

Procure-to-Pay Process Flow: What Is It, How To Manage It, and Best Practices



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What Is Procure-to-Pay?

The procure-to-pay process, also known as purchase-to-pay, is how an organization procures, purchases, and pays for the goods and services they need to do business. As the name suggests, it starts with finding suppliers to procure these goods and services from and ends with paying for them.

The end-to-end process involves many people across an organization to ensure

that all purchases are sourced, approved, and paid for correctly. Teams who touch this process include procurement, purchasing, accounts payable, operations, and of course all of the teams that need to make purchases.

Many organizations use procure-to-pay software to make processes seamless and efficient. These systems provide an efficient method for managing purchasing, cash flow, accounts payable, and supplier relationships.

They also help organizations automatically enforce procurement policies and improve the bottom line by eliminating wasteful spending.

Procure-to-pay is a multi-step process that an organization goes through when purchasing goods and services. It starts with procurement and ends with payment, hence the term “procure-to-pay.”

What Are the Key Stages of the Procure-to-Pay Cycle?

The key stages of the procure-to-pay cycle are procurement, purchasing, receiving, and accounts payable. Before we get into the specific steps of the procure-to-pay process, it's important to take a wider view and understand what happens at each of these key stages.

The stages of the procure-to-pay (P2P) cycle can be broken into four primary processes:

1. The Procurement Process

- Purchase requests are created that outline the goods or services needed.
- Suppliers are searched for and vetted by procurement teams.
- Market research is conducted to ensure fair pricing and high quality.
- Supplier relationships are developed.
- Supplier contracts and payment terms are set and a sustainable supply chain is created.

2. **The Purchasing Process**

- Pre-approved suppliers are evaluated and selected.
- Purchase orders are issued.
- Suppliers approve purchase orders and agree to fulfill the order.

3. **The Receiving Process**

- Goods and services are received or executed and receiving documents are logged.
- Goods or services are reviewed for quality assurance.
- Damaged goods or sub-standard service is flagged for further review.
- On-time delivery and quality measurements are recorded for later evaluation in supplier performance reviews.

4. **The Accounts Payable Process**

- Invoices are received and run through an invoice approval process.
- Invoices are reconciled and cross-checked with the original PO and receipts or receiving documents (three-way matching).
- Errors are recorded and corrected.
- Approved invoices are paid.

Removing manual processes (e.g. approving purchase requisitions with pen and paper, matching paper receipts and purchase orders, etc.) throughout the key stages of the procure-to-pay cycle will result in better efficiency and cost savings.

Now that the key stages are established, let's take a closer look at the steps of the P2P process from start to finish.

What Are the Steps of the Procure-to-Pay Process?

There are nine steps of the procure-to-pay process, shown below. In this section, we'll break down exactly what happens at each step, and provide some tips on how to streamline the process.

Procure-to-Pay Process Flowchart



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1. Purchase Requisition Created

Purchase requisitions are internal requests for approval to make a purchase. Requisitions can be sent via a paper form or through procurement software where they are automatically routed to the correct approvers.

While many requisitions for routine items are quickly approved, organizations should keep room in their budgets for unforeseen purchases as well.

Vendor Selection

For regular purchases, the vendor will most likely already be selected from a preferred vendor list. For new orders, a vendor selection process begins.

This can either be a quick process of sorting through a short list of approved vendors, or the procurement department can send out a request for proposal (RFP) outlining the requirements.

When an RFP is placed, suppliers return a bid on the job, detailing turnaround time, price, and material specifications. Procurement teams weigh the following factors and even negotiate them with vendors:

- Quality
- Cost and delivery schedules
- Year-over-year price reduction
- Quantity discounts
- Future improvement in quality
- Freight and insurance costs

Compliance with relevant regulations and environmental, social, and governmental (ESG) standards may also come into play.

3. Purchase Order (PO) Approval

Once the vendor is selected, managers and/or purchasing teams must approve the purchase order.

This will require the correct approvers to sign off on the document, either physically or digitally. In an automated system, POs are automatically routed to the correct approver for quick electronic approval. Once approval is complete, the purchase order process begins.

4. Purchase Order (PO) Issued

- In this step, the purchasing team creates a purchase order with all the information the vendor needs to fulfill the order. Once the vendor receives
2. the PO and formally accepts it, it becomes a legally binding contract that

states that the vendor will provide these goods or services and the buyer will pay for them within a given time frame.

5. **Receiving Documents Logged**

The vendor delivers the goods or services and the relevant receiving document (usually a goods receipt or packing slip) is entered in the procurement system, with line items verified to ensure that everything ordered is delivered.

6. **Invoice Received**

The vendor submits an invoice, which is entered into the buyer's accounts payable system. Automated systems often support electronic invoicing (eInvoicing) through the use of vendor portals.

7. **Invoice Processing and Reconciliation**

The invoice is reconciled against the PO and the receiving document (receipt or packing slip). In automated systems, the three-way matching process compares the purchase order and receiving document with the invoice to confirm that the goods were delivered and billed as ordered. Line items that do not match are flagged and reported for investigation.

8. **Invoice Approval**

Once it's confirmed the invoice matches the receiving documents and the PO, it must be approved by the accounts payable team for payment. This may require double-checking with purchasers to ensure that the goods or services were received and of high quality, but three-way matching on its own is often enough for AP teams to approve routine invoices.

9. **Payment**

Invoices approved for payment are routed by the buyer's finance team to accounts payable (AP). Vendor payments are made according to agreed-upon payment terms, and the accounting system is updated to reflect that

the order was paid.

What Is a P2P Process Example?

For an example of the P2P process playing out, let's imagine a new division of a sporting goods company that produces aluminum baseball bats.

They have the factory and production equipment in place, but they need to source aluminum for the bats at the best quality and price.

Step 1: Create an internal requisition stating how much aluminum they need and what they need it for, then get that requisition approved.

Step 2: Send an RFP to several aluminum suppliers and sort through the responses for the best price while doing market research to determine who provides the highest quality aluminum.

Step 3: Once the best vendor has been found, send them a purchase order for the amount of aluminum needed to produce the first batch of baseball bats.

Step 4: Receive the raw aluminum from the supplier, along with a packing slip that shows exactly how much was delivered.

Step 5: Receive a vendor invoice from the vendor to pay for the aluminum.

Step 6: Ensure that the amounts and price on the invoice match both the purchase order and packing slip (three-way matching).

Step 7: Approve the invoice and send the vendor payment for the aluminum.

The P2P process doesn't have to be overly complicated. It ensures that goods or services are purchased from high-quality suppliers for fair prices and that invoices are paid on time and for the correct amount.

What Is the Difference Between AP and P2P (Procure-to-Pay)?

The accounts payable (AP) process is not the same as the procure-to-pay (P2P)

process. Instead, the AP process is the final part of the P2P process where the buyer pays the invoice.

It begins once the invoice is received and ends once the invoice has been paid. The P2P process is the entire purchasing and payment process, from purchase requisition through payment.

The account payable process includes receiving the invoice, inputting the data, ensuring the invoice is correct and approving it, then paying the invoice via the vendor's preferred payment method.

How Can You Better Manage the Procure-to-Pay Process?

Dedicated procure-to-pay solutions are the best option for any organization looking to better manage the procurement process and implement procure-to-pay automation.

Many steps of the procure-to-pay process have traditionally been completed with manual and paper-based processes. Processes like approval routing and signatures, purchase order creation, and invoice reconciliation are much slower when done with manual processes.

Automating these processes can save organizations significant time and money. Software can provide tools to automate part, if not all, of each step of the procure-to-pay process.

What Are the Benefits of Procure-to-Pay Software?

There are numerous benefits of using a procure-to-pay system. Cost and process efficiency are of course the top benefits. Research firm Levvel found that procurement software reduced lifecycle times for purchase orders, invoice processing, and other P2P workflows by 56% compared to manual processes.

Procurement software delivers these benefits through the ability to foster communication and transparency between procurement, accounts payable, and

suppliers. These benefits include:

- **Centralized and Streamlined Processes**

A centralized system removes silos and streamlines the purchase order and invoicing cycles with tools like automatic routing, alerts, contingencies, and automatic invoice matching.

- **Integration With Existing Systems**

Software solutions can integrate with enterprise resource planning (ERP systems) and accounting software. This brings data and processes together for easier collaboration with purchasers and stakeholders.

- **Automation**

Automation tools help eliminate human error and inefficiencies, speed up workflows, remove time-consuming manual tasks, and free up staff to focus on high-value tasks.

- **Improved Vendor Management**

More data transparency, real-time reporting, and centralized contract management helps an organization improve vendor management and relationships.

- **Control Over Spending**

A closed buying environment helps eliminate invoice discrepancies and reduce maverick spend, invoice fraud, duplicate payments, and late fees.

- **More Discounts**

The ability to make faster payments helps accounts payable teams capture more early-payment discounts.

Benefits of Procure-to-Pay Software



Centralized and Streamlined Processes



Integration with Existing Systems



Automation



Improved Vendor Management



Control Over Spending



More Discounts

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• Procure-to-Pay Is a Value Driver

When the procure-to-pay process is done with the right tools, it can create better spend management for any organization—and software definitely helps.

When procurement and AP teams have the tools they need to analyze and optimize spending, vendor management, and workflow efficiency, they can create a P2P cycle that drives savings, quality, and long-term sustainability for their organization.

What's your goal today?

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