

PRACTIX

Good Practices in Purchasing & Supply Chain Management

Best Practices in the Procure-to-Pay Cycle: Perspectives from Suppliers and Industry Experts



VOLUME

9

MARCH
2006

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— Rob Handfield, Bank of America University Distinguished Professor,
North Carolina State University

Executive Summary

A benchmarking study of the procure-to-pay (P2P) process was carried out with a number of suppliers and subject matter experts. The research identified six key findings that can lead to improvement in the P2P cycle:

- Robust processes and training
- Onsite relationship managers to allow field maintenance to focus on doing its job
- Robust technology using single point of contact, i.e., supplier portal
- Improved forecasting for maintenance and planning for emergencies that can “flex” with different situations that arise
- Reduced complexity in catalogs and buying channels to streamline procurement
- Top management support

In addition, a suggested approach for improvement of the P2P was developed that involved securing top management support, mapping processes, understanding needs of user groups, running team redesign workshops, exploring technology solutions, defining the new process, training users, and updating the system over time.

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

Introduction

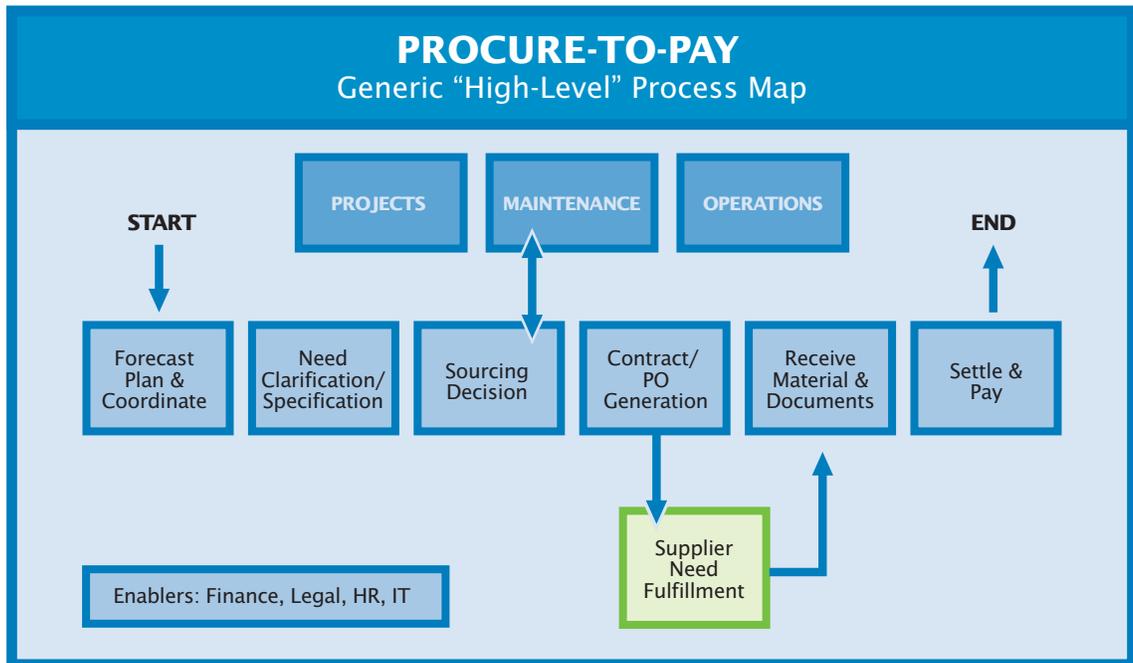
As companies are seeking to move beyond procurement into fully deployed supply chain systems, a key challenge for many of them is in the area of improving efficiency in their procure-to-pay cycles for many of their contracted services, especially in the area of facilities maintenance and onsite contract management. There exist multiple challenges in environments where field associates are working from manual or electronic systems, requisitioning onsite 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, the organization may be bearing significant costs due to non-compliance to system or process requirements.

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 on 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 PO Generation for Structured or Unstructured Requirements
- Receiving of Services, Materials, and Documents
- Settlement and Payment in Accounts Payable

Figure 1:
Procure-to-Pay
Generic
“High-Level”
Process Map



Symptoms and Root Causes: A Supplier’s View of the P2P Process

Researchers first began by identifying the true customer of the P2P process: the supplier who wishes its invoice to be paid quickly. Many organizations are seeking to build and extend 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 and equitable and ethical treatment of suppliers.

To address some of the major problems identified by suppliers, researchers scheduled a series of interviews with a group of suppliers, to identify their experiences with the current procure-to-pay process with some of their major customers.

SYMPTOMS FREQUENCY OF RESPONSES	
Issue/Opportunitiy	TOTAL
Manual workarounds and high manpower	7
Long cycle time/Late payments/Aged invoices	6
No central point of contact	5
PO/Invoice match problem	5
Not enough funds on PO	4
Emergency work never properly recorded	3

Figure 2:
Symptoms Identified by Suppliers

As shown in Figure 2, the most common symptoms experienced by suppliers involve high manual workarounds required to address problems, long cycle times for payment, no central point of contact, and a problem with matching the PO and invoice. Some of the typical responses from suppliers in these categories involved having to contact accounts payable multiple times, having to re-submit invoices, and waiting 90 or more days in some cases for payments.

Root Causes

Suppliers interviewed also noted a number of root causes associated with the P2P problems. As shown in Figure 3, the most common root causes were associated with the lack of a formally designed P2P process, the lack of a central relationship management, or problems associated with supplier interfaces with SAP. Other reasons included the increased complexity associated with SAP catalog and line items, and the lack of a forecasting process.

ROOT CAUSE FREQUENCY OF RESPONSES	
Issue	TOTAL
Poorly designed process	8
No relationship manager/point of contact	6
Lack of system/portal interface	5
Too much complexity in SAP catalog/line items	5
No forecast or plan in place	4
Too many suppliers drive complexity	1

Figure 3:
Root Causes Identified by Suppliers

As can be seen from these examples — the fundamental root causes are 1) a lack of a process with designated roles and 2) specific processes associated with different internal and external functions are not defined. Maintenance people, buyers, planners, schedulers, accounts payable, project planners, and others are not “in sync.” Further, the system is not designed to be able to withstand the various approaches in which people are entering data and requesting information. When too many people are not using the system in a unified manner, it is no wonder that the system rejects the input and causes problems. This indicates that either the tolerances of such systems must be changed, or that the manner in which the system is used must be changed.

Recommended Solutions

These same set of issues were identified in recommended solutions suggested by suppliers. The suppliers recommended that their customers explore the solutions shown in Figure 4.

RECOMMENDED ACTIONS FREQUENCY OF RESPONSES	
Recommended Action	TOTAL
Redesigned P2P process deployed	7
Dedicated relationship management position	7
Develop supplier portal using SAP Interface	7
Spend analysis and catalog item reduction initiative	7
Senior executive workshop to describe requirements	4
Develop standard forecasting process	4
Develop supply base reduction initiative	1

Figure 4:
Recommended Actions Suggested by Suppliers

The top four elements that were identified as possible solutions included redesigning the P2P process, developing a dedicated relationship manager to work with suppliers on key areas of interface, exploring the use of a supplier portal using the CATS interface in SAP, and reducing catalog items through spend analysis, limiting the inherent complexity of entering information into the SAP system.

These responses by and large provide significant insights into the problems and complexities associated with improving the P2P cycle from a supplier's perspective. Unfortunately, these issues also translate into significant problems for the purchasing organization, which is often lost in translation when the need for P2P improvement is communicated to a senior management team.

Late payment and excessive workaround to obtain payment in a timely manner will definitely increase the cost to serve for companies with a "broken" P2P process. Typical problems that can occur when a malfunctioning P2P process is not

fixed include one or more of the following events:

- Deteriorating response time from suppliers who have no motivation to improve performance or respond quickly to customers who fail to pay them for 90 days or more.
- Lower service levels from suppliers who may choose to service their more profitable customers first in their cost-to-serve model.
- Deterioration as the customer of choice in the mind of supplier's senior management, which further breaks down trust and strategic alignment.
- Delivery delays.
- Higher pricing due to the costs attributed to late payment and excessive manpower allocated to the account.
- Increased manpower on non-value-added activities (e.g., chasing payments) to the detriment of other value-added activities that can improve customer service.
- Loss of the supplier as a critical link in the supply chain.
- Higher costs internally for the purchasing company, which must also dedicate AP people and buyers to non-value-added activities.

Subject Matter Expert Insights into the P2P Process

A number of senior procurement executives from a variety of different industries were also interviewed to understand their responses to the same problems associated with the P2P cycle. Each of these individuals provided a different perspective on how to improve the P2P process, but their combined thoughts resulted in some common themes that validated many of the suppliers' suggested recommendations as well.

Robust Processes and Training

A critical element identified by all of the subject matter experts was the need to develop standardized processes and training around the P2P process. Specifically, roles and duties of the different people involved in the process must be clearly defined. In addition, training should emphasize how invoices and requests should be

processed, the reasons why deviation from the process is unacceptable, and the consequences involved with deviating from the process.

This ensures that everyone not only is compliant, but understands the need and rationale behind the compliance. Part of the process redesign effort should also focus on simplifying processes to reduce complexity. If there is no need for a specific channel for purchasing, then eliminate it.

Onsite Relationship Managers

An important point that many respondents noted was the need to establish dedicated roles around onsite relationship managers from procurement who are available to manage invoices, service entries, and the like. The simple fact is that many maintenance and project managers do not think in terms of procurement, but rather are focused on people, equipment, and schedules; they do not have the time or patience required to ensure that the correct entries are put into a P2P system. The relationship manager can also act as the liaison between the supplier and the maintenance organization to ensure prompt payment, resolution of issues, and improvement of processes.

Simplified Online Portals to Minimize Human Intervention

A number of subject matter experts described the need to eliminate the manual intervention of multiple untrained individuals entering information into systems such as SAP. Many ERP systems have modules for purchasing and plant maintenance, but they all require significant configuration. On the other hand, a number of “bolt-on” packages are also available, but the experts advise against these due to the high probability of interface issues associated with deployment.

Improved Forecasting for Maintenance and Planning for Emergencies that Can “Flex” with Different Situations that Arise

The need to improve forecasting processes is a critical element in ensuring that maintenance

needs are met. While maintenance is often an emergency, there are many scheduled maintenance activities that can be planned and communicated to suppliers. Even in emergency situations, having a plan in place with a designated supplier can avoid many of the problems that occur downstream in the P2P cycle. Too often, data, invoices, service entries, and other key elements are entered incorrectly due to a fundamental lack of planning and forecasting. These elements need to be incorporated into the design of new P2P systems.

Reduced Complexity in Catalogs and Buying Channels to Streamline Procurement

Many of the experts also emphasized the need to reduce complexity, both in the interface systems as well as in the predefined procurement buying channels. There is no need for users to have multiple channels for procurement. However, establishing the credibility for users to only be able to use these channels also requires significant management support.

Rolling Out the Initiative

In re-engineering the procure-to-pay process, suppliers and experts recommend that executives apply the following approach:

1. Secure top management support for the initiative and budgeting for the project. Develop a list of key benefits and deliverables that will occur as a result of the improvements. Document the cost of leaving the system “broken” in its current state.
2. Map existing processes and problems with the P2P cycle. Identify where the breakdowns are occurring and why they are occurring.
3. Understand the needs and requirements of the user groups. Many of the people involved — maintenance, planning, project management, suppliers, accounts payable, buyers, etc. — have specific issues that prevent them from using the existing system. Also, many of the specific sites may have issues that need to be considered in designing the new system.

4. Team “redesign workshops” should be used to bring together key subject matters experts from each of the business units. Suppliers should also be invited to attend and participate, as they may have solutions they have adopted with other customers that may prove to be efficient and simple to use (i.e., why re-invent the wheel?).
5. Explore existing technology solutions with SAP, as well as bolt-on applications. Map out the business requirements, and ensure they are aligned with the technology solutions that are available. Begin to estimate cost of deployment, and ensure that adequate planning and due diligence is taken at this step.
6. Following the workshops, define the new process and begin to pilot using a planned technology. Ensure that it takes place in a “real” environment, with actual non-trained users involved in the pilot, before cutting over to the next process.
7. Train and deploy other users based on the new processes and systems. Be sure to make the training appropriate to the specific functional unit and user groups.
8. Monitor, update, and improve the system, ensuring that catalogs are kept up to date. Hold periodic meetings with suppliers and user groups to solicit input and identify problems with the systems.

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

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