PERFECT ALIGNMENT
BRINGING PROCUREMENT AND FINANCE TOGETHER TO ACHIEVE P2P EXCELLENCE
There’s no two ways about it. A well-planned and executed deployment of procure-to-pay (P2P) technology creates better operational dynamics between an enterprise procurement organization and its partners in finance.

But get it wrong and you can do more harm than good.

No doubt, P2P software can make life easy for procurement teams. But procurement has a direct impact on the entire value chain, particularly on downstream teams in accounts payable and finance, and a P2P software might not be able to address the requirements and challenges of these teams.

The bottom line is: A procurement solution that is a headache for your partners in the enterprise is no solution at all.

This paper explains how enterprises can engineer a win-win scenario for all the stakeholders in procure-to-pay technology selection and deployment.
The Case for Procure-to-Pay

There's a compelling business case to implement a state-of-the-art procure-to-pay system. Standardization, supplier rationalization, increased speed from order to delivery, improved visibility, purchasing compliance, authorization and approval are all clear and widely-held rationales for deploying a P2P system. Each confers a benefit to the procurement department and — as part of an overall strategy — can deliver significant cost reductions, savings and efficiency improvements.

The new system must represent a path of least resistance, and circumventing the new process should be more difficult than sticking to the rules. This means that a lot of effort is required to ensure configurations, workflows, catalogs and master data are all designed such that the users won’t be drawn to maverick spending, with all those benefits lost.

Whether it will actually deliver those benefits or not, however, is largely dependent on how effectively the P2P system is embedded into the rest of the business. A process improvement, or acceleration in one area, may not be welcome elsewhere.

Implementing a procure-to-pay system across the enterprise represents a big change — not just for the end-users in how they search for and buy the goods and services they need. It may, in fact represent a bigger change for the finance and accounts payable functions that must deal with the implications of the new system.

Those consequences can, without due care, prove quite negative and costly. A new purchasing system designed to enable greater savings and cost reduction may, when the bigger picture is revealed, do quite the opposite.

The key to a successful P2P implementation is to resist the temptation to just focus on the procurement part and ensure that the payment part is also given equal attention.

Unintended Consequences

One of the key drivers for the implementation of a P2P software system is the desire to make it easier for the end-user to order what they need. This is often referred to as “consumer-style” or “Amazon-like” buying.

The desire to improve the end-user experience by embracing a consumer-style buying experience should come with some caveats. To meet the needs of both the procurement and finance teams, we should select a P2P solution carefully.

The P2P system needs to be easier to use and provide more upside than alternative workarounds. Indeed, an interesting and engaging experience will encourage system adoption and use.

Catalogs with images, comparison features, product bundles and comprehensive search capabilities are all on the plus side. Other familiar features of the consumer-style experience can cause real problems: for instance, special offers, cross-selling, upselling and “people-who-bought-that-also-bought-this” promotions discourage both standardization and buying discipline, put additional pressure on budgets, and ultimately affect cash flow.

For example, if an order for a dozen laptops becomes an order for a dozen laptops with accessory bundles, larger touchscreens and a dozen high-backed office chairs, then the original project budget can go haywire. Make it as easy as possible to find the goods and services required in a manner that people actually enjoy, while removing the distracting temptation of everything else. While this can be stopped with sign-off approvals, your team is now engaged in damage control with disappointed end-users in a process made longer by this self-inflicted problem.

Make it as easy as possible to find the goods and services required in a manner that people actually enjoy, while removing the distracting temptation of everything else.
An order based on a pre-approved catalog, with negotiated prices and terms should only contain standard, approved items, to ensure that the subsequent invoice will be correct on presentation.

But a supplier may choose to consolidate invoices for multiple orders. Teasing out the information to match with the original orders can be tricky. New prices and delivery charges, changed quantities and specifications can all be introduced between order acknowledgement and invoice. Where multiway matching is specified, this can create significant processing overhead to get an invoice approved.

Inevitably, invoice creation and handling is a part of the procure-to-pay software solution that needs careful consideration during deployment. Providing the supplier with a means to flip orders into invoices in a portal into the P2P system is a good potential solution. But you may already have existing Electronic Data Interchange (EDI) interconnections with your Enterprise Resource Planning (ERP) system with high-volume suppliers. In either case, paper invoices are still a part of most accounts payable teams' daily routine.

Thus, you must ensure that your orders – and the data therein – can be processed by your suppliers into an invoice that your own accounts payable team can process efficiently. Think about the information your accounts payable team needs to efficiently process invoices from suppliers, and ensure your requisition and ordering processes anticipate and support these requirements. By specifying the right mandatory fields and ensuring that the correct master data look-ups are included at the requisition stage, the procurement team can have a real impact on the time to process an invoice from receipt to payment.
Step 1: Ensure the order has all the data your AP team will need to see on the invoice.
Step 2: Help your suppliers to ensure their invoices are reciprocals of the orders.
Step 3: Get the invoice matching rules and methodology right.

Your Problem or Somebody Else’s?

The exceptions and manual handling that hit the accounts payable team are the direct result of purchasing activity. If a new P2P deployment increases the volume and frequency of this pain, then it’s neither working for finance nor the enterprise overall.

Note that exceptions include cases where there is a mismatch between what was ordered and what was received. Such exceptions are generally rapidly identified and resolved through change-order processes or corrective fulfilment — both in the hands of the purchaser. With the right configuration in the P2P software, such exceptions can be resolved quickly and easily.

But the exceptions causing the biggest pain are those that result from the invoice not matching what was ordered and received. In many cases, the original buyer may be totally unaware of this and the problem ends up in the lap of the accounts payable team.

If the goods received don’t match the order, then the buyer will be on to the supplier. But if the buyers have received what they ordered, they’ll be more likely to leave it to for the accounts payable team to worry if the invoice is wrong. It is possible, however, to intercept and resolve invoice exceptions before they become a problem for someone else.

Tolerances and allowances, for price fluctuations and the like, can be configured such that invoices can be more readily approved either automatically or with minimal intervention of the buyer.

Essentially, we need to ensure that the buyer is involved in the invoice approval workflow and that the approval and invoice reconciliation processes configured in the purchasing system are approved — if not defined — by the finance team.

A system that automates exception handling to a large extent means that only the rarest of cases will end up requiring a more manual intervention.
Alert the Neighbors, Enlist the Neighbors

A new system will bring about intended as well as unintended changes. The intended change is a desired improvement in working practices facilitated by the new system. But change can also result from requirements imposed by the new system.

Distinguishing between the changes you are planning to implement and those which will be foisted upon you by a new system is important because they may be mutually exclusive. You may be planning to change only the purchasing function and leave the accounts payable team undisturbed, but the design and configuration of the P2P software may make that impossible.

Planning for the change has to include enlisting the support and, perhaps, more importantly, the insight and guidance of the finance team. Their management of budgets and cash flows should be a direct contributor to the design of the P2P solution. Where the software itself dictates process and behavior, the finance and accounts payable teams need to be aware, at the very least, but ideally be advised to plan for mitigation and accommodation.

The new P2P system would generate new information for accounts payable to handle from the moment it goes live. If invoices suddenly start arriving in a new format, containing different information, via a novel route, at changed frequency, things would get difficult for the accounts payable team. Additionally, a rapidly accelerated cycle of requisition-to-invoice, if not planned for, can seriously impact cash flow. All of the benefits you will have identified and strived to put in place will be negated by the unintended leap in complexity, workload and cost at the accounts payable end of the chain.

Enlist the finance and AP team to assist in planning the change. Identify where the changes will occur to processes that directly affect not only procurement but finance as well. Their insight will ensure the end system really does deliver the intended benefits. For example, more favorable payment terms offered to suppliers in return for their compliance with a new invoicing process is a good move only if the finance team has the processes and cash flow forecasts organized to cope with it.
Technology-Driven Innovations

By including a program of investigation and planning for change across the entire enterprise, the procurement team can start to take advantage of innovations in technology, knowing that they won’t be doing more harm than good.

One example is dynamic discounting. Cash flow has just as much value to your supplier’s finance department as yours and there is very real value to the supplier in being paid sooner rather than later. By offering immediate payment to a supplier in return for a spot discount on that invoice, the buyer can reduce costs at source while adding value to the supplier.

In the software, the buyer can flip an invoice into an offer for immediate or preferential payment terms and the supplier can respond with a counter offer of a discount. If the parties agree, the deal is struck and payment must be made in accordance with the terms.

Thus, the dialog between procurement and finance will be key when considering how dynamic discounting should be deployed. Fundamentally, it is finance who will determine the value of payment timings. Cash flow forecasting and accrual accounting all feed into an understanding of what value to pin on a particular accelerated payment. If this is only a buyer-led exercise then the good intentions of achieving a discount for immediate payment could turn out to be more costly overall. Immediate payment at a time when cash-on-hand is key may ultimately cost more that the discount is worth.

Yet, there are significant potential savings offered by dynamic discounting and similar innovations in P2P software. Procurement needs to be able to take advantage of such opportunities. In this, and other parts of the P2P cycle, finance and procurement are equal players and the synergy to be derived from a plan that considers all is obvious.

Take advantage of the innovations that technology can bring in generating more savings, better cost control and greater efficiency, but not without first working out the potential costs.
Reporting – Opposing Views of the Same Data

It’s no secret that procurement and finance don’t always share the same perspective or, at times, even speak the same language.

Visibility of cash flow requirements and accrual of expenditure are not matters with which sourcing teams or buyers are often concerned. Yet, at the ordering stage, and perhaps even earlier, it is pretty important that the finance and AP teams are able to assess and understand sufficient information for accrual accounting.

Reporting and business intelligence are important for everyone in an organization to make sense of what is going on in the business. P2P software is equipped with the means to generate reports, reveal patterns and trends in activity which the procurement team can use to gain insights into contract utilization, plan for future sourcing waves and generally keep on top of purchasing activity across the enterprise.

For accounts payable team, the intelligence needed is similar but different enough to require planning in implementation and deployment.

Detailed views of “ordered but not invoiced” are of far more importance to the accounts payable team than to the end-user buyer. While the user is mainly concerned with items that are “ordered but not delivered” the finance and AP folks are far more interested in accruing future exposure and understanding what invoices will be heading their way, particularly when the order-to-invoice timeline overlaps the end of an accounting period.

Get the reporting right. Ensure that you know what business intelligence the finance team needs, and that you can extract that information on demand from your P2P system.

Speeding up the requisition-to-invoice process not only impacts demands on cash flow but also affects finance team’s ability to predict and plan for the same. Ensuring that the finance team has the reports and business intelligence that gives them that insight from the start will make that acceleration of the cycle a pure positive.

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From P2P to S2P and Beyond

Over time, the scope of P2P software has extended to more fully encompass the reality of today’s workplace that not everyone exists in either a traditional “upstream” or “downstream” role.

With the advent of more dynamic catalog interfaces and the inclusion of collaborative tools, workflow and approval rules, purchase-to-pay has extended to become requisition-to-pay and, more recently, the division between upstream and downstream has become increasingly irrelevant.

With send-for-bidding, immediate RFQ, and dynamic discounting functionality now available to the buyer, source-to-pay as an integrated process is now a reality. The processes previously labelled as “upstream” — RFPs, strategic sourcing events and contract management — are now part of a more organic, unified, end-to-end workflow.

Procurement professionals have the ability to source key commodities and hand off the results of a sourcing wave as a negotiated contract that ultimately gives rise to a catalog for purchase. Integrating the technology to automate this process yields the possibility of extending the model even further.

Taking advantage of that and mapping the technology on to your company — so that it becomes a solution and not just another system — means more than just extending the software capability upstream.

Planning and forecasting that takes into account the procurement processes as well as finance imperatives needs to be at the heart of a P2P strategy. Taking this approach, you would be able to put in place a procurement software system that allows you to chart a course, with financial plans and rules at the heart of it, and then execute that course, clocking off the sourcing, contracting and purchasing milestones along the way.

Far more than just a purchasing system that pings an OK-to-Pay instruction to the AP team, it will allow procurement and finance to work together in perfect alignment to deliver genuine realized savings.

Summary

Designing and deploying the perfect P2P solution for your enterprise is an exercise in managing change and achieving alignment across the entire organization. It is collaborative process. Procurement and finance will need to have mutual awareness and be open to giving and receiving inputs and feedback.

Planning together, overcoming issues in partnership and pro-actively avoiding pain points for other departments will not only drive a more successful working relationship but also catalyze the successes expected from the P2P solution.

Without that intention to drive for mutual success, the risk will be a system that is disjointed — between procurement and finance — at a place where the connection needs to be most coherent and complete.
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RECOMMENDED READING FOR SOURCING AND PROCUREMENT PROFESSIONALS

PayStream 2015 Contract Management Report
PayStream reveals the top challenges enterprises face in managing contracts and executing source-to-pay operations. The report also explains how enterprises can automate contract management to streamline source-to-pay processes and unlock significant value from their spend. **DOWNLOAD NOW**

The Future of Procurement Technology
Innovation is driving massive change in procurement. What do you need to know to be prepared? Read “The Future of Procurement Technology” to understand the 5 key drivers shaping procurement today and tomorrow. **DOWNLOAD NOW**

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