PROCURE-TO-PAY TRANSFORMATION FOR CFOs

Achieving Control, Visibility & Cost Savings.

SoftCo

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Introduction

Today's Chief Financial Officers are constantly looking for ways to reduce costs and improve efficiency. A review of back office processes highlights the procure-to-pay function as a perfect candidate for automation given its tendency to be manual and paper intensive.

Procure-to-pay (P2P) refers to the entire process by which organizations buy and pay for goods and services, from the request for the product to the issuance of the Purchase Order (PO), receipt of the goods, and finally the processing and payment of the supplier invoice.

For many companies, the P2P process is still primarily manual and paper-based. When the volume of invoices increases for example, these manual procedures begin to struggle and show their limitations. While some companies have automated some of the process by receiving invoices electronically, many manual validation and approval steps remain. In addition, the challenge of manual invoice and PO matching adds up, slowing down productivity and driving up the cost of invoice processing.

Lack of automation also leads to bigger business challenges associated with accruals for financial closing and lack of visibility into corporate spending. Chief Financial Officers (CFOs) need visibility into the P2P process to improve cash management, enforce spend compliance, and reduce the cost and time associated with matching and processing invoices.

"Lack of automation leads to bigger business challenges associated with accruals for financial closing and lack of visibility into corporate spending."

Robert Hickey, Senior Consultant, SoftCo

Driving up the Cost of the Procure-to-Pay Cycle

Lack of control over spending

If purchasing is not controlled based on approved vendors, contracts and pricing, it leads to a lack of compliance and control over how much is spent and how items are purchased. This means optimal pricing cannot be negotiated nor bulk prices secured.

Manual invoice processing

Paper filing, sorting, preparing, printing, and even re-scanning and re-printing of invoices is common in a manual environment. Work is duplicated, invoices are lost, processed multiple times, and both the cost and time taken to handle a supplier invoice is lengthy and inefficient. Prompt payment discounts are missed, late payment penalties result and supplier relationships are damaged.

Errors and inaccuracies

Human error is inherent in any task that is handled manually. Manual keying, allocating, and coding of invoices leads to increased errors. Duplicate invoices and payments occur, and resolution takes time. This drives up the processing cost per invoice.

Poor visibility of payables

Manual accounts payables management means that important data remains on the paper invoice that can't be accessed easily. CFOs have no single view of payables or accruals, which makes budgeting, planning, month-end, and reporting extremely difficult.

"We did analysis in three of our state accounting offices and we found that the cost of processing an invoice has dropped from €30 to €10 per invoice"

FINNISH GOVERNMENT

5 Ways to Cut Procure-to-Pay Costs

1. Requisition and Purchase Order Management

Indirect spend within an organization typically represents 20% of the overall spend and is non-PO based. Indirect spend includes stationery, legal fees, advertising, utility bills, and similar. There is retrospective approval and few controls or adherence to company spend policies. CFOs cite a disjoint between what is ordered and what is invoiced with no conformance to purchasing from approved vendors. This leads to the majority of time spent processing invoices from a small number of vendors who do not conform to the 'No PO no Pay' policy of the organization.

Automation of the procurement process enables organizations to control buying from approved vendors and preferred catalogue product listings. In the retail environment, indirect spend is often in excess of $200m and following automation, the savings realized are in the order of 2-3%.

100%
of indirect spend is now controlled

2. CAPTURE DOCUMENTS AND DATA ELECTRONICALLY

Organizations receive invoices in both paper and electronic format either by post, fax, email or PDF. Paper-based invoices need to be scanned and keyed. Electronic invoices are often viewed, printed, filed, and rescanned. All invoices must be registered into the financial system, regardless of how they are received.

Paper-based invoicing slows down an organization's ability to get invoices into its ERP or financial system. If there is no PO number on the invoice then the invoice has to be coded, matched, and approved. The ability to implement straight- through processing to payment is lost with the resulting increase in manual and costly processing steps.

Scanning handles incoming paper, fax, and PDFs, and optical character recognition software automatically captures the invoice data such as company name, invoice number, due date, and line item details. Invoices that are received in EDI, XML or text based PDF format can also be captured and automatically processed straight through for payment. This eliminates manual keying and data entry headaches, reduces errors, and can cut administrative costs by between 60% and 90% compared to paper-based invoicing.

Capturing documents electronically at the start of the process and having the ability to automatically capture invoice details can result in a 300% improvement in invoice processing times compared to manual data entry.

300%
improvement
in invoice processing times

3. AUTOMATE APPROVAL PROCESS

Workflow automation allows for invoices to be routed electronically, reducing approval times and enforcing company spend policies. Once the electronic invoice is registered, dynamic workflows route invoices through the approvals process.

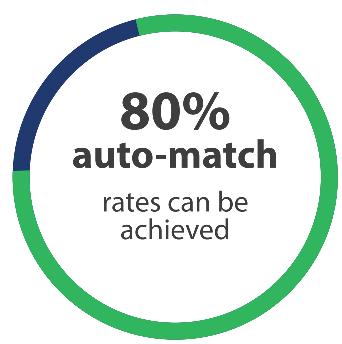
Whilst approved invoices are sent for payment, exception invoices that have not matched are automatically sent to pre-defined approvers for verification and approval. Organizations can ensure compliance by enforcing segregation of duties throughout the P2P cycle. This is a vital component for effective internal controls, as it assists in the prevention of fraudulent payments and financial mismanagement. Most spend management policies enforce dual approval, to ensure segregation of duties.

Every invoice follows this workflow and there is a complete audit trail of all the steps. This enables the accounts payable team to easily identify approval bottlenecks, and ensure that invoices are processed according to the organization's approval matrix and hierarchy.

4. AUTOMATE 3-WAY MATCHING

Invoice matching is vital for financial accounting and cash management, but when performed manually it is a highly time-consuming and labor-intensive task.

Carried out electronically, algorithms are used to automatically match the invoice, PO, and goods receipt document without human intervention. 80% auto-match rates can be achieved where invoices go straight through for payment. This eliminates delays and lowers the invoice transaction costs resulting in a significant positive impact on the business. Additionally, electronic 2- and 3-way matching quickly identifies and flags exceptions such as price or quantity mismatches and automatically routes them to the correct person designated to deal with the approval, again reducing the time taken and streamlining the process.



5. COMPLETE VISIBILITY OVER PROCESS

Visibility is a critical issue for most CFOs today. Manual P2P processes provide limited or no visibility and control. The key issues for CFOs include having a clear view of the status of all invoices, ensuring spend compliance to budget and having an accurate view of the financial month-end and year-end close.

Automating the P2P process ensures that there is full visibility over the complete process from requisitioning through to payment. Vendor compliance to the 'No PO no Pay' policy can be enforced together with the elimination of maverick buying.

The accounts payable team can 'do real AP work', managing exceptions and handling queries. Automating P2P results in the elimination of duplicate payments, faster month-end close, and improved cash management.

100% visibility
and control

CFOs report a 60% to 80% reduction in the cost of processing invoices.

Transforming the Procure-to-Pay (P2P) Process

Automation of the P2P process refers to the use of technology to streamline every aspect of the procurement and accounts payable processes, and integration with the relevant ERP system.

Automation of the procurement process (Figure 1) enables electronic **requisition,** PO generation, and PO submission, based on a list of approved vendors and product catalogs. Vendors and products outside of these lists cannot be selected and a PO cannot be raised unless first being approved by management, preventing unauthorized or maverick buying. P2P automation incorporates the organization's existing **multi-level approval** matrix to ensure that POs awaiting approval are routed to the appropriate person.

By automating the procurement stage, an organization ensures that requisitioners adhere to company spend policies and that the 20% of spend that typically relates to unapproved vendors is brought under management control. A dual approval requirement can be configured before goods and services are ordered and the **supplier is notified,** establishing segregation of duties in the procurement stage.

SoftCo P2P

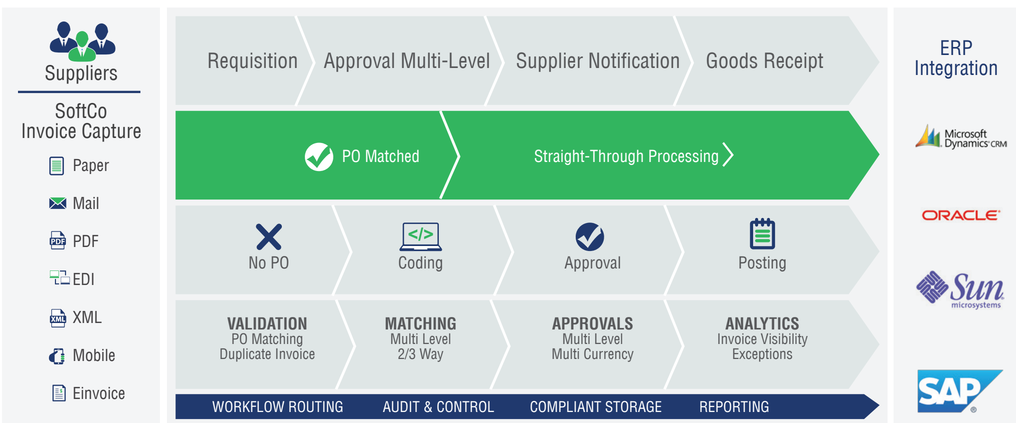


Figure 1

In a paper-based P2P process, the **goods receipt** stage involves the ad hoc management of all documents obtained throughout the procurement to receipting process which is manual and labor-intensive, consuming days of the AP team's time. The work is inefficient and error-prone, leading to slower responses to queries and delayed payment to vendors.

Automated solutions allow vendors to submit electronic invoices and AP teams to manage both electronic and paper-based financial documents, which is key to an efficient and error-free process. Organizations can utilize Intelligent Character Recognition (ICR) to **capture** data from paper invoices in order to reduce errors. Alternatively, details from paper invoices can be scanned or keyed into the system manually and processed electronically thereafter.

Organizations can make considerable cost and time savings by automating 2- or 3-way **matching,** resulting in up to 80% **straight-through processing** of invoices. Automation of this stage **validates** the relevant data and informs the organization of duplicate invoices, ensuring that duplicate payment does not occur once the invoice is routed to the **ERP** system for payment.

Through P2P automation, the finance team can see the status of accruals, handle exceptions, and generate real-time **reporting and analytics,** which allows them to close month-end faster and reduce costs. P2P automation securely stores all financial documents in a **compliant archive,** providing a comprehensive audit history and ensuring compliance with business and regulatory requirements.

Summary

Today's CFOs are under increasing pressure to find ways to reduce costs and improve efficiency. Traditional methods of managing the P2P process are associated with higher costs, longer processing times, and lower visibility.

Automation of the P2P process eliminates manual processes, reduces the time to process invoices, reigns in maverick buying and eliminates duplicate invoice payments.

The number one benefit from P2P automation is simple; it saves money. It allows organizations to have visibility over spend and increase compliance to contracts, negotiate better pricing, and avail of prompt payment discounts. Automation of the P2P process, when implemented correctly, delivers cost savings, results in higher productivity, and gives CFOs greater control and visibility they so critically need.

"Procure-to-Pay automation gives you the most bang for your buck."
Pam Gallagher, CFO
Nashville General Hospital, Tennessee

About SoftCo

With 25 years' experience and over 500,000 global users, SoftCo is a leading developer of financial process automation software. SoftCo solutions integrate with all major ERP systems, enabling control, visibility, and speed throughout financial processes. SoftCo provides fully-configurable solutions to meet the specific needs of organizations across all industry sectors, and leads to proven, measurable return on investment. SoftCo prides itself in delivering exceptional service to clients, from consultation and planning, through to implementation and in-life support.

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