

Exploring the Future Analyzing the Implications of the OpsTechnology Purchasing Solution

An Executive White Paper by
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OpsBuyer™ - Additional Resources

While drafting this white paper, we collected some resources and thoughts that may be useful to potential and existing users of the system. We also developed some speculative thinking about what types of business improvements OpsBuyer™ and systems like it may be able to spawn in the future. This section is divided into three sections:

- Some brief, “what-if” thoughts on the future of online purchasing;
- A project outline for implementing OpsBuyer™;
- Additional third-party information resources.

Speculation on the Future

Web-enabled purchasing, online order and payment approval and e-payment are a powerful suite of tools for a business. Already, efficiencies have brought both firms unexpected benefits that they can “put in the cash drawer.” As users of the system query the system for more information, we predict that these users might pursue strategies such as:

Developing Total Cost of Ownership (TCO) models for their high-dollar purchases of appliances and frequently ordered items;

TCO analysis is a method in which the total lifetime cost of an item is calculated, not just the upfront purchase cost. Upfront cost, shipping, installation, replacement parts, service and time to replacement are all used to calculate the “true” cost of owning. OpsBuyer™, or any database product tracking system, allows a user to more easily track their costs assigned to a particular unit or SKU. After three years, an analyst can retrieve information on all of the washing machines purchased and then retrieve information about all of the warranty and non-warranty service calls, replacement parts and initial purchase price to determine the total cost of ownership to date. TCO can be used as a benchmark to compare products across a portfolio or between portfolios. This cost can be further correlated with outside data such as the number of service calls to units with these products to estimate the hidden labor cost of owning a product over time, and the energy and water costs associated with such appliances under normal usage. By being able to factor in more of the costs of an item, a manager can make a more informed decision about when to replace an item, versus continuing to repair or service it. Aggregating such purchases across a portfolio can provide additional economic benefits when working with suppliers.

Demonstrating (and realizing) the economic value of purchasing higher value appliances, fixtures and parts when selling a property;

Well-built properties currently sell for more than those that will soon require structural upgrades. It’s possible that in the future, firms that can demonstrate the TCO of their interior appliances, fixtures and finishes will be able to explicitly capture that value when they sell the property - or even when they refinance it. Such a program not only uses hard data to support the assertion, it’s an indicator that the existing management has been paying close attention to all of the details, and is less likely to be turning over a bundle of uncorrected physical headaches.

Attaching a cash value to mature purchasing program when selling a portfolio to a less sophisticated buyer;

The intellectual property and enterprise value created by institutionalizing this detailed analysis and structuring contracts for quality parts with quality vendors may have an additional, explicit value to purchasers. An effective, proprietary method of creating

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value through purchasing has economic value like any other proprietary process. When manufacturers combine, they don't just buy inventory and plants, they also buy processes and other intellectual property. The value of the process depends on how good it is, who's valuing it, and the buyer's own sophistication and willingness to continue on the same path.

Forming effective buying coalitions among smaller firms, and among memberships of apartment associations;

Historically, purchasing coalitions perform poorly because they are difficult to administer, and it's difficult to track real-time usage among members. OpsBuyer™ makes it possible for coalitions to effectively share a catalogue, track usage, monitor pricing, discounts and rebates and makes it possible for a firm to monitor whether it is meeting its commitment level. Coalitions typically fall short when individual members either use the coalition's price as a starting point from which to negotiate their own pricing, or they cherry-pick and purchase only items that have lower negotiated prices than they already receive, but don't share their discounts with the group. The data transparency of OpsBuyer™ makes it possible for a coalition administrator to manage the group and determine where they are cherry-picking, without waiting 3 or 6 months for the data. Trade associations, regional firms and existing buying consortia would all stand to benefit from creating more efficient trading networks of firms motivated to make a firm commitment.

Extending Total Cost of Ownership purchasing into new construction among firms that own and manage the properties they develop.

Builders have long understood the tradeoffs between upfront cost and total cost of ownership. TCO is already practiced in many places, and takes many forms including better and more inclusive warranties for particular components like HVAC, plumbing, weather membranes, flooring, and roofing. Although OpsBuyer™ is focused at recurring purchases, the analytical discipline that it may encourage can ultimately be applied more consistently to building materials. By quantifying the cost of owning of the major building components over long time periods, sellers may be able to provide (and receive) a higher level of value to buyers that can make use of the information.

Lowering repair costs through enhanced warranty management and tracking to ensure that all eligible repairs are made under the terms of an existing warranty.

The physical matching of warranties and terms to specific items is a time-consuming and difficult task, even for large-volume capital purchases such as appliances. As a result, items that are still under warranty are often repaired by paid repairmen simply because it's easier to pay them than to document the purchase of a specific item. OpsBuyer™ is an efficient system for keeping track of purchase dates and serial numbers. Purchased items may be allocated or assigned to specific apartment homes, making it simple for a maintenance supervisor to search by unit to determine whether a faulty appliance or finish item is still covered.

Enhancing the process of charging residents for damage outside of customary wear and tear by being able to estimate the useful life of a carpet or appliance when the resident moved in, and the expected depreciation when they moved out.

Newer items have more residual value than average-age items. By providing documentation regarding the age and purchase cost of the damaged items, executives may be able to remove some elements of contention in what can be a difficult, emotional process.

Implementing OpsBuyer™

Standard project management organizational tools apply in implementing OpsBuyer™. It requires the same type of procedures and allocation of resource as with any innovation that is destined to become an ongoing program. The ten major steps below are provided to help think through and plan for the entire process of a successful implementation, based on the experience of the beta users.

1. Senior executive has a vision or reason to examine purchasing and accounts payable process. Executive sponsors initial investigation about whether company may be able to benefit. Key areas to be defined include:
 - Expected financial benefit;
 - Process and manpower efficiencies that can result;
 - Available staff or third-party resources and capabilities;
 - Opportunity cost of pursuing this project at this time.
2. Form a project team to manage the implementation and program development. Choose a day-to-day project manager (preferably different from the sponsor). Include representatives of the affected areas including: purchasing, accounts payable, IT, residential operations, and training.
3. Analyze in detail how OpsBuyer™ can drive savings across the portfolio in terms of reducing maverick spending, improving contract pricing through product standardization and aggregation, and prompt payment and other efficiency savings and soft benefits. Set achievable goals for first two years.
4. Communicate all goals in detail with project team, all managers and all affected staff. Repeat message and provide opportunities for face-to-face questioning of project sponsor and project manager by onsite and corporate staff. Generate buy-in through communication of common benefits, allaying fears and providing ongoing means of two-way communication about project such as an online bulletin board.
5. Schedule and diagram all facets of implementation, allowing time for unexpected delays. Consider overlapping implementation and training if resources are available so that the project may proceed more quickly when implementation is completed. Identify users who don't have sufficient computer and internet skills early, and get them trained through local community colleges, public libraries, CompUSA or local training programs.
6. Implement OpsBuyer™ at sites and corporate office, being careful to focus on data integrity. Getting users proper access, and entering complete catalogue data the first time will drive user satisfaction and data integrity. Communicate vision again to property management personnel, and maintain their buy-in.
 - Bring initial group of vendors online, and identify additional suppliers to add. If desired, initiate discussions with other vendors in OpsMerchant™ supplier network with whom you do not currently have relationships. Create shopping lists for each community

as part of the setup process to facilitate ease of use and enhance user satisfaction. Shopping lists provide a significant time savings that is noticeable on the first day.

- If not already in process, train site staff in use of OpsBuyer™. Take the opportunity to again stress benefits to company, and to receive their feedback and concerns. Schedule opportunities to hear suggestions about how to improve integrating OpsBuyer™ with existing workflow and vendors.
 - Schedule follow-up training for onsite staff 4-6 weeks after initial training. This training should focus on teaching short cuts, reviewing shopping lists, and leveraging shared learning across the portfolio.
7. Initiate (or reiterate) company policies regarding purchasing and mandate purchases through the catalog, and monitor user compliance (maverick spending, online compliance, standardized product compliance, etc.) using reports available in OpsBuyer™.
- Formalize purchasing rules, and integrate into management procedures of regional and district managers;
 - Educate staff on changes in policies and procedures, including how the integration between OpsBuyer™ and the corporate office accounting system creates new processes. Educate executives on their newly available management information, and how to take advantage of it;
 - Try to minimize inventory on property, and correlate reporting to units turned.
8. Begin to develop a framework for analyzing the performance of operations. Look for the gains that are being realized through usage of OpsBuyer™. Assign analysis function to at least one professional on an ongoing basis, but available reports make it possible for every executive to be their own analyst. As little as 45 days of activity should provide tremendous insight into your company's buying patterns.
- Set up a formal system of collecting user feedback to monitor personnel's adoption of system, and provide additional training where necessary;
 - Review the policies and procedures setup in the system and adjust as necessary (GL code defaults, spend limits, routing, etc.). Formalize the purchasing department's "ownership" of the success of the initiative and begin to transfer functions from project team to permanent functional staff.
9. Perform strategic analysis of purchasing data after 6-9 months to determine significant patterns. Being mindful of effects of move-ins and move-outs, seek out performance enhancement opportunities by searching portfolio-wide for:
- Maverick spending by GL code and GL group;
 - Potential impact of vendor consolidation;
 - Chances to standardize items purchased - starting with big-ticket, high volume items;

- Opportunities to eliminate human touches of paper and more accurately and quickly process data by mapping “req to check” process;
 - Spending outliers in portfolio. Compare spending at each property and region across a portfolio to identify outliers and the underlying cause;
 - Lowering total cost of ownership by examining own replacement data over time.
10. Using newly obtained granular data, work in partnership with your vendors to lower their costs of transacting with your company and share the savings in the form of the best pricing possible. Help your vendors understand your purchasing patterns by time and geography so that they can lower their inventoried overhead. Commit to higher purchasing volumes and faster payment cycles that lower their cost of working capital.

Information Resources

Associations and Other Organizations

Institute of Management and Accounting
www.ioma.org

IOMA holds conferences, publishes and advises on a variety of financial management issues for corporations.

Institute for Supply Management (formerly the National Association of Purchasing Managers)
www.ism.ws

The ISM is a large, vibrant association dedicated to helping its international membership improve corporate purchasing practices. It has extensive educational programs, publications and affiliates in dozens of states and cities.

Center for Advanced Purchasing Studies
www.capsresearch.org

CAPS is a non-profit organization, affiliated with ISM and the Arizona State University College of Business. Its mission is to help organizations achieve competitive advantage by providing them with leading-edge research and benchmarking information to support the evolution of strategic purchasing and supply management.

Publications

Accounting Department Management Report
Newsletter published monthly by IOMA. Available by subscription for \$249 annually.

A/P Department Benchmarks and Analysis 2003
Published annually, this guide provides benchmark data on costs of vendor payment processing across industries. Data is provided by self-reporting survey respondents.
www.ioma.com, \$279.

Inside Supply Management
The publication of the Institute for Supply Management.

Annual E-Business and Technology Solutions Guide

A supplement to Inside Supply Management magazine that provides additional information for purchasers of spend management solutions.

http://www.ism.ws/Pubs/ISMMag/supplements/toc_1002TechGuide.cfm

Journal of Supply Chain Management

A quarterly publication written specifically for and by purchasing professionals and educators. The Journal provides an in-depth analysis of new purchasing strategies and business techniques by some of the world's leading educators and business executives. Available by subscription and at university libraries and other repositories.

Government Procurement

A useful monthly Canadian publication that provides its complete content online for free.

www.govpro.com

Articles

"A Move to E-procurement Improves Order Efficiency", Susan Avery. Purchasing Magazine. Feb 21, 2002. Vol. 131, Iss. 3; p. 47.

"How to Know if E-Procurement is Right for You", Malcolm Wheatley, CIO Magazine, June 15, 2003.

"Measuring E-Procurement Benefits", David Eakin, Government Procurement, August 2002.

"Measuring Purchasing's Value", Susan Avery, Purchasing Magazine, July 19, 2001.

"Solving the Headaches of eProcurement", Denise Bedell, Corporate Finance, May 2002.

"Strategic Cost Management in the Supply Chain: A purchasing and Supply Management Perspective", Lisa Ellram, PhD, Center for Advanced Purchasing Studies.

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About Joshua Tree Consulting

Joshua Tree Consulting is a niche consulting practice dedicated to the growth and success of the multifamily industry. We help our clients achieve success through studying and optimizing strategies and operational processes that are close to the heart of the business. Joshua Tree Consulting works on selected engagements in which it can add value through analyzing strategies for asset management, positioning and making better use of management information.

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About OpsTechnology

OpsTechnology develops software that saves money for real estate operating companies by improving their ability to manage and standardize Procurement, Purchasing and Payables functions. Founded in 1999 by real estate and technology industry experts, the company is backed by real estate operating companies and VC firms including SAP Ventures, Vortex Partners, Cohen & Steers, Equity Residential and Camden Property Trust. For more information visit www.opstechnology.com

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