# Issues with a Manual Procurement Process




With a manual procurement process, there is a lot of room for error. Oftentimes, invoices arrive without context. No one approved the purchase – from legal, to IT security, to finance.

There's no one to hold accountable for any aspect of the purchase.

Even when a company makes an effort to put forth a specific policy in regard to how company purchases should be made, there's no guarantee that employees will follow it.

Let's take a look at a fairly standard manual procurement policy for a small to medium sized organization to handle buying goods and services, these are the steps:

- **Step One:** Employee fills out a purchase requisition form and submits it to the department head for approval.
- **Step Two:** Department head approves the purchase and creates a purchase order for the goods and services requested. (If the department head does not approve, they can go back to the employee who requested the items and indicate what changes need to be made for approval.)

- **Step Three:** If necessary, the department head sends the purchase order to another person for approval, such as in the case of large purchases over a certain threshold. If not, the department head sends the purchase order to the procurement team to handle working with the vendor to place the order.
- **Step Four:** The order is received, and the vendor submits an invoice.
- **Step Five:** The accounts payable department must go back through the paper trail to show the purchase was approved, the goods and services were received as ordered, and then pay the invoice.

The entire process could take days, or even weeks, especially if parts of the paper trail go missing, or end up left in a pile on someone's desk while they are away on leave or vacation.

# Manual Processes Rely on Paper

Paper trails are important in business, of course, but paper can be lost or destroyed.

Plus, having to keep records on hand for a certain amount of time after each purpose means a great deal of office real estate could go simply to document storage.

Because of how many hands the papers must go through, each exchange leaves opportunity for error and misplacement.

These manual processes also rely on the team member to do the bulk of the work – where all team members throughout the chain of command for a basic procurement process are busy with their core job function.

Paper processes fail to consider the impact on the employees who must go around getting approval signatures from one or more people.

Generally, this amount of work means team members simply avoid taking the official procurement route.

Instead, they get verbal approval for the purchases. While this seems like it could work, it typically leaves accounts payable in the dark about what was approved and what wasn't – making it harder to get the right invoices paid at the right time.

# A Manual Procurement Process Takes Time

Because of the time an employee spends tracking down signatures – if they even follow policy as it is written, along with the time it takes to create the purchase requisition and the subsequent purchase order, the company is wasting a lot of time. In addition to the time before an order is processed, there's time on the backend, too.

The accounts payable department will only pay invoices they know are approved.

If they randomly pay invoices as they arrive on their desk, an organization could run into some major cash flow issues.

If everything is kept together well and checked for accuracy at each stage, the accounts payable department doesn't have to do much.

But, if there's little to no paper trail to support an invoice, they must spend a chunk of time tracking down each purchase, whether or not it was approved, and then more time to make sure the invoice matches the purchase order, and both those documents match what was actually received, so they are only paying for what you asked for and what you got.

> *This extra time costs money in terms of labor costs and affects your invoice processing costs. Over the course of a year in an organization with high purchase volumes, this can make a tremendous impact on your bottom line.*

# Manual Procurement Processes Cost More Money

Aside from the additional labor costs, relying on a manual procurement process costs your organization more money.

If after research is completed the AP clerk cannot verify the legitimacy of an invoice, they have to pay the vendor anyway.

Late payments often come with fees and penalties that will cost even more

money.

Late payments damage supplier relationships, which could mean you find yourself without a supplier when you need something.

Not only this, but think about the additional costs associated with paper, printer ink, and other supplies you need throughout the manual process.

Yes, you're likely getting those anyway for other uses in the company but having to print so much means you'll use those resources faster and ultimately spend more money on basic office supplies than you would compared to using an e-procurement system.

An e-procurement system makes it much easier to handle all parts of the procure-to-pay process.

It allows for more delegation of authority as others in the organization can handle some of the procurement activities.

Because the procurement team is freed up to address other areas of their job function, they are free to send more request for proposal (RFPs) to multiple vendors throughout the supply chain and gather additional information before entering contract negotiations.

Procurement officers can spend more time evaluating potential suppliers, building a solid selection process, evaluation criteria, and award criteria, ultimately choosing the vendors that offer the best value for the company, rather than selecting them because they offer the lowest price.

Whenever they bring on a new supplier, they can focus their efforts on the contract award and contract administration to ensure the vendor or the contractor is holding up their end of the deal.

Their thorough research also ensures there is no conflict of interest between the vendor and the company.

Rather than spending days chasing approval signatures, an employee can submit a purchase requisition via email, which can be approved within a matter of seconds and take no more than a few clicks.

Automated approval processes can route the requisition to one or more people based on dollar thresholds and other controls you set up.

Once approved, the requisition converts to a purchase order, and can be sent to the vendor automatically via EDI, or electronic document interchange.

From there, the vendor can mark the order received and shipped, then send an invoice.

Procurement automation uses a process known as three-way matching to match the purchase order to the goods received to the invoice to ensure that everything is correct.

Anything that doesn't match up is flagged for manual review.

The three-way matching speeds up invoice processing time because accounts payable knows the order is approved and the invoice is cleared for payment.

Once the process is running smoothly and cash flow is manageable after recovery from manual processes full of rogue spending, it should be much easier for the accounts payable team to pay invoices in a timely fashion.

As a result, your organization may be able to capture early payment discounts that save you money.

You'll also save money in reduced supply costs, reduced purchase to pay cycle errors, and make more money with improved employee productivity and shorter life cycle times.

The best thing is your e-procurement services can be setup to match what's in your procedures manual so the process stays the same but is no longer manual.

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