

Case Study: Erste Bank Implements Procurement Sourcing Strategy to Support Expansive Continental Growth

EquaTerra Pivotal in Bank's Move to a Combination of Shared Services and Outsourcing Service Delivery Models

At a Glance

Company Profile

Erste Bank is one of the largest financial services providers in Central and Eastern Europe. It offers a broad range of consumer finance services and wealth management products.

Services Featured

- Service Delivery and Sourcing Strategy
- Negotiating and Contracting
- Outsourcing Governance

Business Processes Involved

- Procurement
- Accounts Payable

Executive Summary

With rapid expansion throughout Europe, Erste Bank wanted to strategically revamp its procurement function. After careful evaluation and consideration from EquaTerra advisors, the bank's procurement function will now be served by both an internal shared services centre and an outsourced partnership. EquaTerra helped Erste Bank enter into a 10-year contract with a global service provider and assisted bank officials in designing an effective governance structure for the new service provider relationship.

Context and History

In 2004, Erste Bank started a 'New Group Architecture programme,' which aimed to concentrate certain operations into one place. Part of this included bundling all of its procurement activity into one company (sProserv), having established a single organisation (a central company in Austria plus subsidiaries in all Central and Eastern European countries), which manages all procurement activities within Erste Bank Group. Although Erste Bank reviewed several options, including building an internal shared services function, it was decided that a combination of a shared services centre and outsourcing for the full Source-to-Pay cycle looked advantageous. Despite internal scepticism and no experience in this area, Erste Bank's management was determined to leverage an outsourced partnership to drive change and set the stage for greater transformation work in the future.

Business Challenge

Erste Bank faced a number of challenges across its Source-to-Pay business process. Although the company benefited from sound expertise and a good track record in strategic sourcing, this was often reactive. At the start of 2005, it only had modest key vendor management systems and protocols in place. This meant that it was difficult to define who its key vendors were. Moreover, business-critical information such as vendor share of spend, was virtually impossible to define.

A review of Erste Bank's technology platform and capabilities also revealed that electronic and catalogue-based buying was largely conducted at a country level, with limited eRFx (electronic tendering) and only partial automated matching of purchase orders with invoices. Financial tracking and management was made even more challenging by the lack of enterprise-wide financial systems. As a result, Erste Bank's process efficiency and identified strategic sourcing savings were at risk of being eroded, completely lost or never realised.

Further examinations revealed that limited pre-approval processes were also restricting the company's procure-to-pay cycle and there was little or no coordination between payables and strategic sourcing. These limitations were compounded by disparate workflow in the procure-to-pay process. Ambiguous compliance standards and limited e-invoicing meant that analytical support for strategic sourcing issues were inclined to be reactive and resource-heavy, while workflows and procedures were mainly designed to support local regulatory, legal and fiscal requirements. This gave the company little cohesion or consistency, and this fragmented approach actively worked against the group's stated business objectives.

How We Helped

In weighing the benefits of integrating accounts payable with procurement, EquaTerra and Erste Bank defined the key considerations of a sourcing strategy as:

- End-to-end visibility on spend and demand, i.e., the need to own the entire procurement process from source to order to pay
- The ability to fully leverage data (contracts, purchase orders, invoices, budgets, budget owners and general ledger accounts)
- Improved commodity insight and demand control – with group controlling through transparency, bundling, best practice and fast support for business and service unit budget requests

Other benefits included transparency and accountability, demand control (stopping spend before it happens and properly specifying that spend once it's authorised), spend mapping (uncovering and addressing hidden opportunities) and an improved internal focus on communications and transformation.

At the same time, integration would ensure better alignment with Erste Bank's business priorities, provide vendors with one point of contact and allow management to proactively identify, realise and retain cost savings. The new structure would also free management to pursue higher value gains, such as compliance enhancements. EquaTerra also elaborated on the broader business benefits, such as demonstrating to market analysts and observers that the company was willing and able to rationalise and control its expenses.

Following an intensive market survey and tendering process, supported closely by EquaTerra, Erste Bank entered into exclusive negotiations with a leading service provider and a 10-year contract was subsequently signed.

Because Erste Bank also recognised the importance of effective governance to long-term outsourcing success, it retained EquaTerra to support it through the governance design and build phase.

Central to this effort has been a careful examination of the "intent of the deal," going beyond the basic contractual terms and conditions. Erste Bank sought to identify the key organisational behaviours that would successfully capture the deal's "intent." It also set about building a governance organisation, comprehensive processes and supporting tools to promote these key behaviors.

In the early phase, these benefits concentrate on allowing both parties' transition and on-boarding teams to focus closely on efficiently managing transition risks and transformational efforts. As the deal evolves over the next 10 years, Erste Bank sees effective governance as the key to capturing maximum benefit as well as managing risks.

Results

After signing the 10-year contract, Erste Bank set out to achieve all of its stated objectives. During the term of the contract, the company will have a fully integrated procurement strategy in place that will enable it to achieve greater transparency and accountability, as well as align vendors with one point of contact and enable management to proactively identify, realise and retain cost savings. The new structure also frees management to pursue higher value gains, such as compliance enhancements. In addition, EquaTerra believes that Erste Bank will achieve broader business benefits, such as demonstrating to market analysts and observers that the company was willing and able to rationalise and control its expenses.

Looking back, Nima Motazed, Chief Procurement Officer at Erste Bank Group, says: "Our challenge was to implement a group procurement strategy that totally transformed the way we do business. Our selected strategy was to keep the strategic procurement activities in a shared services function, and outsource the more transactional procurement activities to an external third party. We decided that this would give us the robust but standard service delivery model we desired and a sound, sustainable cost/value relationship. It also allowed us to capture the full value potential in strategic sourcing, enhanced compliance and operational synergies. It was an enormous undertaking that we could not have completed without EquaTerra's support and guidance."

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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