated the full spectrum of benefits we needed," says the U of T director of procurement services. The university discarded the e-marketplace idea, and the approach went untested. Costs associated with integration to the existing financial system and the transaction fees charged by the third-party host company would offset much of the savings sought. Establishing an

e-marketplace would add yet another link in the supply chain. “Every additional link in the supply chain adds cost. This was precisely the opposite of what we sought,” says Whittaker. “We want our purchasers to get closer, not farther from their suppliers.”

Another option had been to create an internal e-catalog, listing all the items the U of T sought to purchase. The cost of creating and maintaining that catalog, however, would also have significantly eroded any potential savings. Suppliers too would be reluctant to accept this approach. “The last thing suppliers want to do is be ‘commoditized,’” says Whittaker. “They don’t want to adopt a prescribed, generic framework to market their products and services.”

After reevaluating its approach, the U of T decided on and successfully implemented mySAP Supplier Relationship Management, which, at the time, was the world’s first standardized business-to-business e-procurement transaction solution in the higher education sector. Essentially, university staff simply log on to a Web site to make purchases. If the item is offered by a large supplier, the purchaser clicks on a link, which connects them with that supplier’s own Web site and catalog with preset U of T–negotiated discounts. Making a purchase is a matter of a few simple clicks of a mouse. For smaller suppliers, the U of T is working with an SAP partner company to create a mini-mart with Web-enabled catalogs. Perhaps most important of all, because the online system is seamlessly integrated with the university’s SAP financials solution, users are able to see on-screen the real-time balances remaining in their annual budgets. They know beforehand if a purchase can be made and the impact that purchase will have on finite budgets. “That alone is quite a step forward,” says Whittaker. “This system is all about accountability.”

Benefits

Less than a year after go-live, seven suppliers of office products, computers, and laboratory and research products were already online. By the end of 2004, the university had a total of 12 suppliers directly connected to the e-procurement solution. There are currently 350 regularly active users of the system. “While this amounts to only one-third of potential users, we are already realizing savings,” says Whittaker. “We are on track for a very early payback.”

By the end of 2005, the university expects to see its e-procurement solution supporting 120,000 transactions, representing CAN\$75 million in purchases a year. It also expects the number of mySAP SRM users to increase by at least 25 to 30 each month. In the meantime, the university has been able to slash the number of steps necessary to complete a purchase from 29 to just 7, and cut the time spent processing a single order from 3.46 hours to less than 20 minutes. The new purchasing process saves CAN\$117 per transaction. At full deployment of mySAP SRM, this will represent an economic benefit of CAN\$14 million a year. In addition, savings from vendor consolidation can be expected to save another 7% to 10%, translating into annual cost reductions of between CAN\$5 million and CAN\$8 million.

Suppliers are equally pleased with the U of T’s innovative approach, says Whittaker. By directing purchasers to supplier sites and catalogs, sellers are able to retain and leverage brand identity. They are also able to record and track preferences of individual purchasers, the key to successful expansion of e-marketing. Using the new system, suppliers can reduce transaction costs, while increasing efficiency, accuracy, and customer satisfaction. In addition, they can also leverage the considerable investment they’ve already made in e-technology and reduce their overall operating costs. In addition, the university’s approach to procurement allows small to medium-sized suppliers to compete on equal footing with far larger competitors. At the same time, they gain easy access to providers of scientific and research niche-market equipment and supplies. As SAP’s Lamb says, “The university’s e-procurement solution is both sophisticated and affordable. It allows the university to accommodate the diverse needs of a large, complex, multisite community, thanks to its remarkable flexibility. It not only works but works well, delivering a financial benefit almost from the get-go.”

The U of T’s Whittaker agrees: “It is exactly what a purchasing solution should be.”

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