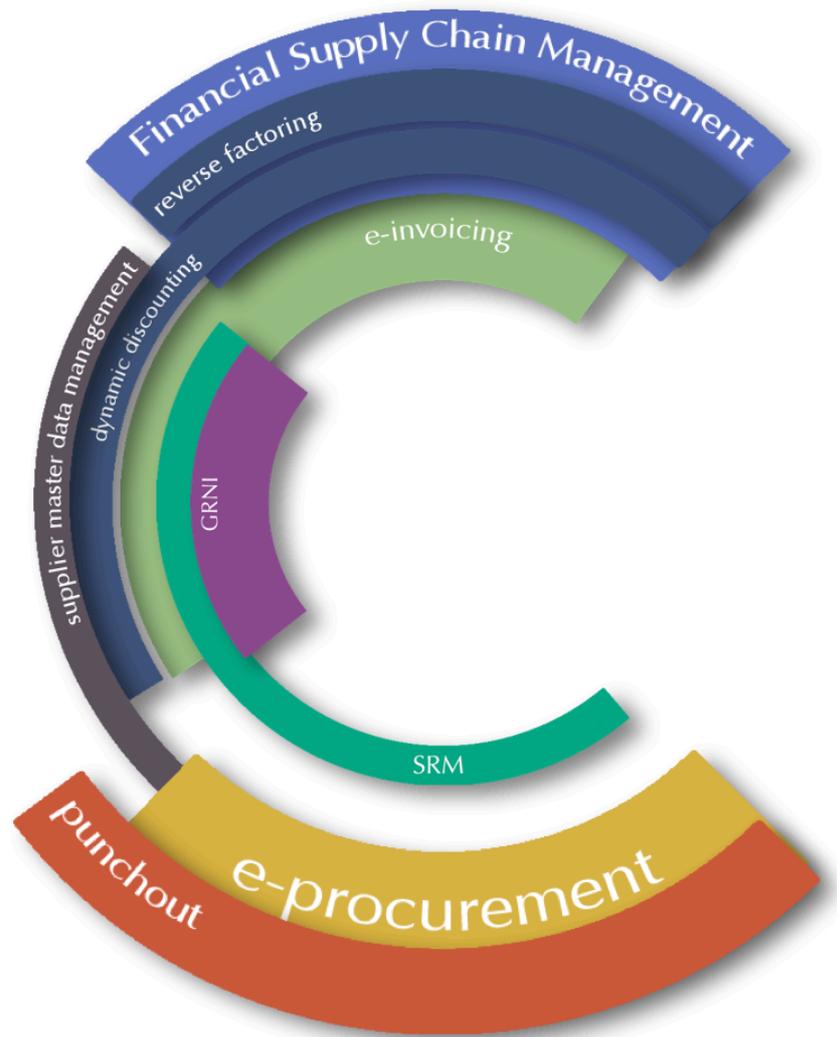


# HOLISTIC PURCHASE TO PAY

UNLOCKING CASH BY CREATING SYNERGY IN P2P



A Purchasing Insight White Paper



In collaboration with:

**basware**

## Executive summary

It doesn't take a mathematical genius to understand the business case for some Purchase to Pay initiatives. Dynamic discounting - exchanging a discount in return for early payment - can give a return on capital of over 30%. Reverse factoring and other supply chain finance methods can substantially increase DPO and AP automation can reduce costs by 50%. But despite the compelling business case, most organisations remain firmly in the 20th century when it comes to purchase to pay optimisation. If the benefits are so great, why are more businesses not grasping the opportunity?

In a recent research report by Aberdeen\*, the best performing respondents to their survey claim to process an invoice in just 4 days at a cost of \$3. Yet 30% of their survey respondents reported that they take over 20 days to process an invoice at a cost of nearly \$40. In any other sphere of business, this level of waste would be seen as incompetence and the board members responsible would be fired.

It's not for want of trying to improve things. There are plenty of failed P2P projects that illustrate the difficulties. Legacy IT systems that just don't cut it in the 21st century; siloed organisations where purchasing and finance don't speak; dysfunctional supplier relationships. Fixing these issues is not trivial.

Purchase to Pay is not about getting purchasing processes SARBOX compliant. It is not about managing an accounts payable process. It is a means to eliminate waste and to unlock cash from within a business. But it is also a partnership - a partnership between buyers and suppliers and a partnership between purchasing and finance. Getting it right can be highly lucrative.

It doesn't have to be particularly complicated. Many organisations have the infrastructure in place already and even an incremental change can bring about significant improvements. e-procurement for example - it's not just a purchasing system - it can act as a gateway to a vast supply chain ecosystem that you can leverage to your advantage and as supplier networks become more open and

interoperable, businesses can access suppliers that are not even sharing the same supplier network.

Operating within silos doesn't work. Tackling small parts of the process in isolation doesn't work. Purchase to pay is a complex set of interlinked processes, people and technology. It is only as strong as the weakest link and the only way to profit from P2P is to adopt an holistic approach to every purchase to pay project.

This white paper explains a number of approaches that executives and decision makers can take to build a collaborative P2P infrastructure and unlock cash from their business.

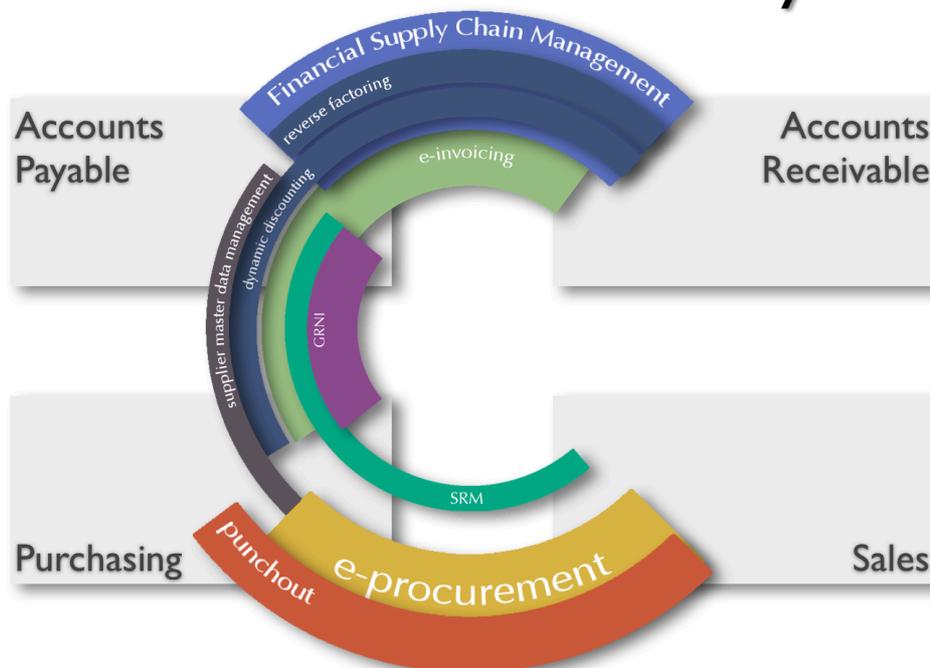
\* <http://www.aberdeen.com/Aberdeen-Library/6997/RA-workflow-invoice-processing.aspx>

## What is Holistic Purchase to Pay?

Purchase to pay is essentially about the management and optimization of a chain of events within a business. It links people, processes and technology in an often complex network of interlinked components. It includes requisition and approval business processes, ordering and fulfillment, payment and dispute resolution, accounting, cash and asset management as well as logistics. It relies on robust data and technology to support it and most important of all, it requires overall governance that recognizes that P2P doesn't start and end within purchasing or accounts payable but that it spans the organization and beyond. The suppliers' sales order process is a key component as are the strategies and technologies deployed across the supply chain.

This is holistic purchase to pay. A chain is only as strong as its weakest link and the only way to ensure the health of a full end-to-end purchase to pay process is to

## Holistic Purchase to Pay



take an holistic view. No single component is independent of the rest and every component is as important as each other.

An AP automation project run in isolation will have limited success. The easy invoices will fly through without touching the sides (they do anyway!) but no amount of automation will fix poor P.O. compliance. If an AP project is run from within finance, it can only be successful if purchasing are on board.

And as an alternative view, take a purchasing initiative like dynamic discounting. Agreeing to a 2% discount in return for early payment can give a compelling return on investment of over 30%. Some suppliers will give their right arm to be paid in days rather than months but unless you get the accounting treatment right and fully understand the impact on cash flow and DPO, the initiative will be quashed by finance. Paying early seems harmless from a purchasing perspective but cash flow is the life blood of a business and things look very different when viewed from finance.

Of course most organisations recognise the importance of purchase to pay processes but it's not just that processes are managed more efficiently or that an organization can respond and adapt to change more quickly. Getting it right can have a massive financial impact.

## Implementing Holistic P2P

Holistic P2P delivers synergy. By embracing the whole of the end to end process across finance, procurement and the supplier's organisation, benefits can be unlocked that remain hidden when these elements operate in isolation. Apparently unconnected projects within the purchase to pay spectrum can be joined together to deliver better results. The following examples illustrate the point.

### **Supplier master data management and e-invoicing**

The management of supplier master data - names, bill-to addresses, delivery addresses etc. is a fairly routine operational matter. It's often undervalued and under resourced leading to duplicate, out of date or incorrect records. Yet by taking a wider view, investing in good supplier master data can pay for itself many times over by looking at the effect it can have on an AP automation programme. Accurate supplier data can dramatically increase the straight through processing rates for scanned invoices where intelligent data capture is employed.

### **E-procurement and accounting rules**

There's a perennial headache in finance concerning the correct allocation of spend. Purchasing people have little knowledge of the importance of correct allocation of spend in the general ledger and sub ledgers and neither should they but incorrectly coding capital expenditure as operational or attaching the wrong GL code can have a very serious impact on an organisation. Where an e-procurement system is managed within the procurement function, inviting finance colleagues to play a central role in the design of product hierarchies and categorisation can eliminate time consuming and expensive reworking within finance.

### **Accounts payable and supply relationship management**

Too often, a strategic relationship with a supplier at a procurement level is frustrated by an entirely separate and dysfunctional relationship at a payment level. It's easy for purchasing to blame finance when invoices don't get paid and in the worst cases it can escalate to a point where supplies are halted. But the reasons for

delayed payment are often complex and the root causes can be found in any places. Incorrect or missing P.O. details on the invoice, poor receipting processes within the business or shortcomings within accounts payable - they can all contribute. For commercially critical suppliers in particular, joining up the purchasing and AP with the suppliers' account management team and accounts receivable to ensure there is constant visibility of payment issues and their roots causes, helps to reduce the number of issues and can eliminate commercially disastrous escalations.

## **GRNI and purchasing processes**

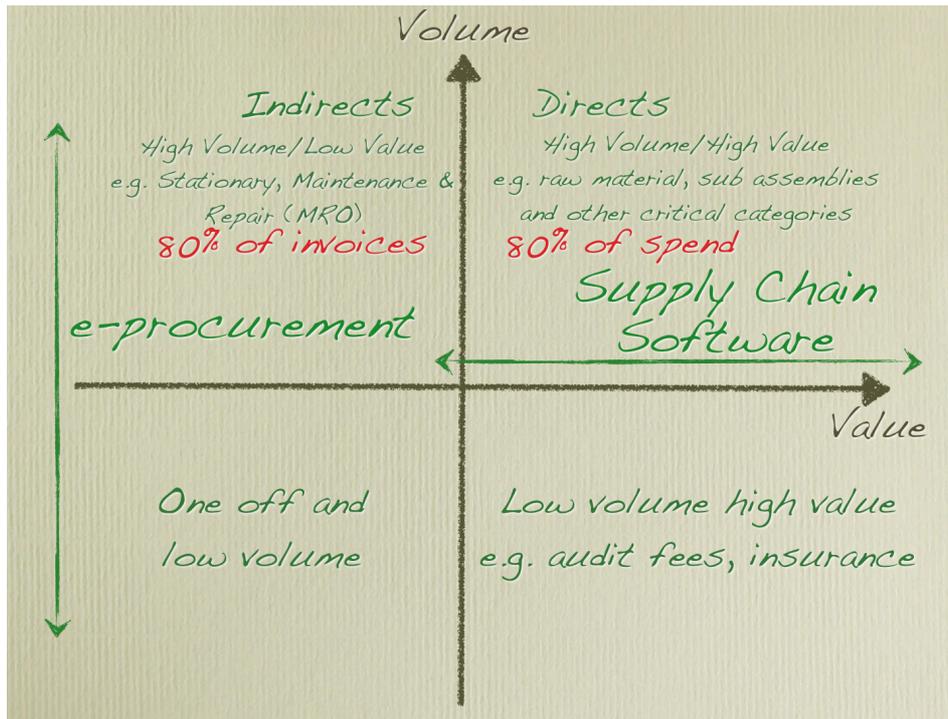
A GRNI (goods received not invoiced) report may not give the average purchasing person sleepless nights but for finance people, excessive GRNI numbers are a real problem. It is normal that goods are received before an invoice arrives but when there is a gap of more than a few months between receipt and invoice that should ring an alarm bell. Finance have to accrue for this spend (set money aside) and uncontrolled GRNI leads to significant accruals which in turn effect the profitability of the business.

Generally speaking, excessive GRNI numbers point to poor purchasing processes. Receipting goods as soon as they are ordered saves a job later but if that order is subsequently cancelled, the receipt record remains. Receipting in advance of goods and services being delivered over a period of time has a knock-on, adverse accounting effect.

Successful management of GRNI can only be achieved when purchasing and finance work together. Purchasing need to appreciate the commercial implications of poor practice and finance need to appreciate the purchasing process and support their purchasing colleagues to get it right.

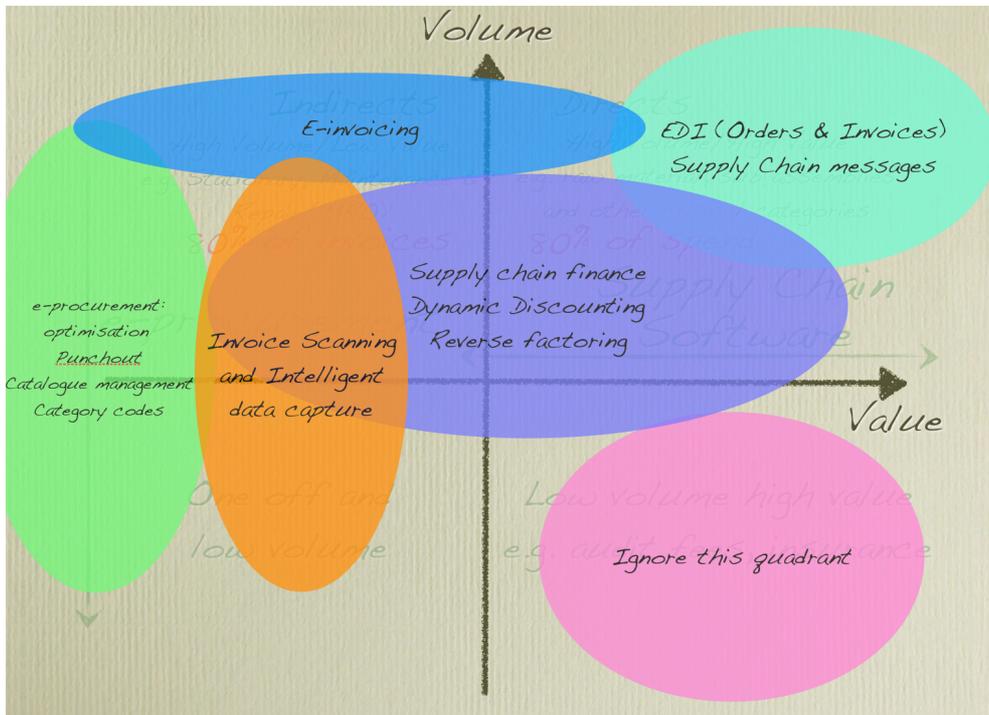
## Purchase to Pay Basics - The P2P Audit

The correct steps to take to implement holistic P2P very much depend on the starting point. An immature organisation may have to work hard simply to get to the starting line. Others may already have reached a high level of maturity, but whatever the starting point, it is worth going back to basics and beginning with a high level audit assessing your level of P2P maturity.



This is back of an envelope analysis. It doesn't need to be exact. Consider your organisation's spend profile in terms of volume - numbers of POs, numbers of suppliers and numbers of invoices and invoice lines - and think in terms of the four P2P quadrants - High Volume/Low Value, High Volume/High Value, Low Volume/Low Value and Low Volume/High Value. Each quadrant has different characteristics.

Not all P2P components are appropriate for each quadrant. Complex supply chain optimisation techniques such as demand planning simply aren't worth the investment for most indirects and while EDI and e-invoicing will pay for itself for high volume suppliers, low volume and one off suppliers are unlikely to take this on board.



By collating the existing P2P initiatives and assessing their maturity it's possible to identify areas where closer collaboration - whether that is between finance and purchasing or collaboration with suppliers - will unlock further benefits.

## The Challenges of Holistic P2P

Taking a holistic approach is easy to say of course and much less easy to put into practice but the benefits of successfully implementing a truly holistic purchase to pay process can be very considerable. By pursuing best practice in purchase to pay, organizations can make a quantum leap in cost saving. So what are the challenges and what actions can be taken to further exploit the opportunities that are available?

OPPORTUNITY	ACTION
Single governance across procurement & finance	Build a formal alignment between Finance and Procurement - if not as part of the corporate structure then as part of procurement and finance project governance models
A Common Set of KPIs	Get buy-in at the most senior level to develop and adopt a set of commercially focused KPIs across procurement and finance and work with procurement to build synergy
Synergy Initiatives	Identify and put in place a set of “Synergy Initiatives” - i.e. a set of projects that build on the common strengths of finance and procurement.
Catalogues and Supplier Networks	Take advantage of suppliers ability to manage your catalogue content in real time by implementing punch-out catalogues and explore alternative supplier networks to see if how you can access a wider supplier base.
Financial Reporting	Explore the commercial benefits of discounts compared to DPO and enhance your reporting to capture the value of discounts compared directly to the value of DPO.
Electronic Invoicing	If you are not already close to 100% paperless invoicing, prioritize it. Eliminating paper doesn't just improve your carbon footprint it allows you to automate AP.

## Single governance across procurement and finance

Without a single strategy across purchasing and finance, P2P doesn't work. One approach is to have procurement report to a commercially savvy CFO who "gets" procurement. This way the synergy between strategic sourcing and purchasing best practice can synergize with finance ways of working. But even where this is not practical, supply chain related finance programs can include senior procurement sponsorship within the governance structure and purchasing projects should be encouraged to include a finance representative on the project board.

**Action:** Ensure that there is a formal alignment between Finance and Procurement - if not as part of the corporate structure then as part of procurement and finance project governance models

## A Common Set of KPIs

Much is said about the need for finance to partner with procurement but all too often it amounts to no more than informal collaboration on tactical issues. It's critical, if the partnership is to be meaningful, that both parties are working to the same agenda; that they are fully aware of each others business drivers and goals; that these goal do not conflict and that shared responsibility is taken for shared KPIs. DPO for example, a finance KPI, can only be managed effectively with the close collaboration of procurement. Procurement people should be fully aware of the importance of DPO and be rewarded for successful management of it.

**Action:** Finance must work with procurement colleagues so that they fully understand the finance opportunities that exist within the supply chain such as cash flow and treasury management in order that they can develop strategies to support your objectives. Similarly, finance people must work to understand the commercial drivers and opportunities that exist with procurement.

Get buy-in at the most senior level to develop and adopt a set of commercially focused KPIs across procurement and finance and work with procurement to build synergy.

## Synergy Initiatives

Finance and procurement rarely work to the same agenda but when they do, magic can happen. Purchasing people want great relationships with suppliers and will seek valuable discounts in return for early payment but finance want to pay as late as possible. Getting the balance right between discounts and DPO is a balancing act but when it works it can deliver huge returns.

**Action:** Identify and put in place a set of “Synergy Initiatives” - i.e. a set of projects that build on the common strengths of finance and procurement. For example, a project to further optimize DPO; a dynamic discounting program or financial supply chain optimization initiative.

## Catalogues and Supplier Networks

Don't underestimate the power of your e-procurement system. It is not just a purchasing tool. It is a gateway to a vast supply chain ecosystem that you can leverage to your advantage. Increasingly, supplier networks are becoming open and interoperable which means that you can access suppliers that are not even sharing the same supplier network as you.

**Action:** Take advantage of suppliers ability to manage your catalogue content in real time by implementing punch-out catalogues and explore your supplier network to see if how you can access a wider supplier base - not just for purchasing but for electronic invoicing too.

## Financial Reporting

If the cash-flow and DPO is at the center of your universe it can be difficult to appreciate the often significant value of early payment discounts. The fact is, the cost of finance associated with early payment can be trivial - especially when interest rates are very low - compared to the return on cash that discounts can offer. Convincing the CFO that early payment is a good idea can be a challenge but ignoring highly lucrative discounts in favor of DPO is a bit like allowing the tail to wag the dog and a way of reporting that captures directly the relative merits of

discounting and DPO needs to be developed in order to ensure that the right balance is made between the two.

**Action:** Explore the commercial benefits of discounts compared to DPO and enhance your reporting to capture the value of discounts compared directly to the value of DPO and actively pursue opportunities to derive a greater return on capital with dynamic discounting

## **Electronic Invoicing**

Financial Supply Chain initiatives are highly attractive but you need to walk before you can run. Techniques like dynamic discounting require as a prerequisite that your AP function is under tight control and automated as much as possible. Offering a discount for payment in 10 days is only useful if you can guarantee to be in a position to pay in 10 days so up your efforts toward AP automation.

**Action:** If you are not already close to 100% paperless invoicing, prioritize it. Eliminating paper doesn't just improve your carbon footprint it allows you to automate AP.

## About Basware

Basware is the global leader in purchase-to-pay solutions with more than 1,500 customers and 1,000,000 users in over 50 countries around the world. With Basware, organizations can reduce the cost of buying and paying for goods and services and gain visibility and control of their entire spending process by automating manual processes, from sourcing, contract management, purchasing and supplier collaboration to invoice automation.

Basware solutions and services enable substantial cost reductions across businesses and deliver value by providing compliance and control, as well as fast return on investment. The solutions are distributed and implemented, either on site or as a service, in Europe, the US, and Asia-Pacific through an extensive network of Basware offices and business partners.

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