P2P Strategy

It's Not Just about the Transaction

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INTRODUCTION

Many global organizations have experienced significant challenges when combining their procurement and accounts payable functions to form truly integrated procure-to-pay (P2P) process models. Disconnects between supply chain and finance, the two larger areas responsible for procurement and accounts payable respectively, are not a new phenomenon. Inherently, business drivers of the two functions are different: supply chain aims to create processes which reduce cost and deliver goods and services in a timely manner, while finance strives to establish processes which improve control, simplify accounting, optimize working capital, and ensure proper purchase order (PO) authorization. In addition to these functional alignment challenges, internal customer adoption can undermine even the best P2P implementations. As a result, companies must effectively manage service with control/cost savings.

In a survey by P2P software vendor Basware, improving alignment ranked high among executive priorities with 62% of respondents citing the connection of disparate areas of purchase and payment processes as critically important within the coming year. These findings reinforce that organizations have been challenged to realize the full value of their P2P transition.

Developing a well-integrated P2P model goes beyond optimizing "the transaction" or improving processing efficiency. In order for companies to truly transform their P2P model, ScottMadden believes clear alignment across an enterprise, not just procurement and accounts payable, for its P2P strategy must be the central driver for any transformation effort to be successful. In the following pages, we will define key attributes of the P2P model and present our views on how an effective strategy can enable successful P2P transformations.

P2P MODEL

The full value of a P2P transformation is much more than just transaction efficiency. To that end, the area of sourcing through improvements in spend aggregation, spend analysis, and focused category management (e.g., strategic sourcing) can unlock significantly greater value than initial savings achieved from PO and invoice transaction optimization efforts. We believe successful P2P models evolve within an organization through multiple stages of maturity across three key dimensions— sourcing, purchasing, and invoice processing. Each stage represents a level of progression as shown in Figure 1.

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Figure 1: ScottMadden's P2P Maturity Model

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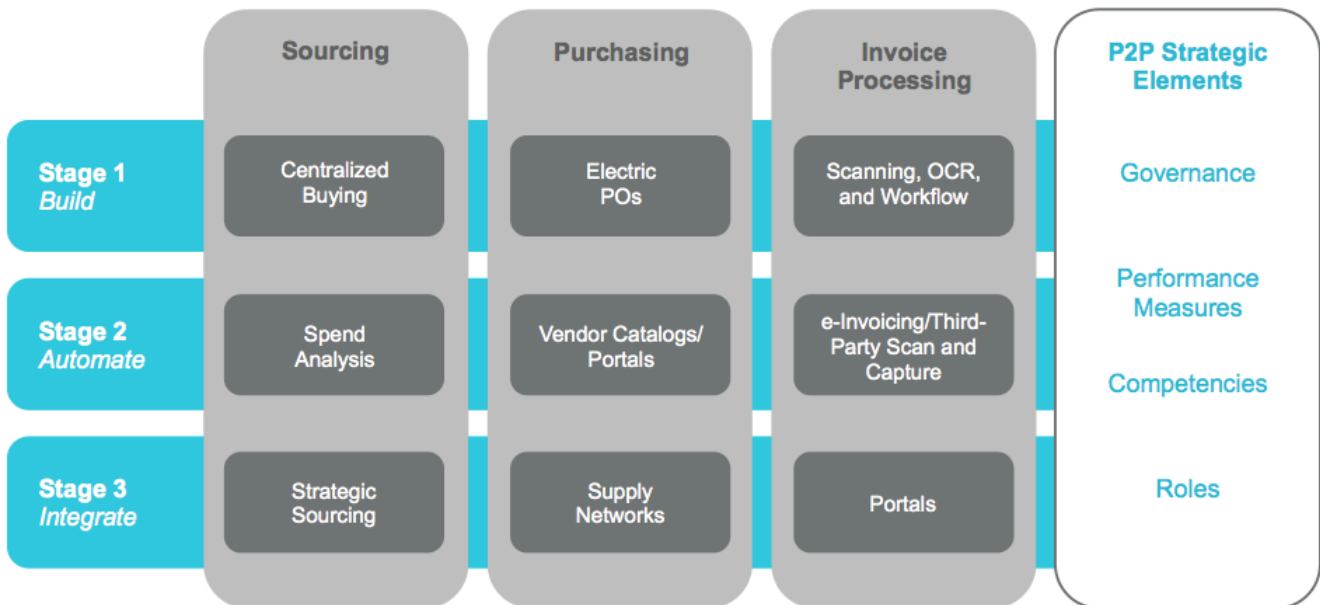
- **Build** – Initial processes and technologies are being implemented to increase productivity
- **Automate** – Some leading practice processes and technologies are employed; focus on automating transactions
- **Integrate** – Leading practice processes and technologies are in place and integrated across P2P functions; considered best-in-class

This model provides the foundation for understanding how P2P transformations occur and how companies should begin thinking about their strategies to advance their performance.

P2P STRATEGIC EVOLUTION

ScottMadden suggests organizations look holistically at the P2P model and start by defining a P2P strategy. P2P strategy informs you how to institute a governance structure, design your P2P organization, implement processes, and measure performance. P2P strategy is similar to corporate strategy in that it must encompass elements which satisfy all stakeholders, often with varying interests. It is also important when setting a P2P strategy to set a realistic time horizon for improvement efforts.

In ScottMadden's experience, we have found that most companies are at different stages of maturity across the sourcing, purchasing, and invoice processing dimensions. That being said, we will focus on the following *P2P strategic elements*, which can be employed irrespective of maturity:

- **Governance** – Structured oversight provides a mechanism for evaluating funding requests or process changes and arbitrating issues within the P2P process. Governance models typically include an advisory panel which provides recommendations on how to enhance the performance of people, process, and technology.

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- **Performance Measures** – Performance measures help to inform strategy by identifying process opportunities (e.g., invoice processing exceptions) and areas where technology investment can be best leveraged. Performance measures also provide a means to share data across P2P functions.

- **Competencies** – As P2P operations mature, the required organizational skills and competencies change. Being proactive and planning for shifting competencies in P2P strategy is critical.

- **Roles** – Armed with more data and less transactional duties, maturing P2P organizations can offer more value as their roles change. Preparing for this change in role is also a key component of strategy.

Governance. When establishing a P2P organization or beginning a P2P transformation, companies should review their governance structure. Effective governance models ensure that all stakeholders within the P2P process are held accountable for providing consistent levels of service. Governance needs to be a formal structure with clearly defined roles and responsibilities and well-articulated policies and procedures. Effective P2P governance models often include representation beyond procurement and accounts payable and commonly leverage a tiered structure similar to Figure 2.

Figure 2: Illustrative P2P Governance Model
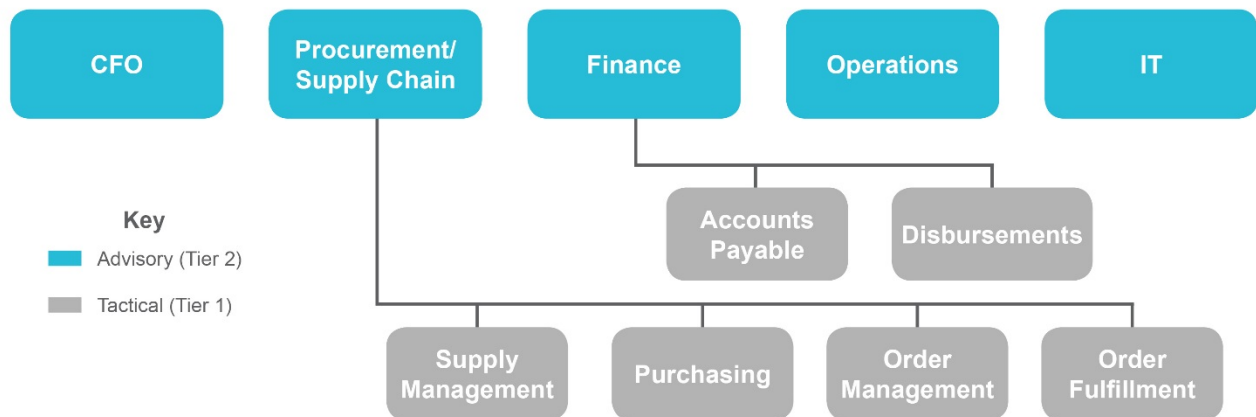
Governance typically includes two tiers of stakeholders, but the formality of the structure is largely dependent on the complexity of the process and the culture of the organization. The first tier helps determine investment priorities, manages service level agreements, implements approved changes, and tries to resolve disputes that arise within the process.

The second tier, typically an advisory panel primarily made up of leaders from the core functional areas and internal customers within the P2P process, evaluates performance, monitors service level agreements, approves investment recommendations, sets policy and direction, and acts as the final arbitrator for disputes that cannot be resolved at a lower level. Organizations with superior governance have a greater rate of success at moving through the stages of P2P maturity, as there is alignment and communication between different functional groups at both the working level and the executive level.

Performance Measures. Metrics should be used to help direct investment to the areas which may reap the most benefit from process improvement or technology automation. Leading companies utilize

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performance measures to inform their P2P strategy and share information across the end-to-end process.

Meeting finance's and supply chain's objectives can be difficult, and performance measures that cut across both functions are not easy to analyze. The balancing act of keeping suppliers and internal customers satisfied versus keeping the finance organization happy can sometimes be a difficult task. Finance and procurement leaders should utilize performance measures to assess opportunities jointly. Some examples of these cross-cutting metrics include PO invoice match rate, days payable outstanding (DPO), and off-cycle payments. DPO is a measure of the average number of days a firm takes to pay its suppliers. Supply chain strives to reduce DPO to achieve discounts or more favorable credit terms with suppliers. Finance aims for greater DPO which may indicate the company's ability to defer payments, earn interest, and improve their working capital position. Optimizing the P2P organization may involve using metrics such as DPO as a means to balancing each group's objectives.

Competencies. Companies who have made investments in their P2P processes often identify significant opportunities for automation (e.g., e-invoicing) and ways to employ analytics (e.g., spend analysis) to further increase efficiency. Employee training should be adapted for shifting competencies as P2P organizations mature. As organizations move through the stages of P2P maturity, the required competencies and employee skills begin to change. For example, as firms improve their spend visibility, market research and analytical skills are required for key spend categories to classify data and provide insightful analysis across multiple vendors/contracts/sourcing categories. This market and supplier intelligence is vastly different from what is often required for a one-time or non-strategic purchase. Strategic planning for shifting competencies allows for more diverse career options for employees, limits disruption, and reduces hiring costs.

Firms should provide cross-functional educational opportunities to promote alignment across the end-to-end P2P process. By educating finance on key procurement drivers, such as supplier discounts for early payment, and ensuring procurement grasps treasury and cash management principles, the organizations can begin to understand the impact of their actions throughout the P2P process.

Roles. As companies advance through the stages of P2P maturity, attention must be placed on eliminating barriers between functional groups. We recommend formally aligning procurement and finance functions under a single organization with a sole leader. Executive sponsorship can help prioritize funding decisions, mitigate risk, and further promote integration. If it is not feasible to reorganize, the importance of governance is increased. At a minimum, companies should revisit governance structures to ensure broad oversight and clear arbitration rules are present.

As the functions under the P2P process model begin to mature and become less tactical, their roles will begin to change. P2P strategy should identify opportunities across each dimension to have management shift their focus from transactional optimization to providing more value to the end-to-end process. For example, management within the procurement function should adapt from a role less focused on buying affordable goods and more on increasing value through quality purchases. One of the keys to adapting to these new roles is strategically adopting technology to leverage data (e.g., for spend analytics, supplier performance, contract management, and dynamic discounting).

SUMMARY

Establishing a holistic P2P strategy is critical to fully integrate the P2P process. The strategy must be supported by a governance structure that includes representation beyond procurement and accounts

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payable. Organizations should not underestimate the differences in competencies required from the workforce as they mature. Traditional procurement and accounts payable roles will evolve into advisory services as companies and their P2P process organizations mature. Formal alignment of P2P functions under shared leadership becomes increasingly important to promote alignment across the enterprise. P2P strategies which do not take these elements into account will struggle to integrate and incur additional cost.

Getting P2P transaction processing "right" can offer solid savings potential; however, setting a P2P strategy and moving to a fully integrated P2P model that balances efficiency with the ability to differentiate and address strategic-buying categories represents the greatest opportunity to increase enterprise value.

MORE INFORMATION

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