The Purchase to Pay Solutions and Providers Report 2008

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Executive Summary

Every company in the world that buys from Suppliers has to pay invoices. Unfortunately there is no way of escaping this fact. Suppliers need to raise invoices in order to request payment. Buyers need to process invoices in order to update purchase ledgers and reconcile bank accounts.

As organisations globally look at where they can cut costs through Shared Services and process automation in front and back office, the accounts payable process has become a huge area of scrutiny. Why? When we look at our business, there are many areas of cost which we feel are within our control. Take for example production lines in factories. Twenty years ago the cost to manufacture a car was significantly more than it is today in relative terms, simply because of the manual input. Improvements here are easy, as all areas of the production process sit within the company's control. Therefore instructions for change can be followed through quickly.

In an area like Accounts Payable (AP), the quality of the process is largely in the hands on the Supplier – an entity that sits outside the company, and therefore outside the 'control threshold'. If a Supplier sends you a 'good' invoice, AP will have an easy time. If the invoice is 'bad', the process is managed by exception, and starts incurring cost and time.

This is why significant improvement in AP has become such a hard nut to crack. Companies have made such significant gains in the areas they can control – like centralising the receipt of paper invoices, standardising the AP process as much as they can, and getting the process onto one system. But these are deemed as 'easier' tasks, as they sit wholly within the control of the company. Costs saved here may be in the 40 – 50% mark, but it's the 'Continuous Improvement' phase that throws up a completely different set of challenges.

Organisations globally are now realising that even with an expensive ERP in place, and even with Shared Services up and running, the cost to process an invoice can still be a very painful €15 – €30 (not fully loaded). Shared Services Centres processing 500,000 invoices per annum, can easily be staring at a cost of €7,500,000.

It doesn't take too long for a CFO and CEO to realise that this spend is truly unnecessary. If the invoice process was clean and cost efficient the benefits would touch the company's financials in a number of ways:

1. Operational costs would reduce significantly, as fewer people would be required in AP to manage exception invoices, handle Supplier enquiry calls, chase the business for approval. Shared Services Centres that have a high PO penetration and have implemented invoice automation tools have typically seen their headcount reduce by 50%.

2. Control over liabilities significantly improves. In a company where raising a Purchase Order is an anomaly, the Finance Director only knows about the spend when the Supplier invoice is keyed into the system. In a climate where cash is more important than P&L, this lack of visibility over commitments can be considered careless. By ensuring Procurement and Buyers generally raise POs, Finance has:

    a. A better chance of managing a more efficient AP process

    b. An earlier view of actual spend on which it can base other financial and business decisions

In addition to this, the Chief Treasury Officer and the Chief Procurement Officer may become very interested in certain process developments in AP because of the significant opportunities opening up:

1. With an efficient AP process, invoices are posted quicker, and the Buyer can deploy early payment discount arrangements, taking a 1 to 2% discount if the invoice is paid to the Supplier within 10 days rather than on the last day of the term.

2. If invoice data populated the ERP more accurately and quicker, Treasury have to hand the right information on which to base working capital management decisions. The result of this can be the realisation of more cash in the Buyer's bank account for longer, working harder in terms of interest, and enabling the Buyer to make acquisitions and have a healthier balance sheet.

Despite these huge business benefits, which are so significant they can even impact shareholder value, many of the requests for improvement and investment so AP can run more efficiently, seem to come from the operational level, rather than from the executive team.

This report will be looking at how improvements are made in AP, to such an extent that the shape of the AP function is changing. Going are the days where AP is paper and people rich. With clean processes AP will become a black box, importing electronic invoices, matching and posting them. The people in 'AP' will actually report to Treasury or Procurement. And Shared Services Directors will then be able to turn their attention to the Accounts Receivable function.

Why This Report?

Over the past few years hundreds of Shared Services Centres globally have been singing the same tune. 'Are we the only AP organisation trying to attain touchless? Who has really done it? And why can't we seem to get there?' This report has been compiled for a number of reason, but the sole intention is so it can be used as an aid to help professionals in Finance make significant gains in the P2P clean-up operation.

Most companies reading this report have done Shared Services. Shared Services in itself is such a massive project and, let's face it, quite exhausting. Companies generally spent tens of millions investing in Oracle or SAP, moving to a Greenfield site, employing consultants, and getting the rest of the business excited about the change. The fact is with shared service, evolution doesn't stop. Once an SSO is live and stable and all countries are in, many companies sigh a deep breath and think the hard bit is over. The reality is, if you are intent on reducing your cost of AP, the really challenging part starts now – in the Continuous Improvement phase. This report is written for Shared Services Directors who realise that, if they are going to eliminate the invoice through electronic invoicing, they need to ensure each invoice is perfect, which means ensuring Procurement are good at raising Purchase Orders.

This document will give you tips on how to:

- Scope out the size of your problem
- Understand your most immediate and effective solution
- Win over Procurement
- Tell what solutions fix what problem
- Which solution providers compete and which complement each other
- On board Suppliers to your process automation initiatives

This report was written with valued contributions from leading providers in the market: Basware, Celerity, JPMorgan, OB10 and Logica.