

The Differences Between Source To Pay and Procure To Pay



In procurement, as in so many other fields undergoing digital disruption, it seems every week brings new terms to learn and technologies to master.

Keeping abreast of the latest and greatest in not just technology, but business practices, is crucial for companies that want to gain or maintain competitive edge as well as profitability and savings.

One such innovation currently captivating procurement organizations around the world is *source-to-pay* (S2P), an enhancement of traditional Procure-to-Pay (P2P) models.

Promising greater spend efficiency and efficacy while reducing costs, source-to-pay holds significant promise as a new way to streamline all aspects of the procurement process.

Source to Pay—the Next Level in Spend Optimization

Traditionally, the Procure-to-Pay process begins with the requisition of goods and

services and ends with payment being issued to the vendor by accounts payable.

Source-to-pay adds strategic sourcing to the process, providing an even more closely integrated spend management solution.

The goal of a source-to-pay integration is to build value by tightening internal controls and refining supply chain efficiency and vendor relationship management.

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Comparing Procure-to-Pay and Source-to-Pay

Procure-to-Pay

Also known as *purchase-to-pay*, modern Procure-to-Pay systems use tools like procurement solutions, enterprise resource planning (ERP) software, and spend analysis to introduce process automation, efficiency and accuracy improvements across the entire procurement function.

The p2p process prioritizes cost savings and value creation generated from:

- Real-time insights provided by master data management on a cloud-based server
- Reduced purchase order cycle times and invoice processing efficiency improvements achieved through three-way matching, eInvoicing, and internal process optimization
- Streamlined, value-focused spend management supported by process automation, total transactional data transparency, and on-demand spend analysis
- Improved cash flow and access to working capital through better decision making and forecasting/reporting supported by complete spend visibility

Business processes will vary from company to company, but in general the P2P workflow looks something like this:

1. **Demand:** An individual inside or outside the procurement team recognizes the need for goods or services and begins the process of obtaining them.
2. **Requisition:** A purchase requisition is created and routed for review and approval. Ideally, the ordering party uses an eProcurement solution to select from a pre-approved set of vendors and specific goods and services that adhere to best pricing and terms for that specific need.
3. **Purchase Order (PO):** The purchase requisition is used to create a purchase order, which is sent for review and approval. Upon approval, the purchase order is sent to the corresponding vendor, becoming a legal contract once accepted.
4. **Goods and Services Received.** For goods, orders are reviewed and, ideally, receiving paperwork is automatically cross-matched to the corresponding PO. Any exceptions generate returns, refunds, or additional documentation as required by circumstances.
5. **Invoicing:** The vendor's invoice is received and checked against the purchase order and receiving paperwork. Exceptions are noted and processed as events warrant. Properly reconciled invoices are routed for payment.
6. **Payment:** The accounts payable (AP) team issues payment and updates the accounting records to reflect the transfer of payment in exchange for goods/services.

The P2P process works well for goods and services that are already optimally sourced, and whose vendors have master data files in the buyer's procurement system.

But in cases where a need is recognized, but a company doesn't have a current (or at least satisfactory) source for the particular goods and services required, leveraging the source-to-pay process can help.

Like P2P, S2P prioritizes value, efficiency, and continuous improvement, but expands these concepts to include contract management and strategic sourcing.

Source-to-Pay

Source-to-pay is ideal for those times a company needs to identify new potential vendors to meet demand for new raw materials, finished goods, or services that fall outside their existing supply chain *or* seeks to locate greater savings, less risk, and higher productivity by adding new vendors to their supply chain.

Rather than existing as a separate process distinct from Procure-to-Pay, S2P can be considered a prelude to it.

It benefits from the use of procure-to-pay software that supports supply chain management and vendor relationship management.

Some ERP applications such as SAP and SRM incorporate sourcing tools, but ideally the procurement software you select will support S2P as part of its overall optimization of the procurement function.

As with P2P, processes will vary by company, but the process generally looks something like this:

1. **Demand:** A need for new goods and services, or better pricing and terms on existing ones, is identified.
2. **Sourcing:** Using data analysis based on factors such as current market trends, historic spend, and overall organizational goals for product development, potential vendors are identified and evaluated. Promising candidates can be on-boarded for collection of vendor master data and interaction with the buyer's procurement software and workflows.
3. **Bid Preparation:** all relevant "RFx" documentation, such as requests for quote(RFQ), requests for proposal (RFP), request for information (RFI), etc. is prepared, reviewed, and approved for distribution.
4. **Bidding:** Suppliers are invited to submit the required bids. Interested suppliers participate in the bidding.
5. **Review and Reward:** Potential candidates are reviewed for suitability, and winner(s) chosen. Depending on the intended role of the supplier, a purchase order, contract, or both will be created.
6. **Contract Negotiation and Management:** For vendors who will be added to the procurement software as a preferred vendor with a relationship extending beyond the current bid, the buyer negotiates to

establish optimal contract terms and pricing.

7. **Contract Creation, Review, and Approval:** Once the parties have reached an agreement, the contract is created, reviewed by both parties' for legal and informational accuracy and completeness, and signed.
8. **P2P:** The Procure-to-Pay process can now be executed as normal, with optimal pricing and payment terms for the goods and services required.

Source-to-pay provides value in the form of preventative optimization.

Procurement teams can leverage the insights from the data collected and analyzed using its existing procurement solution to perform vendor evaluation and on-boarding, contract management, and detailed, strategic sourcing.

In turn, these vendors will be part of this optimized system from the moment they become part of the supply chain, making it easy to evaluate vendor performance against key performance indicators (KPIs) like pricing, on-time deliveries, and cycle times for purchase orders and eInvoicing and further refine the supply chain based on the results.

Over time, the entire supply chain can be integrated in this way, with every vendor, and every transaction, part of the automated workflows and real-time data management that drives continuous improvement.

Is Source-to-Pay Part of Your Procurement Plan?

When it comes to creating lasting value, it's always best to start at the source.

Better supplier management, streamlined workflows, less maverick spend, and knowing *every* purchase has optimal payment terms, customer service, and pricing are just a few of the benefits your company can enjoy by adding source-to-pay to your Procure-to-Pay process.

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