



Procure-to-Pay Optimization

Taking It to the Next Level

ScottMadden Enterprise Summit Services

ScottMadden has been at the forefront of Shared Services improvement for more than a quarter of a century. During that time, we have helped many of the top 500 companies reinvent the way they do business.

ScottMadden's Enterprise Summit Services are a range of consulting services offered to companies that have already launched one, or more, improvement initiatives over the past decade and now need to take their support services to the next level. These services are not for beginners but for those who started the climb some time ago.

Because we are convinced that significant improvement only comes to those who adopt a full "end-to-end" solution, our Enterprise Summit Services are focused on optimizing the following enterprise processes:

- Procure-to-Pay (P2P)
- Order-to-Cash (O2C)
- Record-to-Report (R2R)
- Hire-to-Retire (H2R)

We begin with a focus on P2P, one of the end-to-end solutions often implemented first.



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Introduction



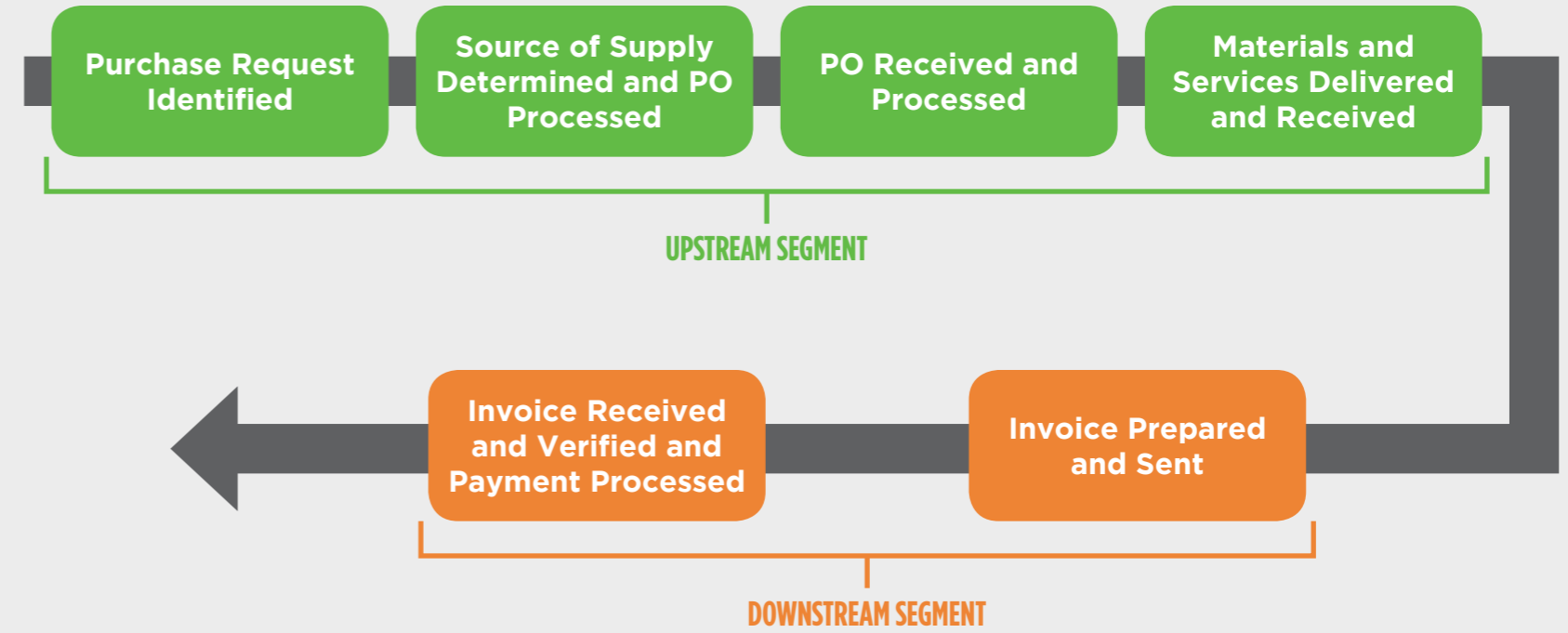
The Procure-to-Pay (P2P) Process

The Procure-to-Pay process is the combination of two enterprise business process segments that are often managed by different business areas.

The “Upstream P2P” segment starts with the identification of a purchase request and ends with materials or services being received from suppliers. It is generally managed by the procurement or supply chain organization.

The “Downstream P2P” segment starts with suppliers submitting invoices and ends with supplier payment processing. It is generally managed by the accounts payable or finance organization.

Most companies have made improvements in both the upstream and downstream segments of the P2P process. The focus has typically been on cost savings, but significant improvements in effectiveness have also been achieved.



Nobody Said It Was Going to be Easy

Through countless hours of hard work, leading companies have pushed through a wide range of improvements which have paid off.

But it has not always been an easy trek. There have been, and continue to be, casualties along the way. These include strategic roles getting pulled back into transactional work, an inability to achieve identified contract savings, ongoing data management sustainment challenges, and backsliding on earlier achievements.

Some of the symptoms we often see in companies who continue to struggle with increasing the effectiveness of their P2P service delivery include the following:

- We have too many invoice discrepancies
- I don't have enough time to be strategic
- Daily firefighting dominates my day
- I have to go through too many hoops to get an answer
- We get too many calls from suppliers and requestors for simple questions

A clear mandate for change and a keen focus on addressing these symptoms can enable a more integrated and significantly more successful P2P process.

BENEFITS OF LEADING PRACTICE P2P

30%	more contract savings
59%	lower cost per PO
53%	more manual invoices processed per person
30%	less re-work in invoice processing
36%	lower cost per invoice

Source: APQC and ScottMadden Benchmarking

Taking It to the Next Level

Based upon what they have achieved to-date, companies that have embarked on P2P improvement can be placed along a P2P process maturity continuum as shown below:

Stage 3



- Centralized P2P organization with ownership of entire P2P process
- Extensive standardization and clear differentiation between transactional and strategic support
- Automated full-function processes
- P2P operating model in place
- Clear service delivery structure
- Extensive performance monitoring and reporting
- Customer satisfaction high

Stage 2



- Centralized procurement and AP organizations with ownership of most processes
- Considerable standardization and initial strategic support capabilities underway
- Mostly automated processes
- Minimal performance monitoring outside of budget control
- Customer satisfaction mixed – most difficult phase as process ownership is transferred
- Costs begin decreasing

Stage 1



- Decentralized organizations where the business units own most processes
- Minimal standardization and ability to differentiate transactional from strategic work
- Rudimentary manual processes with minimal systems support
- Minimal performance monitoring, tracking, and reporting
- Customers generally happy because they can do whatever they wish
- High cost, inefficient operation, but costs often not visible





Base Camp

ScottMadden's Enterprise Summit Services are designed for those who are already at Stage 2 or early Stage 3 of the P2P maturity model. Let's call this "base camp" in the preparation to achieve the P2P summit. Companies in base camp are well on their way to the P2P summit level of performance. They have made significant improvements but recognize that there is more to do, and it is difficult to do it alone. Even Sir Edmund Hillary had a Sherpa to guide him.

Getting to base camp is a significant achievement in itself. To get here you have probably undertaken the following:

- Implementing P2P global process ownership to streamline processes, improve role/responsibility clarity, and refine governance mechanisms (e.g., process improvement, quality control, job descriptions, accountability, decision rights, performance metrics, etc.)
- Adopting new P2P technologies to automate elements of the buying functions and/or accounts payable (e.g., e-Procurement, e-Sourcing, OCR, etc.)
- Pursuing outsourcing opportunities and changing organization structures (e.g., staffing levels, organization layers, spans of control, etc.)

While many companies have implemented global P2P process owners and begun automating P2P activities, these efforts alone can only set you on the path; they don't allow you to reach the summit by themselves.

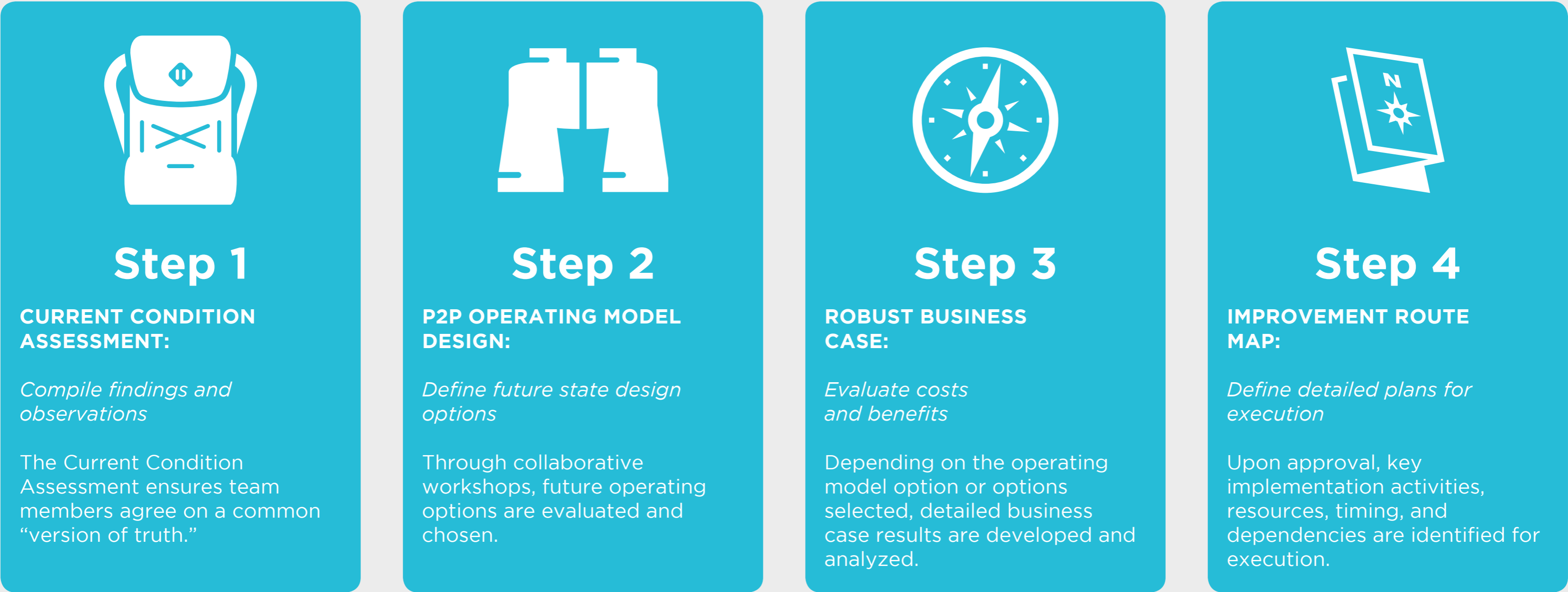
Setting out from Base Camp



Everything Is in the Preparation

Making it to base camp is an achievement in itself, but you can't make the summit if you stay there. ScottMadden's Enterprise Summit Services are designed to guide you from base camp to the summit. We get you there not by theory, but by relying on real-life experience and proven tools that have guided others along the same route.

Our approach to developing a route plan to the P2P summit is summarized in the figure below.



Step 1: Current Condition Assessment

The first step in summiting is to take a thorough inventory of the team's current fitness and equipment condition. Yes, we understand that some advanced practitioners consider this phase unnecessary. But when it's life or death, mid-way through the climb is no time to discover you are in worse condition than you thought. A deep understanding of where you are today is critical to getting you where you want to go. Our approach calls for a Current Condition Assessment which is completed through the four sets of analyses shown below.



Stakeholder Interviews

ACTIVITY: Conduct informational interviews with a selection of P2P stakeholders

RATIONALE: Allows us to understand current operations and provides context to support data collected through work activity assessment



Work Activity Assessment

ACTIVITY: Issue a web-based work activity survey to key personnel to collect current state full-time equivalents and cost data across P2P

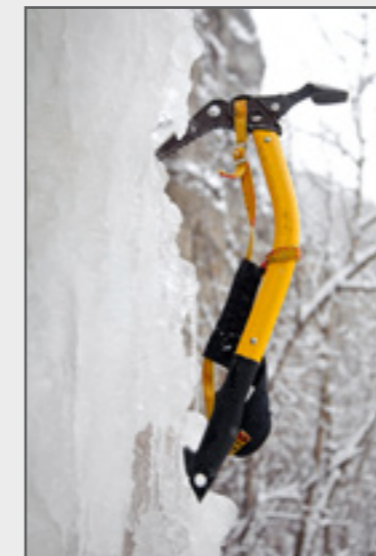
RATIONALE: Creates a thorough picture of how personnel spend their time, the cost of their relevant activities, the location of the work being done (concentrated vs. distributed), and an overall view of the nature of work



Leading Practice Adoption Analysis

ACTIVITY: Using a proprietary database of function-based leading practices, collaboratively score with key personnel each relevant leading practice according to the depth and breadth of practice adoption

RATIONALE: Provides a clear picture of existing practices by functional category and assists in identifying high-priority improvement opportunities



Performance Benchmark Analysis

ACTIVITY: Collect and compile information and key metrics on existing P2P processes and compare results to industry performance benchmarks

RATIONALE: Builds an objective understanding of P2P process performance and allows us to compare companies against industry peers from an empirical perspective

Stakeholder Interviews

ScottMadden conducts interviews with key P2P stakeholders to gain perspective on current processes, known pain points, organizational challenges, and areas of focus. Stakeholders may include executives, procurement/AP representatives, process leaders, technology owners, and internal customers. If possible, we prefer to complement this information with direct observations on how the work is performed through individual job-shadowing sessions. Additionally, we examine existing policy, process, and procedure documentation and evaluate for clarity and completeness.

Organization

How is your group structured? What roles are in place?
Who are your primary customers?
What kinds of training does your group provide?

Process

What are the major services your group offers?
What documentation do you have in place currently? How is it used?
Where are the major bottlenecks in your process(es)?

Tools/Technology

What are the major tools and technologies that your group uses to operate?
What automation (e.g, workflow) is utilized (if any) throughout your process(es)?

Data/Knowledge

What kinds of metrics are used to track performance?
What standard reports exist?
Do you have any established performance targets/SLAs?

Work Activity Assessment

ScottMadden maintains a proprietary, web-based work activity assessment that is given to key personnel to collect current state full-time equivalents (FTEs) and cost data across the entire P2P process. The tool uses a tiered activity structure to prompt respondents to allocate time. A proprietary template of activities is available as a guide as are descriptions of each activity for reference. Once the data is assembled, a comprehensive report is prepared summarizing the assessment results. Typical output includes FTE and labor cost summaries by functional area, type of work, and position.

Example Output: Work Activity Assessment Results

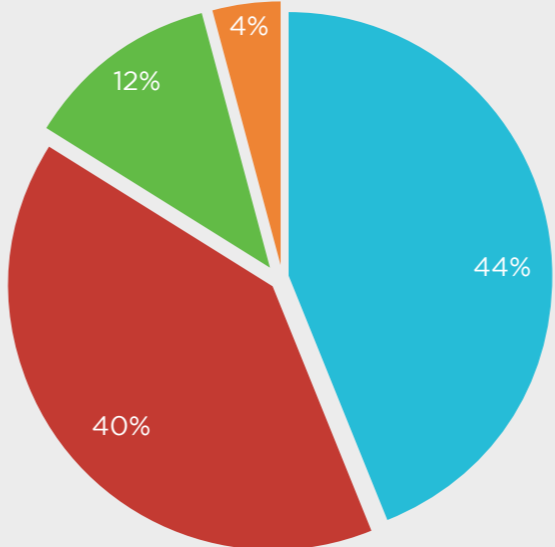
What Functions Are Being Performed?

TRANSACTIONAL: Tasks required to support day-to-day transaction processing, such as data entry (e.g., PO administration, invoice processing, etc.)

FUNCTIONAL: Tasks that require functional expertise and/or analytical skills in a particular discipline (e.g., market information analysis, vendor proposal negotiation, etc.)

STRATEGIC: Tasks related to policy setting, establishing procedures, and strategic planning (e.g., strategic vendor management, sourcing strategy development, etc.)

ADVISEMENT: Tasks related to consulting with, liaising with, and providing guidance to employees (e.g., train employees, etc.)



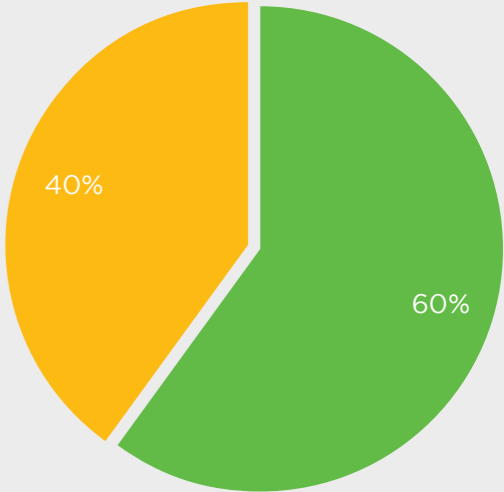
Who Is Performing P2P Work?

Results are summarized to show procurement activities performed by P2P and non-P2P teams.

- Indicates who in the organization is performing which P2P activities across the enterprise
- Indicates opportunities for cost savings via realignment of resources

P2P Teams

Non-P2P Team(s)





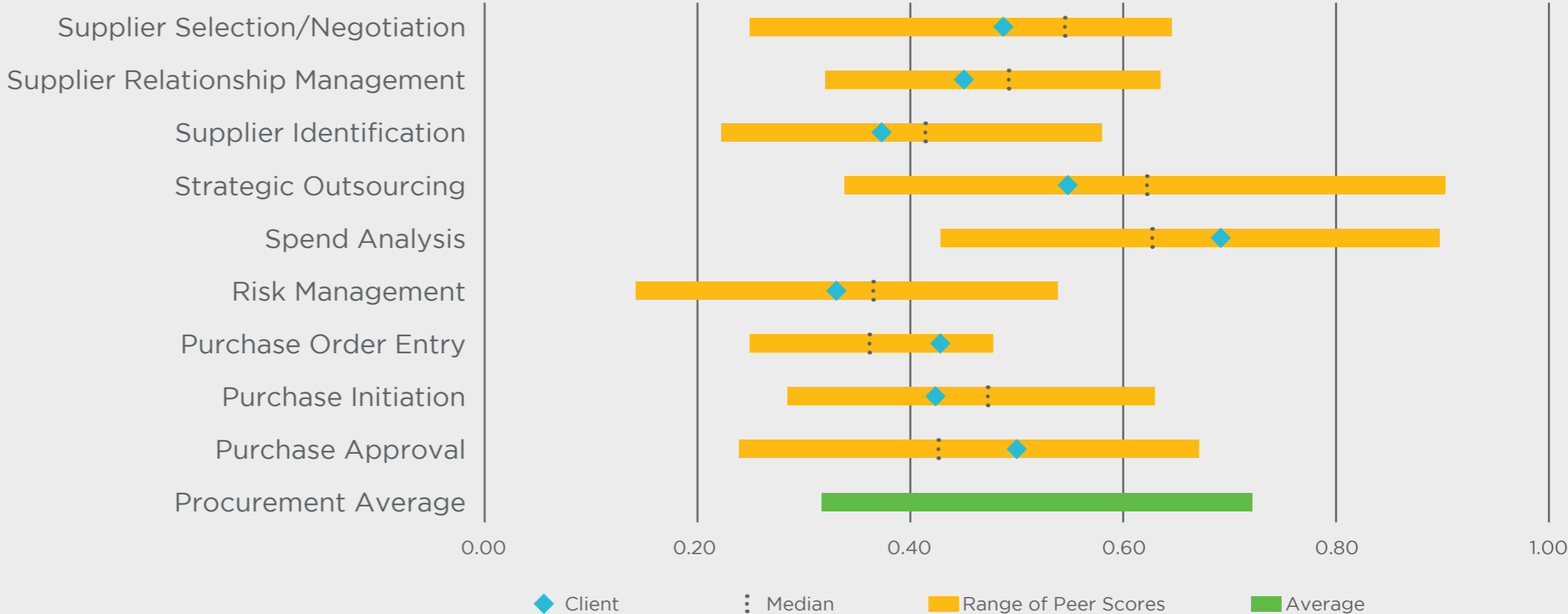
Step 1: Current Condition Assessment

Leading Practice Adoption Analysis

ScottMadden also maintains a proprietary database of leading practices consisting of hundreds of practices across the P2P process framework. We have applied this tool to evaluate the leading practice adoption rates of more than 50 companies in multiple industries. We work collaboratively with subject matter experts in focus group sessions to score each practice. The adoption of each practice is discussed and then assessed in terms of both the depth of adoption (i.e., are all the elements of the practice used?) and the breadth of adoption (i.e., is it used across the enterprise?).

This analysis allows ScottMadden to compare a client's adoption of leading practices to both an absolute score and a score relative to other companies in our database. It also helps us build consensus regarding the current state situation and existing practice gaps and serves as an objective barometer from which to view future progress.

Example Output: Procurement Practice Adoption Scores (Where 1.00 = Full Adoption)



Performance Benchmark Analysis

The fourth component of the Current Condition Assessment is quantitative benchmarking of the organization’s performance across a broad range of P2P performance metrics.

Client Data Collection

As a first step, we collect and compile information on existing activities within the P2P process, including transaction volumes, workload, organization structure, and data surrounding key processes. We also work with stakeholders within P2P to obtain and understand client data.

Benchmark Research

INITIAL BENCHMARKING:

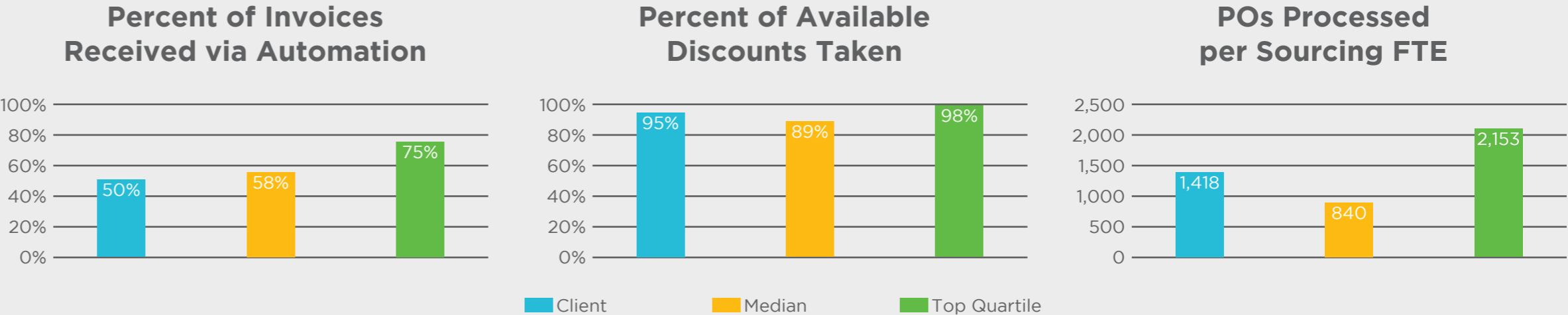
We gather and review P2P benchmarks from multiple sources such as:

- American Productivity & Quality Center (APQC)
- Shared Services Link
- ScottMadden Proprietary Database

BENCHMARK REFINEMENT:

We validate benchmark inputs with data sources when clarity is needed, and we adjust initial client data to ensure an apples-to-apples comparison.

Example Output: Benchmark Analysis



Sources: APQC; stakeholder interviews

Preparing to Summit



Step 2: P2P Operating Model Design

With the completion of the Current Condition Assessment, the Summit Team is ready to lay out their path to the mountain top. They will have a clear view into each of the key areas of improvement needed. These improvements are similar to the equipment required to climb the mountain. They are each critical to your success, but they will not get you there alone.

The glue that provides cohesion to your summit plan is the future state P2P Operating Model.

This model is typically designed in collaboration with P2P leadership, functional experts, and stakeholders and establishes the organizational framework for your trek to the summit.

The model consists of a **Design Framework**, which provides direction and cohesion to your plan, as well as specific **Design Elements** which ensure that the various improvement initiatives are implemented in a coordinated and interdependent manner.

Without a well designed P2P Operating Model, there is a strong likelihood that your individual initiatives will not take you to the summit—nor will they be sustainable over the long term.

Design Framework

Design Principles

Governance Framework

Operating Policies

Business Processes

Design Elements

Organization Structure

Service Delivery Framework

Performance Management

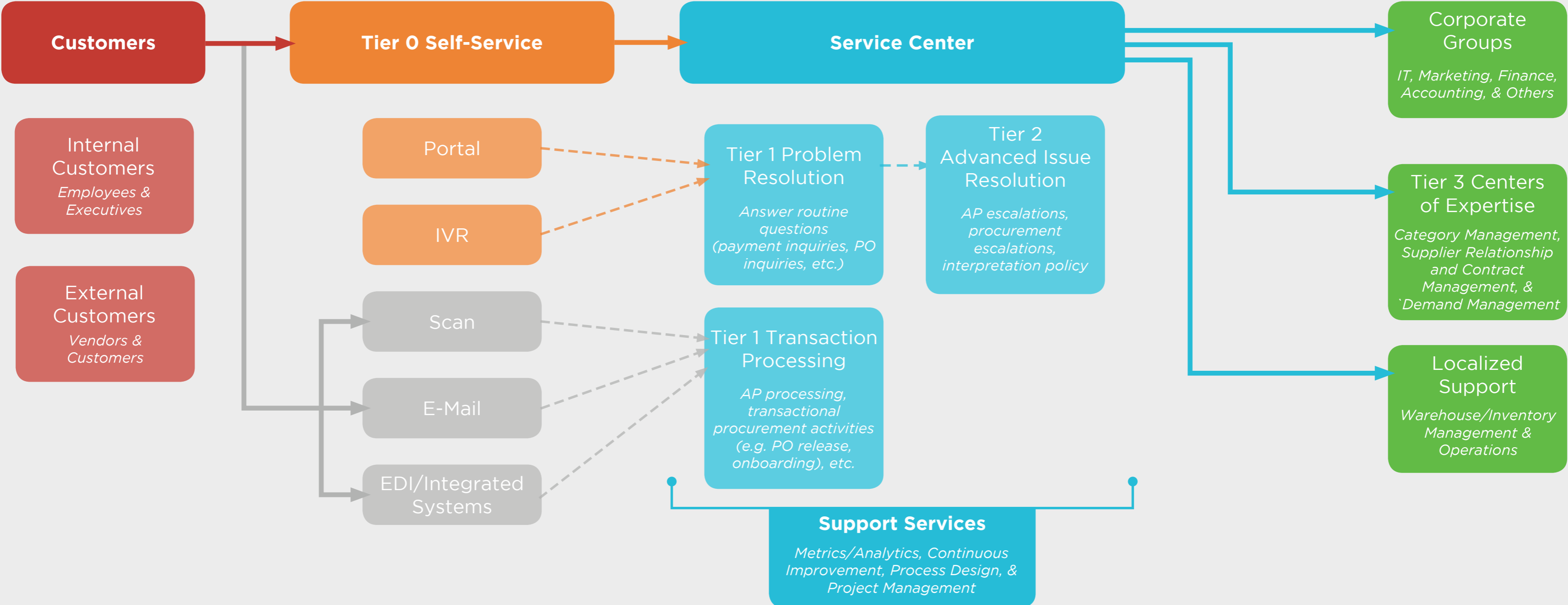
Employee Engagement

Technology Enablers

The Operating Model

At the heart of the P2P Operating Model is the service delivery framework which leverages standardization and process collaboration/visibility to align employee skills with the degree of complexity for the work. ScottMadden is a recognized leader in shared services delivery innovation and has leveraged this knowledge into a proven approach to P2P service delivery excellence. This framework is the key to effective P2P customer satisfaction and sustainable process effectiveness.

Service Delivery Framework



Step 3: Robust Business Case

The Summit Team is now ready to mount its final push to the peak of the mountain. They have assembled a future state P2P Operating Model and have identified a wide range of actions required to put it into place. But most companies cannot do everything at once. It is important to identify which actions will have the highest payback and when. The intent of the business case is to identify the costs and benefits associated with implementing the proposed recommendations in order to inform decision making. In addition to determining quantitative benefits, implementation costs, and ongoing costs, the Summit Team will also identify qualitative benefits, such as improved controls, increased visibility, and improved customer satisfaction. The business case analysis will include calculation of net present value, internal rate of return, and payback period.

Notable characteristics of our business case development approach include:

CONSERVATIVE DESIGN PHILOSOPHY

- Over-estimate costs
- Under-estimate benefits

Example Output:

P2P Business Case
Economic Evaluation Overview

The potential savings identified are driven by three variables: spend reduction, cash management, and efficiency gains.

Economic Evaluation Facts

- Structure**
 - The evaluation considers three possible technology-driven solutions along the P2P continuum.
 - The scope includes all P2P functions (excluding logistics and warehousing).
- Timing**
 - Five-year analysis period
 - Implementation costs begin in year 0
 - Recurring costs begin in year 1
- Approach**
 - Each option was evaluated using conservative, standard, and aggressive inputs
 - EMWD spend is based on 2015 actuals
 - Costs are estimated based on recent market evaluations and previous technology assessments
 - Benefit values are based on industry benchmarks and leading practices

	Gross Savings	Operations Costs	Costs to Implement ¹⁾	Net Savings
AIDC + Mobile	\$1,364	\$294	\$177	\$893
AIDC + Mobile Full Potential	\$2,481	\$294	\$177	\$1,810

Notes:
¹⁾Includes recurring Operations costs approximately \$10k per year; excludes one-time cost to implement
²⁾Costs to implement include a 15% contingency
³⁾Savings distribution percentages exclude one-time and recurring costs

QUANTITATIVE BENEFITS/ COSTS IDENTIFIED

- Labor
- Non-labor
- Technology
- Implementation support
- Maintenance
- Price reduction
- Contract compliance
- Efficiency savings
- Dynamic discounting

Example Output:

Business Case
Potential Cost Savings Summary

Range of Estimated Net Cost Savings (\$000s)¹⁾

Year	AIDC + Mobile	AIDC + Mobile Full Potential
Year 1	\$410	\$410
Year 2	\$448	\$448
Year 3	\$486	\$486
Year 4	\$524	\$524
Year 5	\$562	\$562

Year 1 Cost Savings Distribution²⁾ AIDC + Mobile

Labor Productivity	51%
Inventory (one-time)	34%
Inventory (recurring)	15%

Year 1 Cost Savings Distribution²⁾ AIDC + Mobile Full Potential

Labor Productivity	47%
Inventory (one-time)	36%
Inventory (recurring)	17%

QUALITATIVE CONSIDERATIONS INCORPORATED

- Compliance
- Knowledge transfer
- Customer satisfaction
- Cultural

Example Output:

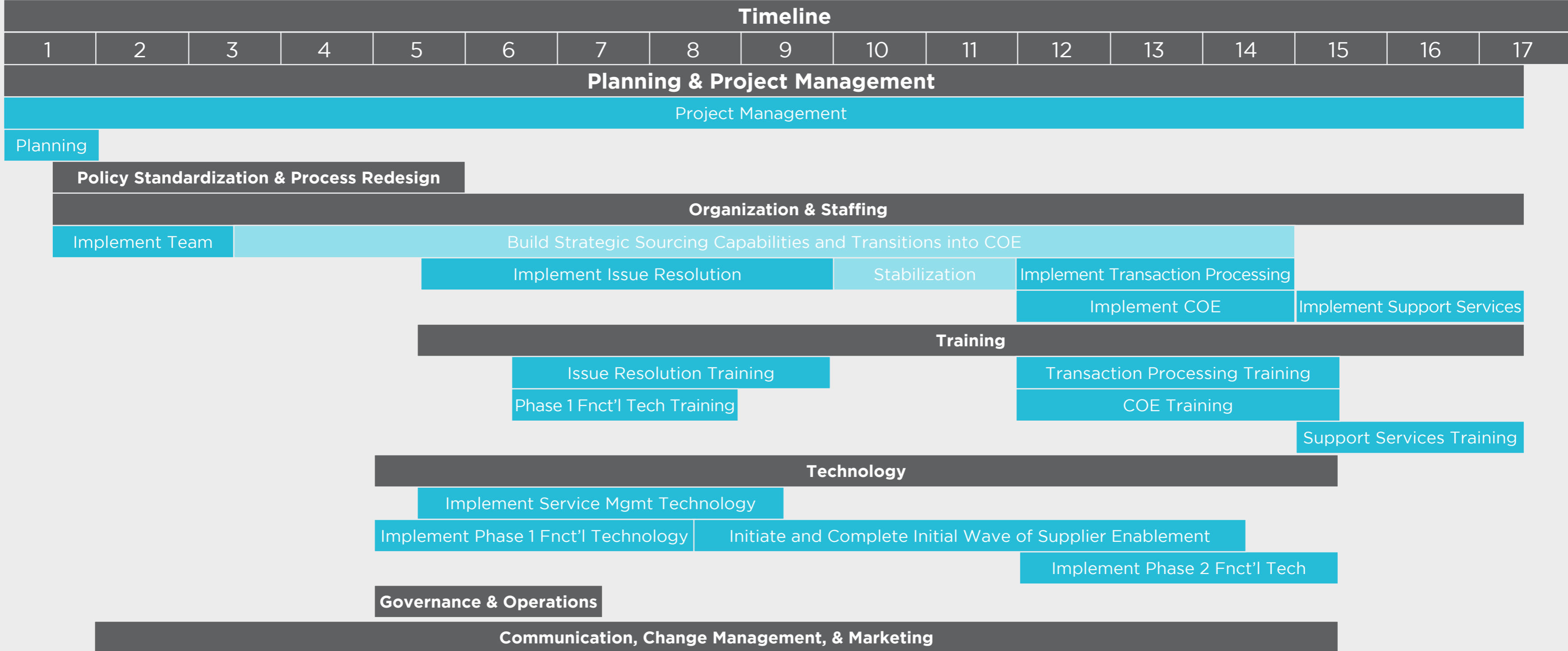
P2P Business Case
Qualitative Benefits

In addition to the quantitative benefits outlined in the business case, there are additional qualitative benefits that are worth noting:

- Scalability:** With the implementation of the future state operating model, client will be able to increase capacity for workload that is increasing on an annual basis due to company growth. It is likely that client will have to continue to hire new resources to handle the increased capacity anyway, so any incremental headcount should be viewed as a matter of eventual necessity. Although there may be some near-term requirements for incremental headcount, with increased efficiency of operations and improved effectiveness of the organization, it can be expected that less incremental headcount will be necessary in the long run.
- Merger Integration:** In addition to enhancing the ability to handle organic growth, the new operating model will incorporate many enablers to help with merger integration. Process documentation / standardization, dedicated change management personnel, dedicated technical support personnel, etc. will facilitate the integration of any new entity. From a work capacity standpoint, moving to the new operating model will enable client to expeditiously increase workload capacity due to the process and technology efficiencies that are included.
- Customer Service:** With a restructured service delivery model, client will be able to improve its level of customer service. With a dedicated issue resolution team, various inquiries will be answered much more quickly and consistent, accurate responses will be provided. In addition, the dedicated transaction processing team will promote quick turnaround of all submissions to the P2P organization.
- Increased Bandwidth for Non-P2P Employees:** Assuming some level of incremental headcount is needed to fill positions in the future state P2P organization (i.e., net all positions can be filled by current members who are performing P2P work but report to other areas), there will be work removed from other areas of the organization, such as operations, facilities, maintenance, etc. with no corresponding decrease in headcount in these areas. Thus, there will be increased bandwidth for those groups to focus on increasing operational effectiveness or strategic activities / planning other than spending time on transactional, P2P related activities.

Step 4: Improvement Route Map

At this point, the Summit Team has assessed their current condition and equipment, and they have identified what needs to be done to get to the summit. Now all that is necessary is to pull it all together in an executable route plan. In Step 4, the Summit Team prepares that plan via a detailed P2P Improvement Route Map. This provides specific, actionable steps required to implement the P2P Operating Model as well as accomplish all of the identified supporting initiatives. The Improvement Route Map incorporates key dependencies and reflects a best-fit phasing approach. It also includes an evaluation of risks associated with the implementation effort.





Selecting a Mountain Guide:

ScottMadden because...

Deep Expertise

ScottMadden has been a pioneer in corporate and shared services since the practice began decades ago. Our Corporate & Shared Services practice has completed more than 1,600 projects since the early 90s. Our clients span a variety of industries from energy to healthcare to higher education to retail.

Personalized Approach

Before we begin any project, we sit down and listen to our clients' needs and challenges. We engage with our clients like no other firm does, working side by side to create practical, real results. We don't employ canned methodologies or cookie-cutter solutions. We work to solve the right problem in the right way.

Philosophy

We are personally invested in every project and measure our success by our clients' success. We listen to our clients' needs and put their best interests ahead of our own. We work with integrity, tenacity, and a genuine passion for what we do. We do what it takes to get it done right.

Contact Us

Getting to the P2P Summit is not easy. It takes careful planning, training, and experience. Climbing alone is dangerous, but it can be done. Others have done it. Some succeeded. Many did not. Everyone recognizes that the probability of your success increases significantly when you join forces with an experienced guide who has been there before. The choice is yours.

Remember, even Sir Edmund Hillary recognized that he would never have reached the summit of Mt. Everest without the assistance and support of his Sherpa guide, Tenzing Norgay.

Choose wisely.



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