Procure-to-Pay Process Optimization

As business processes go, the procure-to-pay process (also called the *P2P process* or *purchase-to-pay process*) is more important than most. All of the goods and services your organization purchases, from the raw materials essential to production to office supplies and IT services, fall within its domain. And yet, many businesses may overlook the potential savings and value hidden within the P2P process because they have not, as yet, invested in *procure-to-pay optimization*.

Of course, achieving optimal results requires a plan of action. In order to capture cost savings, improve your productivity, and transform procurement into a value creation dynamo for your business, it's crucial to identify the areas in need of improvement, develop best practices to address that need, and apply the right tools—including artificial intelligence (AI), process automation, and analytics—while building a plan to help you reach your goals for optimizing your

procure-to-pay process.

What Is Procure-to-Pay Optimization?

As you may already know, the procure-to-pay process connects procurement and accounts payable (AP), covering every step of every purchase from the purchase requisition to the payment of the final vendor invoice.

1. Purchase Requisition Creation
2. Purchase Requisition Approval
3. Purchase Order Creation
4. Receipt of Goods and Services
5. Vendor Invoice Received
6. Vendor Invoice Reconciled via Three-Way Match
7. Vendor Invoice Approvals
8. Payment Issued to Vendor

Traditionally, the P2P process was focused on cost savings alone; procurement teams prioritized lowest prices for immediate cost savings over long-term, strategic gains that translate into lasting value, such as optimal terms, gains from process improvements, etc.

Today, however, more and more companies are coming to appreciate, and rely on, the benefits that come with digital transformation. And for procurement teams, this means using technology to evaluate the procurement and payables processes involved in each step of the process, and then streamline and optimize them for value as well as savings.

In a practical sense, procure-to-pay optimization is simply refining all of the procurement processes within the overall P2P process, using a comprehensive procure-to-pay software solution to help you:

- Centralize and digitize data management, eliminate paper where possible, and remove human error while allowing staff to focus on strategic goals rather than low-level tasks like data entry.
- Achieve significant gains in efficiency, speed, and accuracy through the introduction of artificial intelligence, automation, and advanced analytics.
- Identify and pursue opportunities to achieve better spend control and transparency, eliminating common problems such as maverick spend and invoice fraud.
- Support more accurate and complete financial reporting and forecasting, along with improved decision making, through effective data management and real-time analysis.
- Supporting the development of a strong, agile, and resilient supply chain that's built to thrive when times are good and ensure business continuity when disruptions loom.
- Process and pay supplier invoices in a timely manner, capturing discounts with early payment or adjusting payment schedules to preserve cash flow as required.
- Obtain a strong return on investment (ROI) for every dollar spent and recalibrate procurement to produce value while also eliminating waste and lowering total cost of ownership (TCO).
- Monitor, evaluate, and adjust key performance indicators (KPIs) for procurement and accounts payable processes, integrating continuous improvement into your workflows to ensure you're always getting the best possible value, efficiency, and savings.

Implementing these improvements creates substantial immediate and long-term benefits for companies who do so. In 2017, research firm McKinsey & Company found that leveraging digital transformation in procurement provided sizable gains in value via improved efficiency, greater sustainability, and stronger compliance from both vendors and internal practices.

And a 2018 study by the Hackett Group found the average procurement organization could slash its operational costs by as much as 45% using process automation and other digital transformation tools.

So if procurement in general, and the procure-to-pay process in particular, has such substantial potential for savings and value, why aren't these technologies already universally implemented? The answer lies in understanding the most common roadblocks to implementation faced by both large and small businesses.

> *Cost control has long been the purview of procurement and AP, and choosing to implement a procurement software solution like PLANERGY makes it much easier by eliminating the data and workflow silos that traditionally separate the two halves of the P2P process.*

Obstacles to Procure-to-Pay Optimization

For many companies, full digital transformation is a hard sell, especially for those organizations with longstanding traditions and conservative corporate cultures. For others, making the "digital leap" is perceived as desirable, but too costly or complex.

For these reasons, and because it affects all areas of the business, beginning the journey to digital transformation in the purchasing process and then expanding that implementation across the entire organization makes good sense. But doing so also requires teams to develop effective strategies for overcoming obstacles in their path.

Disconnected Procurement and Accounts Payable

In a fast-paced and data-driven digital economy, eliminating delays and bottlenecks from essential processes isn't just a good idea—it's *essential* to

competing effectively and protecting your company's bottom line.

Despite the fact that many companies continue to isolate their procurement and accounts payable functions in separate teams and silo the data used by each, maintaining separate teams no longer works when you're looking to shift your focus away from savings alone and toward value creation.

True optimization is impossible so long as the right hand is disconnected from the left and upstream processes are separated from those downstream.

Cultural Challenges

Until relatively recent decades, procurement and accounts payable have often been relegated to "the back room," at least as far as senior management were concerned. When spending money to make money was viewed as a burden that must be minimized with hard savings, rather than an opportunity to create value, a distinct lack of both organizational and executive buy-in for investing even more resources into either department was inevitable.

For smaller organizations, the interest might be present, but a lack of understanding about the long-term savings and value provided by P2P optimization as compared to the immediate costs keeps them from pulling the trigger.

Additionally, even in the twenty-first century, some organizations remain wary of digital transformation, and the C-Suite must be sold on it even when it can help them achieve better competitive strength and profits.

Benefits of Procure-to-Pay Optimization

In overcoming the obstacles your procurement team may encounter in pushing for optimization of the P2P process using procurement software, it's important to

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understand all the benefits it provides. Not only will this make your own implementation planning easier, but it will help bolster your arguments in securing executive buy-in and generating both enthusiasm and compliance from your whole organization once you decide to implement a procurement solution.

1. More Efficient, Speedy, and Accurate Procurement Processes

Process automation eliminates the need for human "babysitting" on high-volume, repetitive and often quite tedious tasks. It also removes human error and improves speed, as software robots require neither breaks nor sleep, and can process at rates far beyond human capabilities while simultaneously maintaining accuracy.

In addition, you can leverage policies to create contingencies and alarms that speed approvals (and eliminate bottlenecks). The average cost of processing a purchase order is slashed through lower labor costs, improved accuracy and speed, and matching buyers with the suppliers who offer the best possible terms and pricing for the goods and services they're ordering.

You can set levels for specific transaction types, values, and categories, and create rules that allow purchase orders within certain parameters to be approved automatically. Every transaction travels through the entire P2P process automatically linked to its corresponding PO, simplifying three-way matching (which is also automated, speeding up the invoice processing cycle and lowering the average cost of processing each invoice.)

Speedy, accurate invoice processing also makes it possible to make important strategic spend decisions. You can capture more early payment discounts *and* decide when to stretch out your payments a bit longer in order to free up cash flow.

2. Better Cash Flow Control and Visibility

Aside from invoice processing providing a bit of strategic wriggle room for managing your cash flow, implementing a procurement software solution also enhances cash flow control in other ways.

Like most procurement processes, cash flow management benefits directly from total spend visibility, and the elimination of maverick spend and invoice fraud that come with such visibility ensures your cash flow forecasts are more accurate and useful.

3. Greater Cost Control

Cost control has long been the purview of procurement and AP, and choosing to implement a procurement software solution like PLANERGY makes it much easier by eliminating the data and workflow silos that traditionally separate the two halves of the P2P process.

Automation and AI-driven internal controls help here, too, as your team can create versatile cost controls that:

- Automatically incorporate budgeting into the procurement process.
- Automate purchases within specific parameters and provide contingencies for approval of additional funds as warranted.
- Generate reports on demand to help management monitor overall spend as well as spend data for specific categories, departments, suppliers, and projects.

In addition, having a centralized data management system with an incorporated contract management module makes it much easier to incorporate contract data into your approval, budgetary, and project planning workflows.

Contract data is automatically provided for each vendor, and it's easy to track

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renewals, so you can review your spend data and belly up to the negotiation table with the information you need to get the best possible pricing and terms. This generates both immediate and long-term savings through lower prices, and value by preserving or improving supplier relationships and allowing your team to take advantage of new opportunities such as shared innovation or expanded savings by leveraging economies of scale.

4. Minimizing the Impact of Disruptions

Whether it's a natural disaster like the Amazon fires or a global pandemic like COVID-19, every supply chain is vulnerable to disruption. One way to insulate your business against the potentially catastrophic impact of a serious business disruption is to optimize your business processes—especially your P2P process.

Full transparency into every transaction (as well as vendor compliance and performance data), automated processes that support on-demand contingency implementation, and a fully integrated data environment mean your decision makers have full access to all the information they need to make smart and strategic decisions to protect business continuity.

Implementing P2P Optimization for Your Business

Gaining the benefits of a well-optimized P2P process is easier than you might think. Follow a few simple best practices, and you'll be well-equipped to begin saving money and building value.

1. Perform a P2P audit

Before you can optimize, you need to know where you stand. Perform a procure-to-pay process audit to determine important information such as:

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- Average cost and cycle time for processing purchase orders.
- Average cost and cycle times for processing invoices.
- Percentage of paper invoices received, as well as percentage of vendors who support electronic invoicing.
- Total number of exceptions due to errors, duplicate transactions, etc.
- Common roadblocks in crucial approval workflows.
- Sticking points by category (e.g., are production-critical materials routinely delayed by underperforming vendors, logistical changes, etc.)
- Established workflows and internal controls in need of improvement.

2. Focus on the areas most in need of improvement

Once you identify the areas where you need the most help (e.g., a very high number of invoice exceptions, certain managers or teams routinely holding up approvals, high average PO processing costs, etc.), you can prioritize the optimization of those areas. Giving oil to the "squeaky wheels" will also produce measurable improvements you can leverage to improve organizational buy-in and help expand digital transformation across departments, business units, and your organization as a whole.

3. Automate, Automate, Automate

Removing humans from low-value, tedious tasks creates value immediately by allowing your team members to apply human ingenuity and skills to strategic pursuits like supplier relationship development and forecasting. It provides immediate savings by increasing speed and accuracy by several orders of magnitude.

But that's just the beginning.

Process automation, especially accompanied by AI, is a ticket to continuous

improvement. Machine learning makes it possible for the software bots you use to review their performance and make adjustments for every iteration, automatically. So, beyond the immediate gains provided, you will also see savings and value increase over time as automated processes both improve themselves and provide a wealth of data that can be mined for actionable insights.

4. Measure, Track, and Tweak

Even with continuous improvement, there's always room for a little more savings and value. Establishing and tracking purchasing KPIs will provide plenty of fodder for detailed analysis, allowing you to measure and improve important benchmarks like total cost of ownership and ensure procurement is a source of value as well as savings.

Using KPIs can help you improve your P2P process even further as time passes and circumstances change. But it can *also* provide insights you can use to optimize other procurement processes like strategic sourcing, as well as financial reporting and auditing.

And once you've integrated your procurement solution with your customer resource management (CRM), enterprise resource planning system (ERP system), and other data sources, you may even identify opportunities to expand production, develop new products (or innovate existing ones) and take advantage of market trends and changing consumer demand.

Streamline and Refine Your Procurement

Upgrading your procure-to-pay process with a procurement software solution is an investment in your company's current and future competitive advantage, profitability, and growth. By evaluating, optimizing, and refining your P2P process, you can help your company make significant strides toward full digital

transformation and be sure you're getting the best possible ROI, keeping TCO low, and generating both savings and value for your company.

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