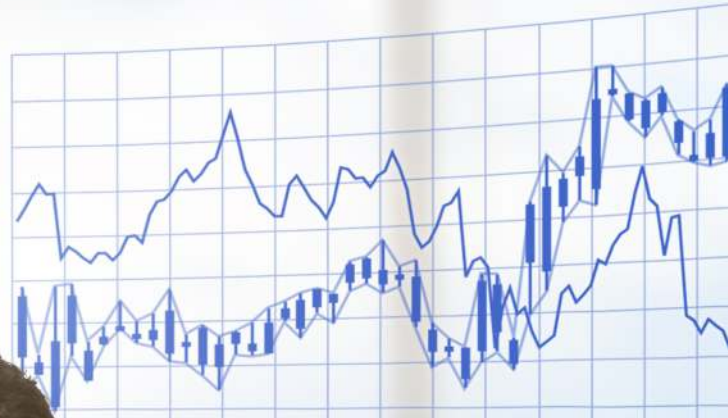


## A CFO's Guide to Procurement and Invoice Management Benchmarking



CTMX		0.45	▲	+0.45%
FTR		-0.23	▼	-2.34%
CSCO		-1.01	▼	-1.89%
CHK		0.02	▲	
AAPL		+2.		
PRTO				
AMZN				
TSLA				
AVGO		57		
SIRI		-0.65		





## Introduction

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While procure-to-pay processes have not been a key focus of Finance Leaders, they do render numerous benefits to these leaders ranging from increased cost saving opportunities, real time visibility into costs and resources to higher strategic savings due to streamlined processes. However, the purchasing function converts into a profit center, only if its performance is evaluated against benchmarks and efforts are taken to identify the scope of improvement, discover the extent to which additional improvement can be achieved and move the organization further up the process maturity curve. The first step to this entire process is benchmarking the current process, setting targets on improvement and understanding the industry-wide best practices.



## Benchmarking – Defining a Balanced Approach

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Performance measurement helps companies evaluate how healthy the existing processes are, what are the opportunities for improvement and the extent of improvement that can be expected. However, companies tend to primarily focus on efficiency metrics and in the process, ignore working on improving the effectiveness of the existing process. Efficiency denotes doing things right while effectiveness denotes doing the right things. A well-balanced strategic approach factoring both efficiency and effectiveness facilitates improvement in performance and helps companies move closer to Best-in-Class. This comprehensive approach ensures a holistic assessment of performance.

### Examples of Efficiency metrics

1. Cost per transaction
2. Order Cycle time
3. Invoice Processing Cycle Time
4. % of Electronic Transactions
5. Level of Automation

## Examples of Effectiveness metrics

1. First pass match rate
2. On-time payment rate
3. Level of Spend Visibility
4. Compliance to Preferred Suppliers
5. Supply Base Consolidation

If an organization is evaluating its procurement and invoicing process with the objective of streamlining and moving the process maturity to best-in-class, this benchmarking approach would be apt to follow. Another useful practice will be to look at processes end-to-end from procurement to invoicing. To quantify the process from Procurement to Account Payables (AP) and from vendor management to payments, it will help organizations focus more on deriving more strategic value from purchasing and ensure future overall growth for Finance leaders.



## Characteristics of a Top Performing Purchase-to-Pay Organization

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Before delving into each function from purchase, AP and vendor management to evaluate best practices and establish performance metrics and industry benchmarks, it is important to understand that as a whole there are 4 golden best practices which commonly feature in the strategies used by the top performers in the field:

### **The Stakeholder Centric Approach**

Top organizations rely on stakeholder's feedback to bring in continuous improvement. They incorporate the experience of both internal and external stakeholders equally to understand how can they add further value to the current processes and how this change of process will affect them so they can devise effective resistance management strategies and ensure that they are significant contributors to the organization's plan to innovate and improve processes.

Top best practices that ensure stakeholder centricity are:

- Guided buying which takes into account commodity risk and helps balance and control spend with efficiency, helps requisitions staff to leverage preferred buying channels (right buyer, right price, buying method) to reduce risk and improve spend performance.
- Decreasing non-value added activities in the process by eliminating unnecessary, redundant steps to help reduce cycle time and make the process simpler.
- Enabling self-service to provide flexibility to conduct many tasks themselves and provide information visibility to improve response time and gradually do away with manual processes.

#### Industry benchmark\*

85% of Top performers use Guided Buying for requisitions to drive purchasing from preferred channels

Top performers are 2 times more likely to resolve supplier inquiries to Accounts Payable through self-service.

*\*Source - Hackett Group*

#### Process Automation

Top organizations respond quickly to change. The speed of operational response can have a great impact on the organization's business and is aided by the level of automation incorporated in its process. The foundation of process automation is based on three basic changes in the organization:

- Decreasing paper-based transactions to eliminate manual inefficiencies and improve processing speed. Top performers use electronic solutions instead of paper based invoices and PO.
- Improving process cycle time by simplifying approval and removing unnecessary steps. Top organizations have shorter time to process orders and prefer catalogue based requisitions to eliminate risk and improve certainty.

- Improving supplier relationship by simplifying on-boarding and payment tracking processes. Top performers know the challenges that suppliers face and go for network based e-invoicing solutions which address all the issues faced by suppliers.

### Industry benchmark\*

Top performers have 1.6 times more touchless processing, and 3.7 times more use of electronic invoices.

*\*Source - Hackett Group*

### Digitalization of Data/Information

Information digitalization, real time data and a single source of truth improve analytical reporting. This helps improve visibility so that organizations can make data backed decisions and respond in real time to changing conditions. The way companies' use data differentiates them in a competitive market landscape.

Some of the key benefits gained through information digitalization are:

- Internal compliance control is enhanced by the visibility rendered by digitalization. For example, any non-adherence to internal policies can be tracked and controlled. Most top performers track internal non-compliance of policies.
- Spend management effectiveness comes from the ability to see spending patterns from data to predict future spend trends and plan better. Top performers have spend data visibility including supplier, category and line items spent.
- Cleaner supplier master data management ensures better concentration of active suppliers. Top organizations invest in maintaining a cleaner supplier master data.
- Visibility into supplier payments gives an opportunity to strategically save through discounts, leverage payment terms and avoid late payment penalties. By timing payments better, leveraging supplier relationship and incorporating better terms, working capital flow can be improved significantly.

## Industry benchmark\*

Top performers have 1.9 times more visibility into supplier, category and line item spend data.

*\*Source - Hackett Group*

### The Risk Reduction and Compliance focused approach

Improving efficiency and effectiveness is central to business growth. However, it is important to balance it with risk control and compliance maximization. Some of the best ways to get this balance is by:

- Integrating purchase with contract management
- Monitoring supplier contract compliance
- Controlling internal process non-compliance
- Identifying and addressing supplier frauds

Top performers are combating risk by using a blended channel strategy for commodity risk control, streamlining supplier on-boarding through a checklists of control and validations and moving towards integrated solutions to detect fraud and errors better by connected work-streams which are easier to audit.

## Industry benchmark\*

67% of top performers' partner with sourcing function to measure contract compliance.

*\*Source - Hackett Group*



## End-to-End Performance Metrics from Purchase to Pay

Procurement and Accounts Payable (AP) are the key stakeholders in the Purchase-to-Pay process. While overall benchmarking and performance strategy addresses the main challenges from an overall organization point of view, each of these parts of the process need to be evaluated separately for performance.

### Procurement - The First Leg of P2P

The main cause affecting the performance of procurement is the lack of visibility into opportunities to capture early payment discounts and reduce order processing costs. Convergence of Procurement and Account Payable is very instrumental in reducing the processing inefficiency and enhances the ability of the buyer to take advantage of the negotiated terms of the contract instead of price. It also helps them leverage early payment discounts. Another effective procurement strategy is to reduce the concentration of suppliers per billion of spend for the organization. According to Hackett Group's report, '[The Benefits of Supplier Consolidation Extend Far beyond Sourcing Savings](#)', reducing suppliers contributes a 3.35 percent cost reduction for indirect spend and a 9.18 percent reduction for general equipment and supplies in the top quartile of companies observed.

### Possible flags that Procurement performance is low:

- Negotiations are strictly based on price and not on contract terms.
- If spend is spread out among a lot of suppliers and spend concentration among top suppliers is less.

### Some of the important metrics to evaluate performance of procurement are:

- Total number of suppliers
- Number of vendors per category
- Return on indirect procurement investment
- Procurement costs as a percentage of total indirect spend

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## Accounts Payable - The Second Leg of P2P

A good relationship with supplier and working smartly with a few suppliers goes a long way in improving process efficiency and savings. A higher number of manual processes and invoice processing in accounts payable is indicative of lack of streamlined and efficient processes. With increased automation, both the invoice processing cost and the purchase cost decreases considerably. Best in class organizations have seen the order processing cost to drop from \$18 to \$5 as a result of digitization of process. Automation also has a direct impact on the time to process a transaction which plays a major role in strengthening supplier relationship with the buyer. Best in class organizations take 3.9 days to process an invoice while on an average of 17.1 days are required for manual processing of invoices, as per Ardent Partners 2016 report - e-Payables 2016: Eyes on the Prize. Digitalization also gives control over the process allowing accounts payable to leverage discounts by paying invoice early, thereby allowing them to save more per transaction. Lack of control on the payment leg of the Procure-to-Pay process leads to working capital wasted as companies lose money in paying penalty for late payments, are not able to extend DPO as per their business goals and are not able to fully utilize payment discounts terms from contract and early payment discounts to their advantage.

### Possible flags that AP performance is low:

- High percentage of invoice processed manually
- Higher time to process an invoice

### Some of the important metrics to evaluate performance of AP are:

- Total cost of processing an invoice
- Total contract renewal rates with suppliers
- Volume of early discounts captured

Overall, an end-to-end Procure-to-Pay work stream enables to form streamlined, connected processes which are error free and easy to audit.





## Conclusion

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A growing organization strives for a procurement process infrastructure that is a good mix of efficiency and effectiveness. This process of transformation commences from self-assessment of current process and the vision to reach best-in-class. Change management is a difficult but necessary step for an organization to grow. It becomes easier if the basic foundation is set on solid principles converging towards the organization's overall objective and values.

As a finance leader, it is important to realize that maintaining control and order in the end-to-end purchasing processes is imperative as it will help resources focus more on value added activities rather than increase costs by focusing on tactical, manual tasks. Control and visibility are essential not just to reduce cost and bring in strategic savings but to improve compliance control - whether internal, regulatory, and contractual or invoice related.

Keeping a close eye on how your organization's processes are working compared to your peers is the first step to change a purchasing organization's needs.



## About us

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management, Financial Savings Management, Project Management and Request Management. Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.



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