Purchase-to-Pay Process Explained



Every company needs reliable access to goods and services in order to do business. How your company goes about identifying needs, obtaining goods and services to meet them, and then paying for those goods and services, defines its approach to the purchase-to-pay process, or P2P. The P2P process is universal, but in deciding *how* your company will approach it, you can discover a rich source of potential savings and process improvements.

The purchase-to-pay process touches on all aspects of doing business. Understanding how it works, as well as how it can be improved, is the key to more strategic procurement, improved cash flow, better decision making, and a healthier bottom line.

The Purchase-to-Pay Process, Step by Step

Also known as *procure-to-pay*, the purchase-to-pay process is a series of steps followed to order and pay for goods and services. No two companies are exactly alike, but generally speaking, the process follows a similar format across industries:

1. **The need for goods and services is identified by the buyer.**
2. **A requisition order (RO), also called a *purchase requisition* (PR), is**

created and submitted for review and approval. A requisition order is a formalized document detailing the goods and services are required. In companies using automated procurement solutions, the information provided on the PR is used to automatically populate the purchase order used to order the goods and services in question

3. **Vendor Selection/Evaluation.** Approved PRs advance to the vendor selection stage. If a company already has preferred vendors with existing contracts for the goods and services requested in its system, the procurement team can simply choose the one with the most favorable terms and pricing for the current project's needs. In the event the goods and services aren't already in the supply chain, and new vendors are to be considered to meet the need, the procurement team instead builds a list of potential vendors and issues a request for proposal (RFP) or request for quote (RFQ) outlining the goods and services needed as indicated in the PR.Interested vendors submit a bid on the job, including detailed pricing, delivery timeframe and terms, etc. Winning suppliers are evaluated not just on their bids, but on their future potential as preferred vendors in the supply chain, how well their corporate culture meshes with the buyer's, and their compliance with legal and industry standards, customer service, and reputation. In addition, the procurement team may negotiate to obtain additional incentives from suppliers seeking to sign a contract, including scaled discounts over time, quality improvements, and reduced transportation costs.After thorough review and the conclusion of any necessary negotiations, the contract is awarded to the supplier who best meet the project brief while simultaneously proving a good fit for integration with the buyer's procurement system. The chosen vendor will be on-boarded and integrated with the buyer's procurement and supply management software for performance tracking, access to vendor portals, etc.

4. **A purchase order (PO) is issued.** Once a vendor's been chosen, a purchase order is issued and becomes a binding contract upon the vendor's acceptance. If a company has automated eProcurement software, the PO will be automatically populated from and matched to the PR, then tracked in the system.
5. **Goods are received and inspected.** The supplier fulfills the order. In the case of goods, the shipment and its accompanying receiving

documentation are examined thoroughly to verify the completeness, accuracy, and quality of the order. The receiving documents are compared to the original purchase order, either automatically via a procurement solution or manually.Damaged or incomplete orders may be returned or have their pricing modified, requiring an update to the transaction data to reflect the changes.

6. **Vendor invoicing.** The supplier sends an invoice requesting payment, which is added to the procurement and accounting software either automatically using e-Invoicing or manually by the accounts payable team.
7. **Invoice review and reconciliation.** Together with the original purchase order and receiving documentation, the vendor invoice allows the accounts payable team to complete a *three-way match* to verify the transaction data is accurate and complete, and that all goods and services ordered were delivered or performed as ordered. If any line items do not match those listed on the PO or receiving documents, they are flagged for review.
8. **Payment.** After review, verification, and any necessary corrections, the invoice is approved for payment. The accounts payable department issues payment to the vendor, and updates its records accordingly.

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Benefits of Automating Your Purchase-to-Pay Process

Despite touching every area of business from production to marketing to financial reporting, procurement processes have traditionally been dismissed as sources of, at best, cost savings for a company, rather than sources of long-term value. But making one crucial change to the purchase-to-pay process—implementing a cloud-based procurement solution—can radically transform not just the P2P process, but supply chain management, contract management, and overall productivity, profitability, and flexibility.

The secret ingredients driving this transformation are artificial intelligence (AI) and process automation. Together, they streamline your entire P2P process through:

- **Comprehensive business process improvements.** Automation takes humans out of the tedious and time-consuming low-level tasks that support the purchasing process. As a result, errors are minimized. Exceptions are reduced. Purchase order cycle times and invoice processing times are reduced by hours or even days. Review and approval workflows can be built to include automatic alarms and contingency flows to eliminate delays that cost you money not just in production delays or late payment fees, but in damaged supplier relationships. Automated three-way matching means more invoices achieve straight-through processing for automatic payment after verification, raising the value and productivity of your payment process while reducing costs.
- **Total real-time spend transparency.** Rogue spend has nowhere to hide in an automated procurement solution. All transaction data is captured and stored in the cloud, and is available for review and analysis in real time. Transaction data is accurate and complete, providing superior financial reporting and providing valuable insights for strategic decision-making with the help of data analytics. Cash flow is improved as well, since comprehensive and correct data lets you invest in innovation and growth while still paying the bills.
- **Seamless integration with your existing tech.** Procure-to-pay software, like PLANERGY, can be integrated with your current enterprise resource planning (ERP) and accounting software to create a comprehensive procurement solution.
- **Value-focused productivity gains.** Centralized and mobile-friendly access to all data, documents, and workflows means greater productivity for your entire organization. Your team can collaborate with each other and suppliers across your supply chain to pursue high-value tasks rather than performing data entry or tracking down paperwork errors.
- **Better supplier relationships.** Pay automation makes it easier to pay your vendors on time, capturing valuable discounts and avoiding fees. But that’s just the beginning. Vendor performance data reveals areas of your supply chain most in need of improvement, as well as potential areas for strategic growth. Vendor portals bring your suppliers into your workflows

for faster electronic payments and fresh insights. Plus, centralized data management, contract management, and a robust supplier management module means your team can negotiate from a position of strength, whether they're onboarding new suppliers, negotiating for better payment terms and delivery schedules, or partnering with key vendors to capture new market segments.

Uncover the Hidden Value in Your Purchase-to-Pay Process

Ready to get more from your purchase-to-pay process? With a complete understanding of the workflows involved, and a little help from automation, you can optimize your P2P processes and shift your procurement function away from mere savings and toward building lasting value from improved supplier relationships, higher productivity, better cash flow, and greater organizational efficiency.

What's your goal today?

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