Procurement Automation: What Is It, Challenges, and Benefits



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The procurement function is critical in any organization. It involves the process of choosing vendors, establishing payment terms, strategic vetting, selection, contract negotiation, and the actual purchasing of goods and services.

It’s a complex procedure that requires a significant investment of time, resources, and effort. That’s where procurement automation comes in to help.

What is Procurement Management?

Procurement management refers to the administration of acquiring the goods and services a company needs to fulfill its business model.

The goal is to ensure the organization gets the highest quality goods and services for the best possible prices. It involves finding suppliers, negotiating contracts, tracking deliveries, and managing the supply chain.

What is Procurement Automation?

Procurement automation involves using technology to streamline and automate the business processes within the procurement process.

This includes software and AI to eliminate manual tasks, reduce procure-to-pay cycle times, and improve accuracy through the entire process.

Procurement automation usually incorporates technology like robotic process automation and AI to improve how procurement works.

How Procurement Automation Works

The nuts and bolts of procurement automation are complex, but on a basic level, it works like this:

- ## Requirement Identification

  The process begins when a need for a product or service is identified within the organization.

  The procurement software can help identify these needs based on historical data, predictive analytics, user created purchase requisitions, and other inputs.

- ## Vendor Selection

  Next, the system can help in selecting the right vendors. It can do this by analyzing data from various sources, such as past supplier performance,

pricing, quality of goods or services provided, and more.

This makes the vendor selection process more objective, and data driven. It can also be used to guide buying from preferred suppliers.

Purchase Order Processing

Once the vendors are selected, the system can automate creating, approving, and sending purchase orders.

This eliminates manual errors and speeds up the purchase order process.

Invoice Processing

When accounts payable receive the vendor invoice for invoice processing, the system can automatically match it with the corresponding purchase order and receipt.

If everything matches, the system can approve the invoice for payment automatically. This reduces the time and effort required to process invoices.

This extends the functionality of AP Automation software to improve the invoice approval process and reduce the time spent processing invoices while insuring incorrect invoices are not paid.

Payment Processing

The system can also help automate the processing of payments.

By automatically setting the payment terms on the invoice being processed and ensuring that invoices can be approved promptly.

This allows invoices to be scheduled for payment to improve cash flow, maintain good vendor relationships, capture early payment discounts, and avoid late payment fees.

- ### Reporting and Analytics

  Throughout all these steps, the system collects data that can be used for reporting and analytics.

  Spend analysis, tracking of procure-to-pay KPIs, and supplier performance can provide valuable insights into procurement performance and opportunities for improvement.

Why Businesses Should Automate Procurement

Procurement automation streamlines the procurement process.

Simplifying the internal steps to makes it easier for staff to request and approve purchases while capturing the relevant data at the right time.

Giving better transparency for both internal and external stakeholders ensures better communication and improves the ability to collaborate effectively with your suppliers.

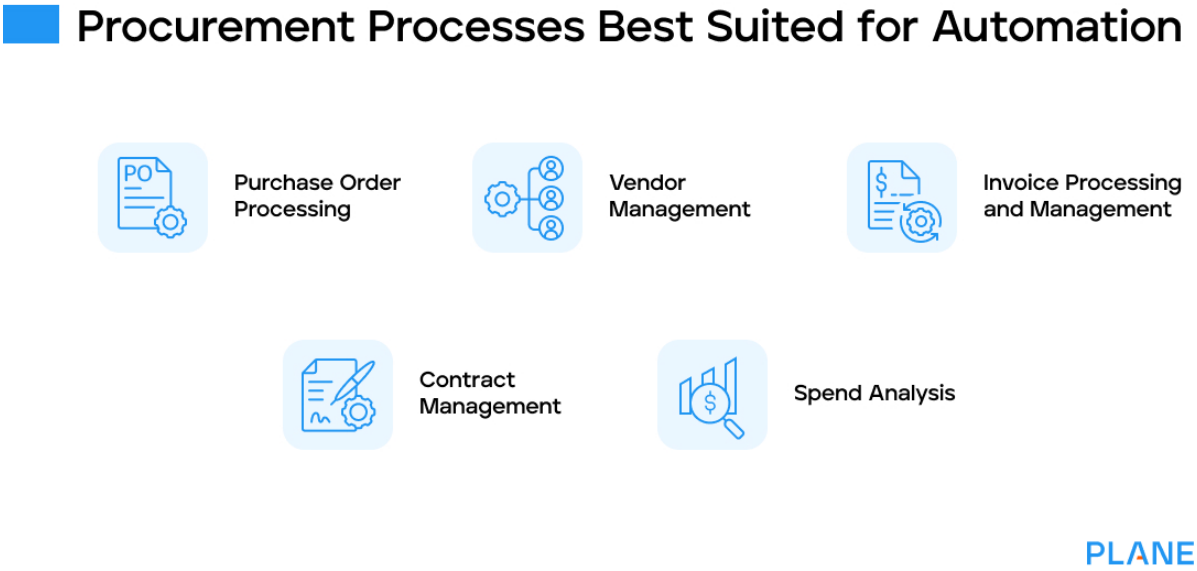
Many procurement teams are still dependent on paper-based processes, outdated systems, and manual workflows. This leaves them with a lack of spend visibility, poor data management, lack of budgetary oversight, and a lot of time wasted.

Procurement automation can help remove as many manual steps as possible.

Digitally transforming procurement will ensure better real-time data to manage suppliers, reduce risk, deliver better data-driven decisions, while digitally storing and archiving relevant documents.

Procurement Processes Best Suited for Automation

Automation can be helpful across many areas of procurement, but some processes are better suited for it than others. Here are some key areas to start with.



Purchase Order Processing

This process involves creating and managing purchase orders (POs), which detail the items a company wants to buy from suppliers.

Automation can streamline this process by generating POs based on requisitions, automatically routing them for approval, and sending them to suppliers.

This speeds up the process and reduces the chances of errors that can occur with manual handling.

Vendor Management

Vendor management involves identifying, selecting, and managing relationships with suppliers.

Automation can help by maintaining a centralized supplier information database, tracking performance metrics, and facilitating communication.

Automated tools can also assist in scoring vendors based on predefined criteria. By incorporating quantitative data, like how often a supplier delivers on time, ensures a more objective and consistent evaluation process.

Invoice Processing and Management

Invoice processing requires matching invoices with POs and receipt data, verifying the information, and then scheduling payments. Manual handling of this process can lead to errors and delays.

Automation can automatically match invoices with corresponding POs and receipts, flag discrepancies for review, and schedule payments, saving time and reducing errors.

Contract Management

Contract management involves creating, signing, storing, and tracking contracts with suppliers.

With automation, contracts can be created using templates, electronically signed and stored, and important dates (like renewal or review dates) can be tracked, and alerts set up.

This ensures that no critical dates are missed, and contract information is easily accessible.

Spend Analysis

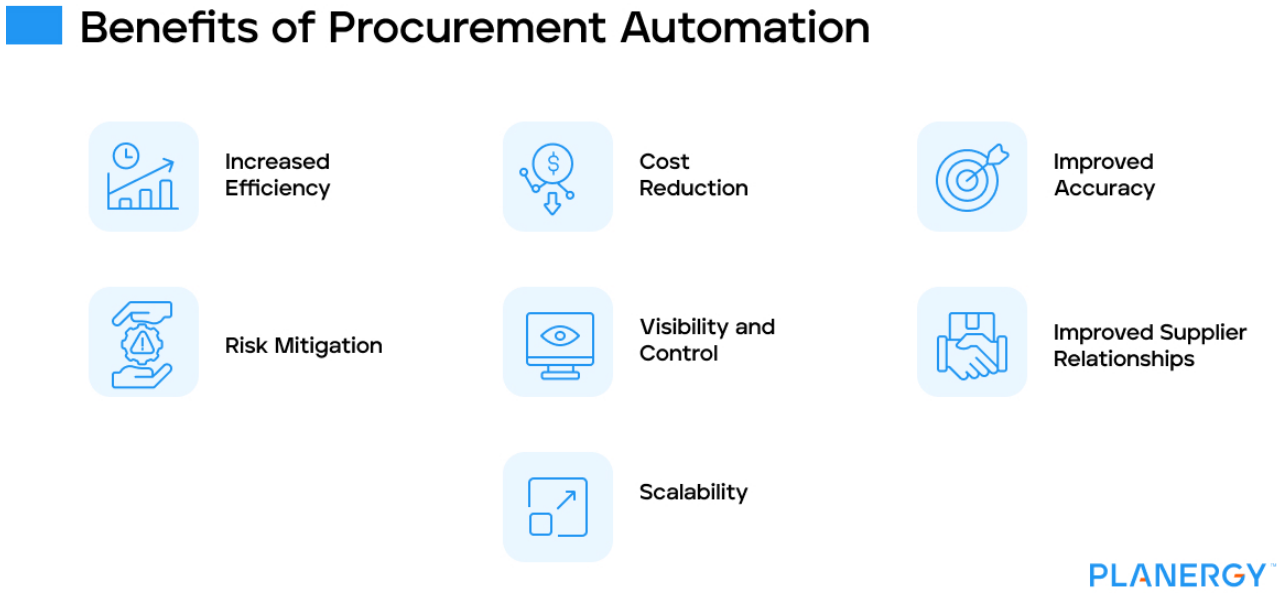
Spend analysis is the process of collecting, categorizing, and evaluating spending data. It’s crucial for identifying cost-saving/cost efficiency opportunities and making informed purchasing decisions.

Automation can gather and analyze spend data from various sources, provide real-time visibility into spending, and generate detailed reports, making the process more efficient and effective.

In today’s day and age, there is no excuse for relying on manual procurement processes at any stage of the cycle. Even small organizations can benefit from an automated, standardized process.

Benefits of Procurement Automation

There are many benefits linked to introducing procurement automation. Here are some of the key benefits.



Increased Efficiency

Automation can drastically reduce the time spent on repetitive and manual tasks like data entry, document generation, and approval routing.

With a faster approval process, you eliminate bottlenecks throughout the entire procurement cycle, ensuring everything runs faster and smoother. This allows procurement teams to focus on more strategic activities, such as supplier relationship management and strategic sourcing.

Cost Reduction

By automating processes, companies can reduce labor costs associated with manual procurement activities. You can also reduce and even eliminate maverick spending. Additionally, automation can help identify cost-saving opportunities through spend analysis and vendor evaluation.

Improved Accuracy

Automation reduces the chance of human error in procurement processes. For example, automated invoice processing can help prevent overpayments and duplicate payments, while automated contract management ensures that all contracts comply with company policies.

Risk Mitigation

Procurement automation can help mitigate risks by ensuring company policies and regulations compliance. Automated systems can enforce predefined rules and guidelines, flagging any non-compliant actions for review.

Visibility and Control

Automated procurement systems provide real-time visibility into procurement activities, allowing for better control and decision-making. They can generate detailed reports on spending, supplier performance, contract compliance, and more, providing valuable insights for procurement teams.

Improved Supplier Relationships

Automation can streamline communication with suppliers, making it easier to manage relationships. For example, suppliers can access a portal to view POs, submit invoices, and communicate with the buyer, ensuring transparency and efficiency.

Scalability

As a company grows, so do its procurement needs. Automation allows procurement processes to scale smoothly, accommodating increased volume without a corresponding increase in workload or staffing requirements.

Challenges of Procurement Automation

While there are a lot of benefits linked to implementing procurement automation you will also need to be prepared to meet some challenges to achieve those benefits.

Implementation Costs

Implementing procurement automation can be expensive.

There are costs associated with purchasing the software, integrating it with existing systems, training staff, and ongoing maintenance.
These costs can be prohibitive, particularly for smaller businesses.

Employee Resistance to Change

One of the major challenges of procurement automation is resistance to change from employees.

People often resist change, especially when it involves new technology that could disrupt their usual way of working. Effective communication about the benefits of automation and comprehensive training can help to overcome this resistance.

Having a digital transformation change management plan can help here.

Data Quality and Accuracy

Procurement automation relies heavily on data. If the data being fed into the automation system is inaccurate or incomplete, it can lead to poor decision-making or operational inefficiencies.

If you are moving from a more manual, paper-based system this can cause significant challenges when trying to gather the relevant data initially.

Therefore, maintaining data quality is a significant challenge when implementing procurement automation.

- ## Ensuring Compliance

  Automation can streamline procurement processes and ensure compliance with internal procurement policies and external regulations.

  However, defining and setting up these compliance checks within the automation system can be complex and time-consuming.

  This is why choosing the right consultants or software to help guide you through the process is important. PLANERGY has best in class onboarding and support to help with this.

- ## Integration with Existing Systems

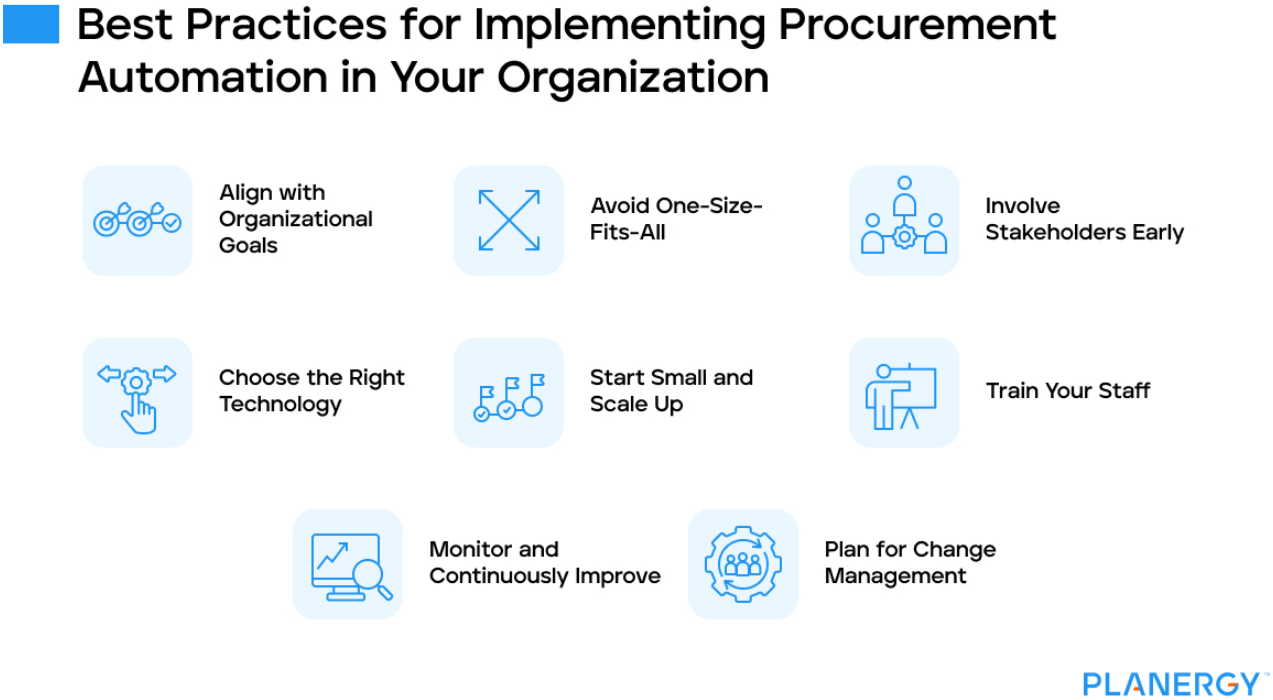
  Integration with existing systems can be another challenge.

  It’s crucial that the procurement automation solution integrates seamlessly with other systems in the organization, such as your ERP or accounting software.

  Failure to do so could lead to data silos, inefficiencies, and increased risk of errors.

Best Practices for Implementing Procurement Automation in Your Organization

To avoid common mistakes and meet common challenges head on, it is important to follow best practices when implementing procurement automation. Here are some key things to consider.



Align with Organizational Goals

Before you start automating, ensure that your automation strategy aligns with your organization's overall goals.

This will ensure that your procurement processes support your business objectives and deliver the expected benefits.

Avoid One-Size-Fits-All

Every organization is unique, and so are its procurement needs.

Avoid adopting a one-size-fits-all approach to automation. Instead, identify the specific areas within your procurement processes that will benefit most from automation and focus on them.

Involve Stakeholders Early

Procurement automation affects various stakeholders, including employees, suppliers, and customers. Involve these stakeholders early in the process to understand their needs and concerns and to gain their buy-

in.

Choose the Right Technology

There are many procurement automation tools available in the market. Choose the one that fits your needs best.

Consider factors like ease of use, integration capabilities, scalability, and support when selecting a tool. Don’t be afraid to schedule demos with multiple automation platforms to see what you think will work better.

Assessing the level of purchasing complexity a software solution can handle is crucial to choosing the right one.

Take a look at your typical procurement automation workflow to see how well the program you’re considering using is able to be customized to meet it.

Consider your future business growth projections too. The software you choose should work for the company you are planning to be in the coming years and not just fulfill your current requirements.

It’s also worth noting that if a software solution is too complex, it will be difficult to get staff members across the company to adopt it.

This will lead to lack of compliance, rogue spending and a potential paperwork nightmare if manual processes are still being used.

You want to find something complex and robust enough to handle your current workflows but still remain easy enough to use so that even those who are not very technologically savvy can still use it intuitively.

PLANERGY is procurement automation software that is easy to use but has deep customization options to suit current and future needs.

Start Small and Scale Up

Start by automating a single process or a part of a process.

For example, you could implement purchase order software initially and

expand when you are more comfortable.

This will automate the purchase requisition through to purchase order process. Once a purchase request is submitted, it's automatically routed to the appropriate team member for approval. Higher value orders might go through a multi-step approval process.

Once it's approved, it automatically converts to a purchase order, which gets sent to the supplier for processing.

This will allow you to learn from the experience, fix any issues, and demonstrate the benefits of automation.

Once you're comfortable, you can scale up and automate more processes.

Train Your Staff

Ensure your staff are trained on the new automated systems. This will help them understand how to use the system effectively and how it will benefit them.

Monitor and Continuously Improve

Once you've implemented procurement automation, monitor its performance and impact regularly. Use the insights gained to improve your processes and your automation strategy continuously.

Plan for Change Management

Change can be difficult for people to accept. Plan for change management to help your staff adjust to the new processes and address any resistance or concerns.

Plan for the worst to ensure you will get the best results.

What is Procurement Automation Software?

A procurement automation solution is a digital system or software designed to streamline and automate the procurement process within an organization.

It’s intended to replace manual processes with automated workflows, improving efficiency by removing repetitive tasks, greater accuracy, and cost savings.

Key features to look for in a procurement automation solution like PLANERGY include:

1. ## E-Purchasing

   E-Procurement software enables online ordering of goods and services from suppliers.

   This can include capabilities like catalog management, shopping cart functionality, PunchOut catalog integrations, and electronic purchase order creation.

2. ## Supplier Management

   Vendor management software helps in managing supplier information, performance, and relationships.

   It can also assist in vendor selection by comparing different suppliers based on various criteria.

3. ## Purchase Order Processing

   Purchase order software automates the creation, approval, and dispatching of purchase orders. It can also track the status of each order.

4. ## Invoice Processing

   AP Automation automatically processes invoices using OCR and AI to scan

the information on the invoice.

When this is incorporated with procurement into a full cycle accounts payable solution it matches invoices with corresponding purchase orders and receipts, verifies the details, and approves them for payment if everything matches.

Users of standard AP automation solutions often find that it doesn’t cover enough. The relevant data to approve an invoice is missing and this becomes a bottleneck for completing invoice processing.

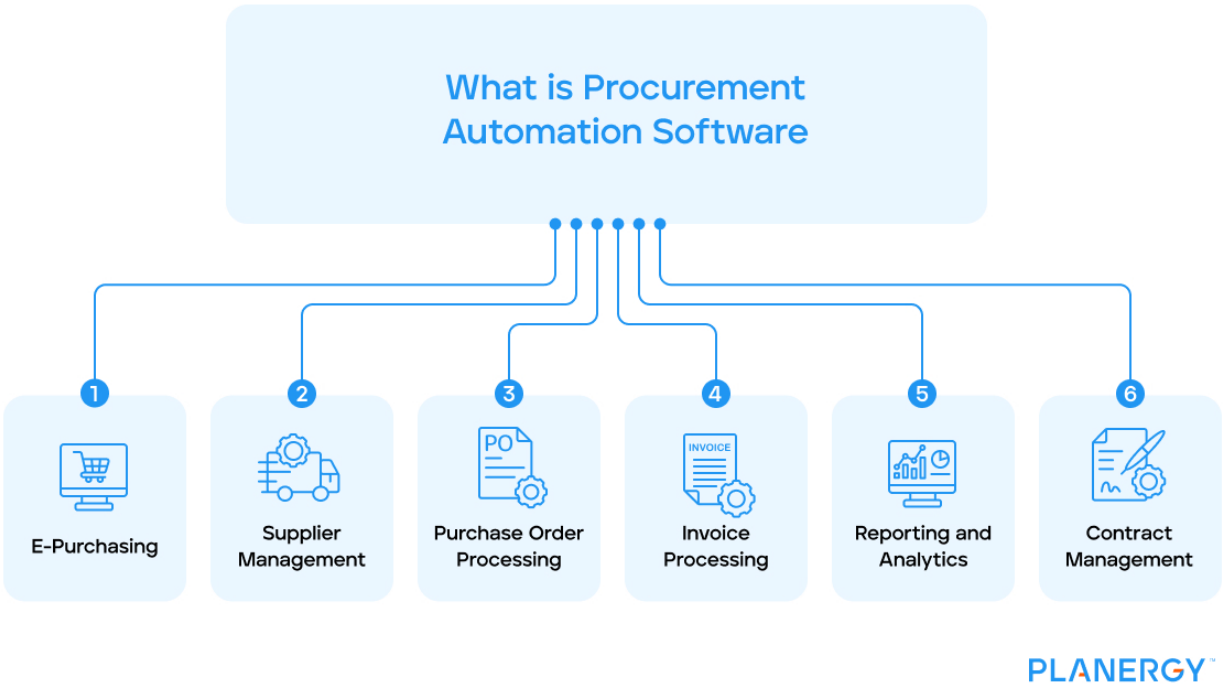
5. ## Reporting and Analytics

   A dedicated procure-to-pay solution generates reports on various aspects of procurement, such as spend analysis, supplier performance, contract compliance, internal KPIs for procurement and accounts payable, and much more besides.

   This can provide valuable insights for better decision-making and strategic planning.

6. ## Contract Management

   Manages all aspects of the contract lifecycle, from creation and negotiation to execution and renewal.



Save Time and Money with Procurement Process Automation

No matter the size of your procurement department, gone are the days when it makes sense to rely on manual data entry and Excel spreadsheets.

When procurement automation is tied into a full end-to-end procure-to-pay software that incorporates AP automation, like PLANERGY, the results are even greater. You can read about the benefits of procure-to-pay software in our article on the topic.

Gradually automating your procurement workflows will improve your overall organizational efficiency.

What’s your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We’ve helped save billions of dollars for our clients through better spend

management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Spend Analysis Software page to see how PLANERGY can empower you to get more value from your spend.
- Learn about us, and our long history of helping companies just like yours.

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2. Download our “Indirect Spend Guide”

Download a free copy of our guide to better manage and make savings on your indirect spend. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

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