Procure-to-Pay KPIs You Should Be Tracking

While every department brings important support for company goals, the procurement department—and, in particular, the *procure-to-pay process* (also known as the *P2P process*)—is an especially powerful source of potential cost savings and value.

But in order to achieve maximum return on investment (ROI) for your purchasing dollar, it's crucial to track certain *key performance indicators*, or KPIs.

Choosing which procurement KPIs will help your procurement department optimize its procure-to-pay cycle might seem daunting.

But in truth, many businesses, regardless of size or industry, can benefit by starting their quest for the best possible procurement ROI with a few essential procure-to-pay KPIs that provide the most insight on the procure-to-pay process.

The Value of Measuring Procure-to-Pay KPIs

Because it sits at the heart of procurement and includes everything from purchasing raw materials for production to obtaining the goods and services such as utilities, office supplies, and custodial services, the procure-to-pay cycle is an especially important target for continuous improvement and optimization.

With insight into the efficiency and efficacy of your procurement processes, you can improve your decision making to achieve even greater cost savings and value.

But without tracking key metrics, you're sacrificing valuable intelligence, missing out on opportunities to reduce total cost of ownership (TCO) to improve procurement ROI, and bleeding money through suboptimal workflows.

By tracking procure-to-pay KPIs, you can achieve both cost savings and efficiency improvements in both procurement and accounts payable (AP) to (for example): shorten your purchase order cycle; reduce or even eliminate maverick spend; provide real-time data insights that improve forecasting, reporting, and cash flow; and speed invoice processing times.

These benefits support greater efficiency for the entire procurement process and, by extension, contribute directly to a healthier bottom line for your company.

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12 Essential Procure-to-Pay KPIs

While every business is different, the core performance metrics used to measure and improve the p2p process are largely the same for procurement functions of all sizes.

And remember, tracking any and all procure-to-pay KPIs is easier and more accurate if executed using an automated, cloud-based procurement solution with artificial intelligence and built-in support for analytics and centralized data management.

Using an automated procure-to-pay software solution not only makes it easier to track and improve performance, but adds more value by reducing risk exposure and miscommunication through complete transparency for your transactional datastreams.

- **Purchase Order Cycle Time:** When purchase orders are processed quickly and efficiently, orders can be placed, and paid, with much greater speed. Purchase order cycle time is the foundation of the P2P process, so it quite literally pays to know how much time it takes your team to issue, review, approve, process, and pay purchase orders and get the process moving.
- **Average Cost to Process a Purchase Order:** While the average cost of processing a PO can vary wildly, it's the accumulative and associated costs connected to each purchase, and the time these costs require that can sink this KPI. Itemized tracking of the time required to process a purchase order, the number of staff hours required at each stage, and expenses such as special supplier fees and exception costs, can provide a more complete picture of your procurement function's PO processing efficiency than the mere cost of the transaction itself.
- **Lead Time:** It's imperative to track both *administrative lead time* (i.e.,

time needed to request, approve, and process an order) and *production lead time* (i.e., time needed to fill the order). This metric is distinct from PO Cycle Time, as it ends when goods are received, rather than when payment is made.

- **Electronic PO Processing Rate:** POs processed using automation are more accurate, faster, and less prone to generating costly exceptions due to human error. The higher this KPI, the lower your costs, and the more time your team will have to focus on high-value tasks.
- **Invoice Processing Time:** How much value is your AP department losing to missed discounts, late fees, and damaged supplier relationships? The more accurate your invoice information, the more efficient your workflows, and the faster your review and approvals, the lower this KPI—and the healthier your bottom line—will be.
- **Average Cost to Process an Invoice (By Type):** As with purchase orders, knowing *all* of the costs related to processing the invoices your company receives (including indirect expenses, late fees, and labor costs related to data entry, exceptions and corrections) is essential to reducing those same costs. Keeping this KPI as low as possible not only creates cost savings, but helps protect cash flow by ensuring you have an accurate picture of your total process costs and aren't spending money you don't have.
- **Invoice Exception Rate:** This is another KPI that benefits greatly from automation. With automatic, intelligent workflows handling invoice creation, verification, and approval, accuracy and efficiency will rise, while exceptions are effectively written out of the process. Keeping this KPI low reduces staff overhead, and allows your team to dedicate their time to more important, and profitable, matters.
- **First-Time Match Rate:** This KPI tracks the accuracy and completeness of documents such as purchase orders, receiving paperwork, and invoices, and the success of your accounts payable team in matching them on the first try. Low values for this KPI can create a value sink for the AP

department, especially if the low value is created by manual processing and the errors inherent to it. Automation can help boost this KPI to higher values through the use of automated three-way matching.

- **Average Invoice Approval Time:** Every moment an invoice spends in the approval workflow creates cost for your company. Keeping this KPI low creates costs savings through greater efficiency *and* the ability to capture additional savings from early-payment discounts and avoiding late fees.
- **Days Payable Outstanding (DPO):** The average number of days it takes to pay its outstanding accounts payable. Days Payable Outstanding is a strong general indicator of how effectively and efficiently your accounts payable function is operating. Depending on your situation, you may want to find the right balance between high DPO, which can indicate strong credit terms but also a struggle to pay creditors, and low DPO, which can indicate poor credit terms or a failure to fully leverage credit offered by vendors.
- **Spend Under Management (SUM):** The percentage of procurement spend controlled by management is known as *spend under management.* Spend under management a key metric you want to keep as high as possible if you're looking to optimize your costs and the accuracy of your financial forecasting and reporting. It can be calculated and tracked using the following formula: **Total approved spend – maverick spend = SUM**
- **Realized Savings:** This is a combination of two KPIs—*on-contract spend* and *overall spend compliance*—that focus on total realized cost savings and value generated for the company through optimization of the P2P process. *On-contract spend* refers to the amount of spend that complies with the amounts negotiated in the vendor contract, while *overall spend compliance* measures how well employees adhere to internal controls for spending. Both of these KPIs are strongly enhanced by automation and artificial intelligence, as a procurement solution effectively creates a "closed garden" for buying that captures all transactional data for review

and analysis.

Measure and Maximize Success with Procure-to-Pay KPIs

If sales and production are the heart of your business, then the P2P process is its lungs, bringing in the oxygen that keeps the whole show running. By tracking the right procure-to-pay KPIs, you can make sure your processes are streamlined, accurate, and effective, so you can breathe easy and focus on innovation, value, and growth for your business.

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