P2P SAP Best Practices: Perspectives from Suppliers and Subject Matter Experts

A White Paper

Rob Handfield
Bank of America University Distinguished Professor
NC State University
Robert_handfield@ncsu.edu

EXECUTIVE SUMMARY

A qualitative study of the Procure to Pay (P2P) process was undertaken by the research team in order to determine the symptoms, root causes, and recommended approaches to identifying and solving the problems associated with the P2P process in the SAP environment. We interviewed a number of suppliers who shared their insights in working with companies in an SAP environment, and interviewed a number of subject matter experts. The research identified six key findings that can lead to improvement in the P2P cycle:

- Develop common processes and procedures for the P2P process, and roll-out training at site level to ensure that people are comfortable with the approach. Be prepared to modify minor elements the process to accommodate site-level requirements, but keep the essential elements of the process flow intact. Emphasize the importance of this approach to the entire P2P cycle, including accounts payable, invoicing, and blocked and parked invoices. Explain the impact of lack of adherence to process – and that the supplier will not be paid in a timely manner for their work if errors occur in the process.
- Improve master data robustness and integrity. Whether this involves ensuring proper audits of external vendor catalogs, or internal content management, clean master data is a mundane but critical element to supply management and P2P best practices. Minimize opportunities in the P2P process for keystroke and freetext errors to occur, by error-proofing the system and mapping the process to identify where errors are occurring. Recurring training will also ensure that errors are reduced.
- Explore punch-out roundtrip and other approaches to exploit external content management approaches. This is especially important to ensure that the most efficient buying channel is selected.
- Exploit the use of procurement cards for high transaction volume, low transaction value purchases. Pcard technology has evolved significantly, and companies need to identify opportunities for hard dollar savings through this approach via rebates.
- Be sure to update master data and pricing rates on an on-going basis. In particular, attention should be paid to units of measure, appropriate industry-standard nomenclature, updating of labor rates based on market conditions, and on-going clarification of requirements against existing contracts.
- Establish how you are buying products and services, and document the buying channels through which these purchases are occurring. Inevitably, you will discover that purchases are occurring through improper or less-efficient channels, which is detracting from your team's ability to engage in strategic value-added approaches. Get out of the transaction management business! To do this, you need to establish standard processes and procedures, and commit to a change management plant to

ensure that people are using the right buying channels for the different types of spend.

As technology and business requirements evolve, the P2P cycle will certanly need to be re-visited from time to time to ensure it is meeting the needs of internal customers, and that suppliers are satisfied with the system.

Procure to Pay Best Practices: Perspectives from Suppliers and Industry Experts

Introduction

As more companies are seeking to move beyond procurement into fully deployed supply chain systems, a key challenge for many companies is in the area of improving efficiency in their procure to pay cycle for many of their contracted services, especially in the area of facilities maintenance and on-site contract management. There exist multiple challenges in environments where field associates are working from manual or electronic systems, requisitioning on-site services for maintenance or other activities, and ensuring that this information is captured effectively. In addition, there exist significant challenges to ensure that the proper service level agreement is fulfilled, the correct price is charged, the purchase order is transmitted correctly, the invoice matches, and finally, that the supplier is paid the correct amount for the actual services delivered. While many enterprise systems claim that these elements are simply defined within their structural logic, the truth is that there are many opportunities for error, and that without a planned process for managing the procure to pay cycle, your organization may be bearing significant costs due to non-compliance to system or process requirements.

A qualitative study of the Procure to Pay process was undertaken by the research team in order to determine the symptoms, root causes, and recommended approaches to identifying and solving the problems associated with the P2P process. Moreover, the team was interested in seeking answers to the following questions:

What the symptoms of the problem that are being experienced by internal buyers, vendors, and subject matter experts?

What do these groups of respondents believe are the underlying root cause for these problems?

What are the recommended solutions and potential benefits associated with the solutions suggested by respondents?

This benchmarking study sought to define and understand the best practices currently being employed by companies in the procure to pay cycle for services. Specifically, the research team focused in learning and sharing best practices in the following areas shown in Figure 1:

- Forecasting and Planning of Requirements
- Need Clarification / Specification
- Sourcing Decisions in Emergency / Non-emergency situations

- Contract P/O Generation for Structured or Unstructured requirements
- Receiving of Services, Materials, and Documents
- Settlement and Payment in Accounts Payable.

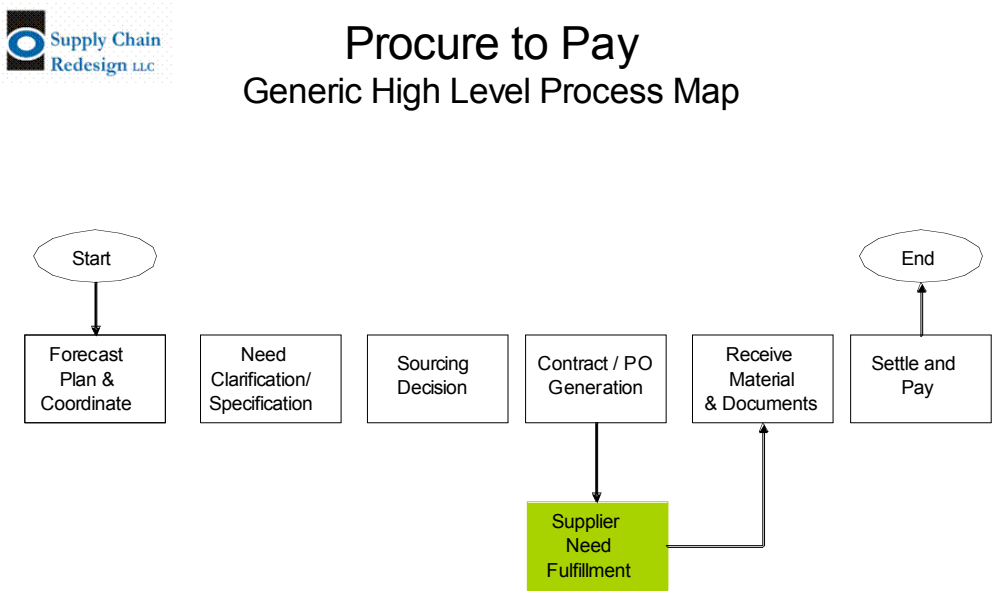

Figure 1

Research Approach

In order to explore how an organization should approach improvements to the P2P cycle, we adopted a grounded case-based research approach to identify the issues and develop a framework for analysis. Case research requires that a set of detailed interviews with a small sample of firms involved in the phenomenon of interest be studied in detail to determine qualitative insights into the linkages.[1] Before beginning a case study, however, it is necessary to have a conceptual model for crafting research instruments and protocol.[2] The conceptual model for studying the research questions was therefore derived, based on existing literature as well as a kick-off meeting held in early June.

[1] K. Eisenhardt, "Building Theories from Case Studies," *Academy of Management Review*, 14, p. 532-550, 1989.
[2] M. Miles, and A. Huberman, *Qualitative Data Analysis* (Second Edition). Thousand Oaks, CA: Sage Publications, 1994.

Next, an interview protocol was developed based on a general understanding of issues facing the organization and the hypotheses developed. (See Figure 1.) Questions focused around the workflow associated with the movement and management of materials and services to the company's facilities, and included vendors and subject matter experts from a number of external companies. Key respondents were identified in each of these areas, and interviews were carried out using the structured interview protocol.

We first interviews nine suppliers who had worked closely with SAP customers. Next, we identified a group of subject matter experts in the form of senior supply chain management executives who described a number of "best practices" they had deployed within their respective organizations to specific problems identified by the suppliers within the P2P cycle. Each of these individuals had worked specifically in the area of the P2P cycle, and had gone through steps to address the issues through specific improvement projects. Both groups were interviewed and provided feedback and observations.

Following each interview, the field notes were written up in typeface. The next step (which occurred after to the site visits) involved coding this data The transcribed field notes were reviewed several times by the research team, in order to code the events into their appropriate categories, (consistent with the conceptual model), and to compare field notes taken during the same interview. In the remainder of the report, we describe the results used for assessing the firms, then describe the classification of responses from the interviews. Finally, we conclude with the implications of for organizations seeking to rapidly improve their procure to pay cycle.

A Supplier's View of the P2P Process

We first began by identifying the true customer of the P2P process: the supplier who wishes their invoice to be paid quickly! Many organizations are seeking to build and extent relational capital with suppliers, by building trust and becoming the "Customer of Choice". The capital gained through this approach can result in preferred supplier delivery priorities, information sharing, participation on supplier councils, and other important rewards. An important element in becoming a "Customer of Choice" is to enable rapid payment, equitable and ethical treatment of suppliers.

To address some of the major problems identified by suppliers, we scheduled a series of interviews with a group of suppliers from a large company, to identify their experiences with the current procure to pay process. These interviews were coded and summarized to identify a set of seven key symptoms that are most typically associated with suppliers' experiences with an ERP-generated procure to pay process.

The good news from suppliers was that the company appears to be running very well with payables. Suppliers noted that:

- **They are generally running within terms.**
- **Few problems with receivables or parked/blocked PO's.**
- **No major complaints on payables.**
- **The AP workflow is fantastic – and they are great on getting things fixed. If there is a blocked invoice, they put it back in right away.**

However, this may not necessarily be the best policy to manage the cash to cash cycle. Currently, invoices are being paid almost immediately upon receipt, with relatively few blocked or parked invoices.

UPDATING CONTRACTED LABOR RATES ARE DELAYED

One of the first problems noted is that labor rates were often not updated on a regular basis. In some cases, problems are not discovered for an extended period with a contract. Another major problem is that with escalating labor rates in this market, contracted rates are often not aligned with market labor prices. As one supplier noted:

- **The way our process works – our contract is reliant on wages. We are in a very competitive market right now – our competition is hiring our workforce as fast as we are hiring theirs – and our hourly pay rates are going up. We have to stay in the market. We have a a new rate schedule for Jan 1 where we have had to bump 40% of the rates by $5-10 – probably in the range of 10-15%. But that is the market!**
- **We saw this year a 15% wage increase, and we are not through. The issue is that we need when executing the work if we need to move someone from one project to another – they have to fit in the wage structure that is in the contract. In keeping that up to date , it is difficult. If you are paying someone $45 an hour – they will tell you it's against the contract! Yes – that is true. But do you want to get the work done or not?**

VARIANCE IN PLANT PROCEDURES

A number of suppliers noted that they experienced significant variance across different plants. For example, some plants were very good about using part numbers – others were very lackadaisical about doing so. In such cases, extra work was created for vendors. There was also a noted lack of available search tools for users to be able to access the right data at the right time and find the correct part number. As one supplier noted:

- **I think that if they do everything right – they have the ability to retrieve their catalog number, put it into the system, it feeds over to us (we don't touch it) and it becomes an order in the warehouse with a pick ticket. The challenge is getting outline agreements with the RIGHT items They also need better search tools, which need to be enforced at some plants.**

- **At some sites we get free form text, a lot of back and forth where we have to ask "what exactly do you need?" if you need a six inch valve – is it carbon steel, etc.? Electronics are in place to have them travel through the system using catalogs, but they don't always use them.**
- **They don't have the TIME to put in the right part number. We have hub buyers that spend a lot of time doing just that.**
- **On an average order, I may have to re-work it three times – and I may not find the guy who filled the req for two hours, then it takes me another 30 minutes to re-work the order.**
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In some cases, the company has contracted with suppliers to have people on-site to manage orders. In general, this has been working fairly well. For example, Wesco has a person on-site that receives all requisitions form all seven plants and converts that requisition into a PO in the SAP system – so that if there is a discrepancy – he is a trained electrical person. When this individual sees a requisition that doesn't match what a customer wants – he as the middleman can correct it right there, and spin it around and enter it into the system – and doesn't do it through EDI. This eliminates a lot of the price discrepancies and human errors before orders are put into SAP into the PO stage.

However, it should be noted that hiring contract people to do the same thing has been a major problem which also varies by plant. As one supplier noted:

- **When they began paying contract people who have no idea about what they are procuring, and are just converting a req to a PO, we see nothing but errors. We saw the exact same problem at Shell and have eight month old invoices we are still trying to fix.**
- **Some locations are having difficulty. I have to call them on everything I do, and it slows down the whole process. We ship material that they weren't looking for to begin with. They send me free form requisitions, with no descriptions, no text codes, etc.**
- **When one location went to outsourced buying, we took a big step backwards – they are clerks and don't know what they are doing. I sent them cheat-cheats with SAP numbers, but it didn't seem to help.**

GREATER USE OF CATALOGS ENCOURAGED

SAP is not an especially easy tool to use, even with the Enterprise Buyer Professional. One way of improving this is to increase the use of supplier catalogs. Many suppliers also noted that they wished they would make greater use of supplier catalogs in a "punchout-roundtrip" approach. This would cover the majority of MRO items that are ordered on a day to day basis. As one supplier noted:

- **Most of what electricians in the field use (60-70% of volume) are less than 1000 items – the regular tape, tie wrap, terminal connectors, etc. that they use every day. If you could just get those things onto a catalog and have people use it regularly, it would automate the process. For the other 30-40% of items, they might need help from an on-site person or purchasing person who has the proper knowledge to help them locate the items.**

IMPROVE COMMUNICATION WITH SUPPLIERS

Suppliers also noted that communication and feedback is important for improving the P2P process. This is important in a number of areas.

One area is in receiving remittance information. One supplier noted that even a CC via email with remittance information on a regular basis would be very helpful. Information should include a breakdown with a transfer number and remittance information consisting of several invoices and payment amounts.

Another area is in forecasting maintenance and service requirements. Contracted suppliers noted that for their employees to be efficient, there has to be some consistency of work assignments. It is difficult to move from one plant to another – because you need to use the right specification, right procedures, and so on to deliver the work that was expected. What makes a supplier most efficient is to have a silo of work, that so they can keep a stable workforce committed to a client. That allows the supplier to have to spend less time training and supervising people that are unfamiliar with a certain client's work. They can't control the amount of work that they have, but they could forecast and communicate it more to suppliers.

IMPROVE MASTER DATA ACCURACY

Many suppliers who have been with the company for a long time have noted deterioration in their master data. In fact, one supplier noted that when they cleansed all the information for their material masters several years ago, they also eliminated much of the data required to identify parts. The description of the required components is lacking and so that is slowing down the pricing availability, and it takes a little while to determine what they are asking for.

One suggestion given by suppliers is to improve the descriptors within SAP. SAP limits the number of characters and letters. With certain types of MRO items such as instrumentation, there is a need for extensive description fields. This problem is made worse because many technicians don't explain what they need – and it costs the supplier extra time and extends the leadtime on an item, even if it is in stock or in store. This means the supplier has to go to stockroom, and get more information, to even see what is in the stockroom.

One supplier noted the following:

- **The biggest problem is data accuracy and content, and timeliness of content. Keeping it up date with multiple plants using different SAP numbers, files that are not up to date. We can't get plants to agree to a common part number. We have the same part number but they don't. When they give us a file they don't know which SAP number that plant is forWe can load their catalog onto our database, but we can't order for them. They give us a style, and we are supposed to put on our part numbers, and they are supposed to order off that catalog and automate it. Nobody uses the catalog – isn't up to snuff. It isn't coded properly, or they can't find it.**

It was also noted that the correct nomenclature is critical to use. This is especially true in areas like electrical fixtures. Someone might call out for a light bulb – but the industry calls it a lamp – as opposed to a fixture. These terms can be confusing for plant people who are not experts in the MRO items they are buying.

UNITS OF MEASURE NOT STANDARDIZED

Suppliers also noted that one of the most common problems in SAP was the issue of unit of measure and order quantity. There is an industry standard where all major electronic and plumbing distributors get data from a trade service – which uses units used directly from manufacturers.

Trade service units of measure and nomenclature are most typically used by suppliers. For example, suppliers may price accordingly per thousand feet of wire, but the SAP catalog prices it per reel. In this case, there is a unit of measure problem that occurs at the invoice level. The same goes for services – if you measure a service in hours, and then use a fraction, SAP only allows two decimal points, which produces an incorrect invoice and PO match. So when the order is received in accounts payable, SAP will kick the invoice because of a different unit of measure. The only way around this is to add a conversion factor into that database, so that when their order kicks out and the supplier produces the invoice, the receiving document and the invoice match.

BEST IN CLASS

Several suppliers noted other systems they had seen that had provided key insights into best in class P2P practices. One company that came up several times was XXXXX:

- At XXXXX if they don't approve something, you can look and see that the invoice went in, and you can go online and drill down and see the reason why they didn't approve it.
- Usually something is left off the time sheet – it is a true communication back to the vendor on what is wrong with your invoice. With XXXXX you can see exactly what is going on, and we get detail and we provide them with a file. We set things up in our system and our billing code is exported with their service master number, to ensure that their rate matches our contract, and we have an approver. We ensure that we do validations on it.
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"Worst" practices were also noted:

- On the other hand, XXX processes all their invoices overseas –and communicating with the people over there isn't easy! It gets to be a big problem – we have $3M outstanding with them – and I don't know if my invoice is parked or blocked, or if it was received.

Subject Matter Expert Interviews

- Nine Subject Matter Experts who had significant experience in working with SAP P2P systems were also interviewed as part of this research.

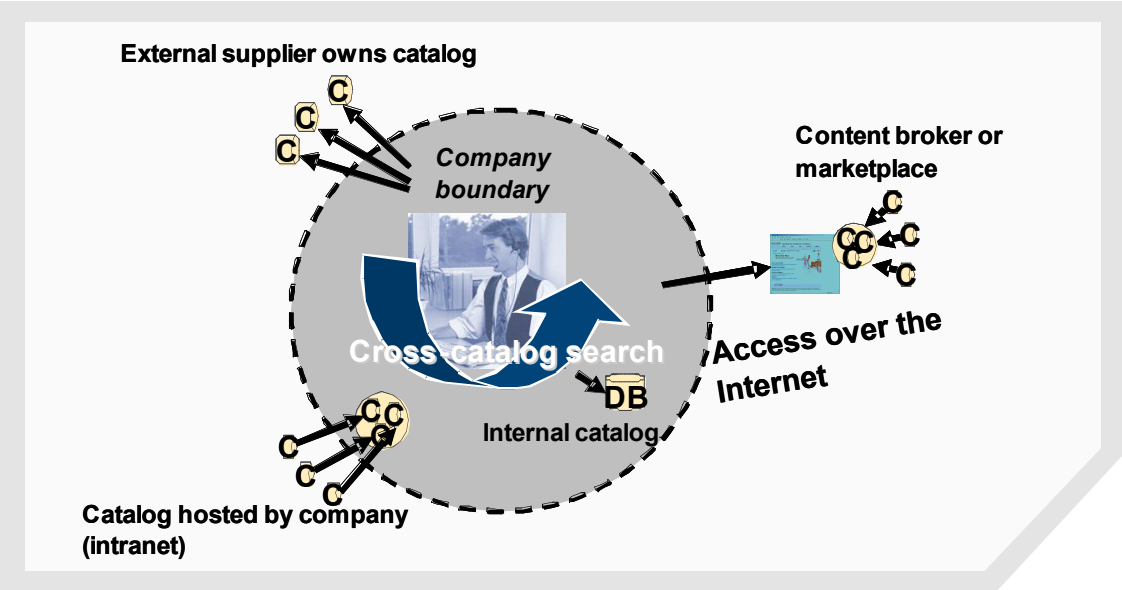
There were several common themes that emerged from these interviews:

- **Every organization we interviewed is struggling to use SAP in services**
- **None of them had implemented MySAP, though many were using Enterprise Buyer (SRM)**
- **Varying levels of Pcard implementation existed**
- **Integration with maintenance organization was identified as a common critical success factor**
- **The need for good master data integrity is also a fundamental building block for success**
- **Each company had developed their own unique approach to working with the complexities of SAP in a services procurement environment**

The last point is critical; SAP is not a system that provides a common working methodology, process documentation, and singular approach to sourcing

problems, especially in the area of indirect and MRO spend. Although there are indications that the new MySAP system has capabilities that may provide some solutions to these challenges, many companies do not have the bandwidth nor the time to upgrade to this new bolt-on. The fact remains, that companies must work to exploit existing capabilities of SAP, and develop P2P processes that will enable users to function effectively in the SAP environment. Some of the insights gleaned from SME's that focus on these issues are documented next.

SAP documents that within their environment, multiple approaches to vendor ordering and workflow is possible (see below).



In fact, we discovered that an entire spectrum of approaches existed. On the one hand, some companies chose to move towards punchout-roundtrip approaches to vendor catalogs. Others utilized p-cards, in combination with punchout catalogs. Finally, some companies chose to develop all of their own internally maintained catalogs. There are clearly some advantages and disadvantages to each of these approaches, which are next documented. One SME explained the following spectrum as follows:

Approach 1: Control content in-house (old school) including pricing what people see, and entire process. Some companies partnered with Requisite Technologies to provide the content management engine.
Approach 2. Open Catalog Interchange (Punchout-Roundtrip) Get out of content management business and push content management out to suppliers. Challenges re who is going to ensure that the right content is seen, and prices are correct on Punchout Roundtrip.

Approach 3: Punchout Roundtrip with Pcard – Best Practice. Have a ghost card available with suppliers, and cost center number passed through on pcard statement OR Get people their own pcard on the site and bypass AP.

PUNCHOUT ROUNDTRIP

Some SME's preferred the punchout-roundtrip approach. Effectively, this involves "punching out" to a vendor catalog via a link in the SAP environment, ordering materials from the catalog at negotiated prices, and then returning to the SAP environment, where an order is generated. Alternatively, some companies chose to allow the user to enter a procurement card number in the catalog, for payment by AP.

One user noted that:

- **We use 12-14 catalogs in a roundtrip method for office supplies, industrial supplies, safety, lab, flowers, packaging, software, specialty chemicals, electrical supplies, magazines, business cards, stationary, electronics, recognition gifts. Users start behind the firewall in SAP SRM, identify the commodity, click on link, punch out to supplier site, fill up shopping cart, add credit card and shipping locations, and hit order. The supplier is sent the SCDL purchase transmission – and we pay the bill from Amex. We currently do $50M / year on pcard, and $10M on punchout roundtrip with pcard**

This same user noted that the use of p-cards must be effectively audited:

- **A report is generated each month to the site coordinator of users regarding who is NOT using approved suppliers for p-cards**
- **We also audit 10% of cardholders annually to ensure they are following best practices**
- **The supply manager verifies prices on the vendor catalog by randomly selecting items on supplier catalog**
- **Currently we have 30% of transactions on EDI (5% of suppliers) focusing on high volume (raw materials, chemical marketplaces)**
- **"SAP is complex – and you have to be a frequent user to be good at it"**

Another user noted that if punchout becomes the preferred method, then supplier qualification is an important part of the process. Because you are relying on the supplier to maintain and update the catalog, the IT and accounting capabilities of the supplier must be assessed before they are entrusted to deliver this service:

- **We are using our internal catalog and are at the beginning of the project to make master data UNSCSP standards – and linked to suppliers who have done similar work.**
- **Punchout depends on whether the vendor has done good work with their master data. If we punch out and they haven't done a good job, it is a nightmare.**
- **If you call it a widget, and they call it a widget that is red and a centimeter off in size – it is not the one that fits. Suppliers are constantly shuffling their catalog to discover how they can extract value from that catalog. They are sticking parts together in a package, and telling you that the only way to buy it is to spend more. If they don't have a group that is managing it well, and you don't have a group that managing it well, it is a problem.**
- **"Managing it well" means <u>robust master data,</u> <u>and a way of linking that it links to your SAP numbers</u>. If you punch out your master data and it points to this part – and if they make it obsolete and stick it into a grouping or assembly – what happens is that your master data points to it, their systems tells it that it is obsolete, and your system kicks it out to a procurement person.**
- **Now your error handling system on handshaking is written by IT people who can't speak normal English – and the procurement will NEVER figure out what exactly happened.**

Another expert explained the challenges associated with auditing vendor catalogs:

- **How do you know you are getting contract pricing – you will have that issue with or without pcard!**
- **You have to audit the company's price list. Most companies will send you an Excel file with the part number and the price paid.**
- **The other way to do it – is to negotiate a discount off price list – so every transaction involves a 25% discount – and your end price is X. And then you have to audit the list prices and negotiate price increases as appropriate.**
- **E-invoicing works well in SAP, but a lot of care and feeding is required for SRM, using standards for invoice documents**

PARTNER WITH MAINTENANCE

The importance of working closely with your maintenance organization on MRO spend items was emphasized by multiple SME's. On-site relationship managers who can work closely with maintenance and handle the SAP interface is critical. For example, one manager noted that:

- **We realized that if you don't plan and aren't committed to the planning process – it won't deliver results for you. Unless you are willing to change your own behaviors, it won't work.**
- **We have 24 people in our "Plan Schedule and Coordinate" process working closely with maintenance.**
- **Our biggest problem is in doing a word search for a master data item –sometimes it works and sometimes it doesn't. You may call it duct tape, and we call it adhesive tape duct, and you may find it, and you may not.**

This was also highlighted in an separate interview with a different SME:

- **The key to the process in my mind for MRO is integration with the maintenance process. We needed to link the material number to the maintenance process – so that the maintenance engineer can create a reservation for the item in the stock room. For non-stock items, the engineer can create a requisition for buyers, which will automatically create a PO (Lights Out Purchasing) or send it to a buyer.**
- **The extent to which this occurs depends on a plant's evolution. Some plants are only 50% automated. Others have better information at the end use level – and for each piece of equipment, they can process it more efficiently.**
- **The BOM is the <u>responsibility of the maintenance official</u> at the plant. The BOM can be created based on the past 3 previous orders – and missing items can simply be added over time, and as that history builds, it becomes more accurate.**
- **This results in proactive evaluation and experiential development of the bill of materials – and engineers need to LEARN what is used over time. This is CENTRAL to an efficient process of procurement. If I have to discover what I want to use every time, it is not efficient. We place a lot of effort in development the information impacts.**

MANAGING MASTER DATA

The importance of managing master data was also emphasized by users. For example, one manager noted that:

- **There is a huge volume of churn in our logistics and procurement people to find items to put into fields, and a lot of master data fields are not filled in, and not linked to contracts, and all the benefits do not come to fruition. You need to actually manage your master data.**
- **Managing master data means setting it up on a cost and classification basis – not a word search basis.**

- **The master data has traditionally been treated as a lump of fields, and you do word searches. To manage it, you need to establish classes and categories for each piece of material and put in attributes just like a real data piece.**
- **A relational database rather than a flat file. It is difficult to move a flat file into a relational database. We have done this in major projects on bulk.**
- **You can then give suppliers specific fields – category color (white) category size (two inch), category trim (stainless steel) – and then you have a basis upon which you can talk and search. (e.g. Search for "all valves that are two inch white with stainless trim.")**
- **If you do it as a conglomerate of text – may not get it. Need to use natural language not computers.**

A best practice in managing and committing to master data integrity was highlighted by another SME who described the laborious process required to achieve this goal, as well as the benefits of doing so:

- **We started in the late 1990s to get comfortable with taking sourcing out of SAP and non-SAP sites and integrating into a sourcing analysis methodology and tool.**
- **We have done a good job of leveraging that through our sourcing activities – a lot of it is Access databases but it is a good system – we one of the few companies that hasn't had any major problems.**
- **Today 98% of our spend is in SAP. We have released some ability around our indirect and subcontract spend. Most of the effort has been on direct – and getting visibility to the invoice and payables level for indirect.**
- **We have implemented various automation strategies and tools within SAP utilizing the sourcing agreements.**
- **About 80% of our spend is on sourcing agreement – and of that 75% is going through automated elements – eRFQ, ePurchase order.**
- **Sourcing groups get as much as they can on longterm agreements which facilitates SAP.**
- **We look out six weeks for requirements. We look at our source lists for preferred suppliers, pull drawings out, attach to the quote, send out to suppliers on our source list based on pre-determined set of criteria – and give them a 2 week leadtime to respond. This makes the sourcing process very efficient.**

INTERNAL CATALOG CONTENT MANAGEMENT

Another SME explained how they have chosen to develop internal SAP catalogs instead of a punchout roundtrip approach. Although this is a higher cost solution, the benefit of internal monitoring of pricing and content may be important reasons to exploit this approach.

- **We decided to use an internal SAP catalog and an SAP material master. We decided to exploit this functionality internally. All material is linked in that catalog and associated with a Purchasing Information Record.**
- **The PIR includes information on who we buy it from, the cost, etc. We spent a lot of money and time to ensure that all that information was input correctly. Every material maintained in that catalog is managed and updated by our internal people.**
- **The PIR contains pricing and special information such as process safety data, and instructions to the supplier that they cannot substitute other materials for this material, etc. This is in addition to the 40 character text limit.**
- **The PIR is linked to a material number in SAP used to maintain inventory. 100% of our direct materials have material numbers, with detailed bills of material associated with these built out in the field through interviews with our field people.**
- **We initially contracted with a group to implement and getting our business units onto the system. This was a lot of money to enter that data into the system, and we found that the master data was still very poor.**

SERVICES IS AN ON-GOING CHALLENGE

Many of the SME's we spoke with repeatedly emphasized that challenges associated with sourcing services in an SAP environment. For example, one individual noted that:

- **The challenge with purchasing services using SAP is that the internal services module is very labor intensive to set up and maintain**
- **The standard services catalog is difficult to use because most don't have one like a materials master file. Services are more amorphous than a physical part that you are buying – and finding the specifications is very difficult.**
- **The biggest issue is with the entry of the services in what SAP calls the service entry sheet. It is difficult to automate that. So most look at a third party software package with timesheet capabilities and interface that software into SAP with that goods receipts.**
- **SAP has CATS and I implemented it at one client. The issue is that the user interface is very difficult. You need to be physically on-site to enter the CATS information – and then setting up a workflow approval for that time sheet is fairly labor intensive. It is NOT a slick solution.**

- **Some third parties do a better job of allowing remote entry into timesheets into an internet based applications that routes an image of the worksheet to the hiring manager for approval and dumps the service entry sheet into SAP.**

USE OF PROCUREMENT CARDS

The use of procurement cards was found to be generally under-utilized in most organizations. Although procurement cards have been available for many years, most organizations overlook this opportunity to relieve their P2P systems of the burden of high transaction volume, low cost purchases. In some respects, this is based on a lack of understanding of the level of detail that p-card technology can provide, and the capabilities that have evolved over the last nine years of p-card deployment. Further, p-cards are an additional opportunity to recover hard dollar savings in the form of rebates. One SME noted the following:

- **The yearly rebates you get on pcards vary from bank to bank. You should spend some time negotiating it – it is a good revenue stream.**
- **We are up over 1% of our total spend on pcard. We are getting the very best rates – and we are at $50M of pcard spend – that is considered very high.**
- **Certainly there are bigger companies, but if you look at the cost of money, someone spending $50M versus $100M – not much difference in the bank's ability to borrow money, and at some point you hit the Fed's prime rate.**
- **I could see it getting pcard usage to 1.5%, maybe 1.75% in a best case scenario**

SUPPLIER PORTALS

A higher level of spend and sourcing maturity involves establishing a supplier portal, which represents a central site for all sourcing information for key suppliers. One SME described their portal as follows:

- **Our website has a supplier portal which is the front end dashboard for SAP.**
- **All transactional information goes on SAP. This includes the following:**
- **Published forecasts for long-term agreement parts, or the source for the part.**
- **Updated PO's – if suppliers pull it in, they are allowed to split the orders, or push it out – based on their capability.**

- **Advanced Purchase Order information is provided so suppliers cancan pull drawings, or we can push drawings to themand get CAD files to them.**
- **Suppliers can pull PO's, print barcodes, and manage AP's on the portal.**
- **We have customized the portal to work on top of SAP and looking at how to migrate to enterprise portal on SAP. We get a lot of data in from suppliers from the portal, lots of info churned from SAP, lots of D&B data pulling in, small business indicators (government contractor)**

Conclusions and Observations

A number of key consensus conclusions emerged from both the supplier and SME Interviews:

- Develop common processes and procedures for the P2P process, and roll-out training at site level to ensure that people are comfortable with the approach. Be prepared to modify minor elements the process to accommodate site-level requirements, but keep the essential elements of the process flow intact. Emphasize the importance of this approach to the entire P2P cycle, including accounts payable, invoicing, and blocked and parked invoices. Explain the impact of lack of adherence to process – and that the supplier will not be paid in a timely manner for their work if errors occur in the process.
- Improve master data robustness and integrity. Whether this involves ensuring proper audits of external vendor catalogs, or internal content management, clean master data is a mundane but critical element to supply management and P2P best practices. Minimize opportunities in the P2P process for keystroke and freetext errors to occur, by error-proofing the system and mapping the process to identify where errors are occurring. Recurring training will also ensure that errors are reduced.
- Explore punch-out roundtrip and other approaches to exploit external content management approaches. This is especially important to ensure that the most efficient buying channel is selected.
- Exploit the use of procurement cards for high transaction volume, low transaction value purchases. Pcard technology has evolved significantly, and identify opportunities for hard dollar savings through this approach via rebates.
- Be sure to update master data and pricing rates on an on-going basis. In particular, attention should be paid to units of measure, appropriate industry-standard nomenclature, updating of labor rates based on market conditions, and on-going clarification of requirements against existing contracts.
- Establish how you are buying products and services, and document the buying channels through which these purchases are occurring. Inevitably, you will discover that purchases are occurring through improper or less-

efficient channels, which is detracting from your team's ability to engage in strategic value-added approaches. Get out of the transaction management business! To do this, you need to establish standard processes and procedures, and commit to a change management plant to ensure that people are using the right buying channels for the different types of spend.

As technology and business requirements evolve, the P2P cycle will certanly need to be re-visited from time to time to ensure it is meeting the needs of internal customers, and that suppliers are satisfied with the system.

APPENDIX

A current state and future state model of the P2P cycle is shown in Figures 1 and 2 below. This represents an improvement in supply chain maturity for the P2P cycle, moving from a level 2 (Defined) to a Level 4 (Leveraged).

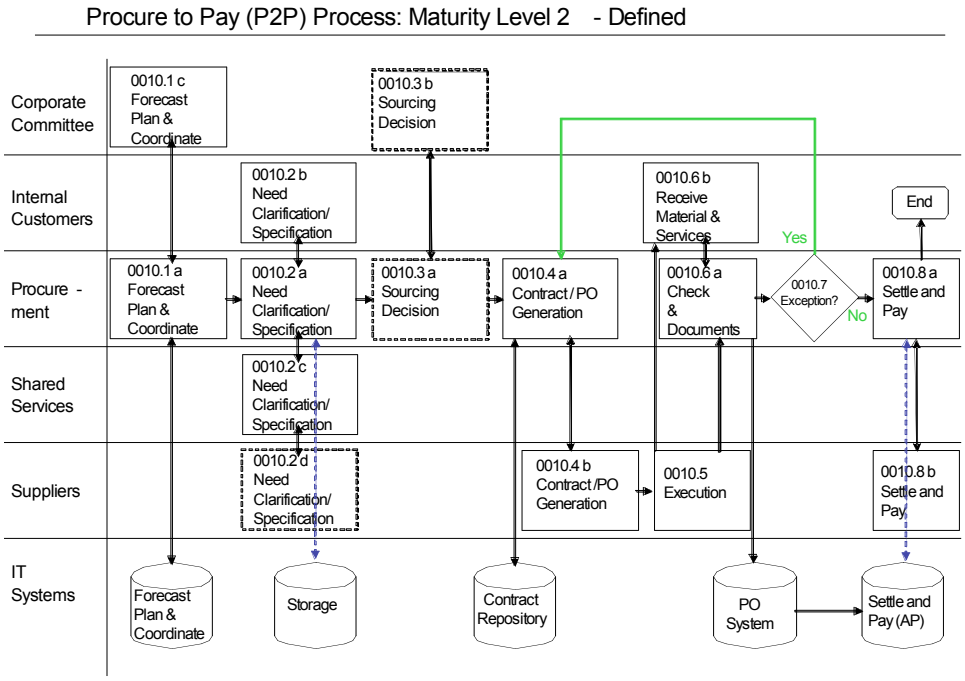


Figure 1 – P2P Maturity – Level 2 (Defined)

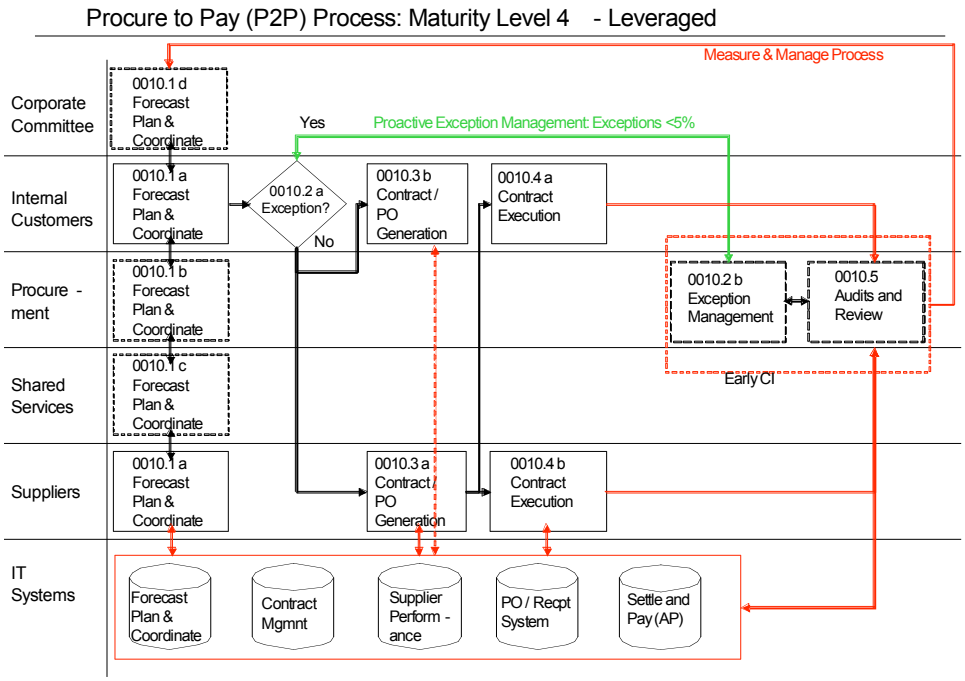


Figure 2 – P2P Maturity – Level 4 (Leveraged)

The primary differences between these two levels of maturity are described below.

Maturity of P2P

LEVEL 2

- **P2P is defined with some automation but still unpredictable with >50% of the purchases in a time consuming process that is largely uncontrolled.**
- **Basic forecasting and planning takes place but by the P2P people without customer or supplier input. 40% accuracy is typical.**
- **Specifications are mostly done each time in response to a request but some key suppliers have annual agreements with releases being generated by procurement.**
- **Only these key suppliers are involved in development of specifications. Others are asked for input on occasion.**

LEVEL 4

- **P2P responsibility and authoring is shifted from procurement to customers and suppliers. Most purchases are totally automated and monitored through spot checks and measurement systems.**
- **Automated forecasting and planning takes place for all materials and services with customer or suppliers owning the process. 99% accuracy at the family level is typical.**
- **Standard Specifications (contracts, SLAs too) are in place for all materials and services. Strategic (consolidated) suppliers handle >90% of the purchases.**
- **Suppliers lead the development of specifications and continuous improvements.**

Maturity of P2P cont.

LEVEL 2

- **Sourcing decisions are mostly done in response to requests with some approved supplier lists and annual agreements guiding each requestor or procurement manager. Buying outside of these agreements (maverick spend) is frequent.**
- **Ordering and Receiving are connected with some key materials and suppliers but most (>50%) orders result in extensive manual matching and resolution before payment.**
- **Information systems are implemented in some areas and for some purchases but >50% are still manual in some stage (selection, order, receipt, matching payment).**

LEVEL 4

- **Sourcing decisions strategic and done in advance of requests. Approved supplier lists and annual agreements guide requestors or procurement managers. Infrequent maverick spend. Supplier performance measured by suppliers. Suppliers often make the detailed decisions on unique items and changes and inform procurement.**
- **Ordering and Receiving are integrated and automated with all materials and suppliers. Multiple paths are available depending upon dynamics and risk. Responsibility and authority is shifted to customers and suppliers.**
- **Information systems are implemented in all areas and used for all purchases (automated, mechanistic) as well as for changes and unique requirements. IT systems have multiple paths matched to the dynamics of the request.**

As technology and business requirements evolve, the P2P cycle will probably need to be re-visited from time to time to ensure it is meeting the needs of internal customers, and that suppliers are satisfied with the system.