White Paper

Procure to Pay Business Services - Transformative Engagement

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Abstract

Organizations around the world now subscribe to a more centralized operating model to drive greater consistency and value from Procurement. Shared Service Centers are emerging as an alternate model of operations to centralized operating model. A third-party engagement in SSC model gives greater value to the P2P, if such business service engagements in P2P have the capability to transform the P2P process.

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Executive Summary

P2P is defined as a set of functions for procurement or purchase of goods, materials and services. The P2P process starts with goods or service request, Procurement process, Vendor Management and ends with Accounts Payable.

P2P is generally considered as a cost center, has been changing to a value creator for organizations across the world. Procurement functions have made great progress in terms of creating value for their organizations, in terms of cost savings, leverage and price. Beyond harvesting these 'low hanging fruit' there lies a vast ocean of opportunities in value creation by transforming the P2P.

Effective management of supply chain, supplier relationship and risk have emerged as critical cues to transforming the P2P. The value adds are in terms of strategic benefits for the organization such as increased leverage of spend, improved pricing, higher discounts, reduced risk of supply failure.

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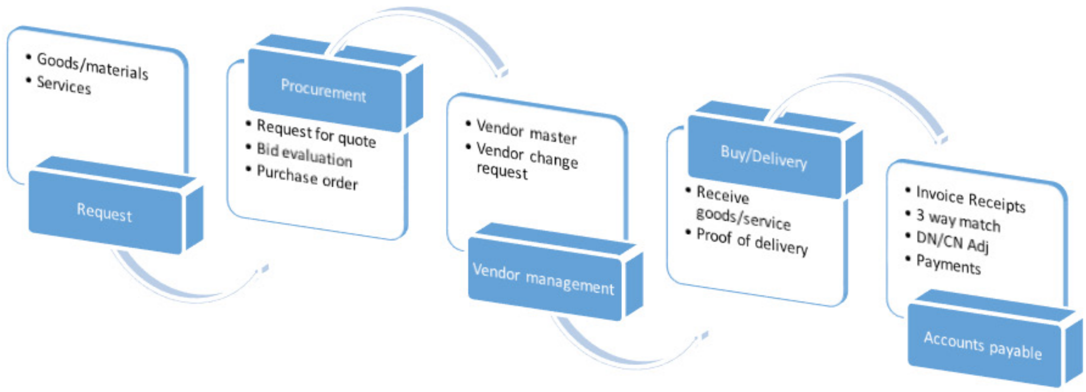
The essentials and capabilities of transformation, its various dimensions such as streamline functions, focus on value adds, restructuring, improve and innovate, reengineer and automate are discussed in brief. It has been argued that those capabilities are 'a given' one for a shared services center or Business Process engagement to add enterprises value and to get competitive advantage.

Disambiguating the P2P operations

Procurement to process or purchase to process is abbreviated as PTP or P2P. P2P is a complete cycle of purchase process, initiating with material, goods or services request from field, operations unit or business administration. The endpoint is payments to vendors on successful completion of delivery of services or materials from the vendor on agreed terms of price and discounts.
There are a lot of process, teams and functions involved in between the start point and the end, some of them are critical functions but most of the process built around are not value adds to the procurement functions.

According to the Chartered Institute of Procurement and Supply (CIPS), procure to pay (P2P) should be a seamless process from point of order to payment. In practice, a lot of fragmented functions and lack of communication in between the functions creates silos in P2P process.



In essential a procurement organization has different independent departments such as stores and materials department, sourcing and procurement, vendor engagement and accounts payables. Integration of functions and seamless communication between the departments are the focus for an efficient P2P organization. The challenges in P2P integrations are

- A fragmented Procurement structure
- Limited cross functional visibility
- Inefficient communication channels
- Manual process in every function
- Limited use of technology

Culture, policy and fear of change did not support an easy transformation of the P2P. A well-integrated P2P function can deliver not only process efficiency but can contribute significantly to the profitability of the organization. Integration provides synergy and reduce redundancy in process, this can help in informed decision making and spend visibility, two livers of cost reduction.

Moving beyond cost savings

Driving costs from procurement contracts would always be a central tenet of P2P function, but many enterprises seem to be struggling to extend their activities proactively into core capabilities such as Supply Chain Management (SCM), Supplier Relationship Management (SRM) and risk management.

There are many suppliers offering the goods and service, a successful procurement process validates each bid not only for the price and technical viability, but looks for a long term relationship. Supply chain management is one of the characteristics defining the successful procurement organization. Excellence in strategic sourcing reduces the spend cost of an organization, and the excellence is achieved through partnership with suppliers. Suppliers capability to deliver goods and services with right pricing, quality and at right time is the essence of SCM.

Supplier relationship management (SRM) is the discipline of strategically planning for, and managing, all interactions with third party organizations that supply goods and/or services to an organization in order to maximize the value of those interactions. SRM is to provide a structured approach to service performance management that offers Procurement an opportunity to leverage the relationship and drive continuous incremental value to both the top and bottom line. Continuous evaluation, feedback and an 'open partnership' in supplier operations is what is defining the SRM in an operational sense.

Any disturbance in supply chain and logistics that disturbs the operations of the enterprises is a supply chain risk. A supplier shut down, undue price escalations, a change in environmental laws that negatively impact a supplier manufacturer, a labour unrest in supplier location etc., are all risks that needs to be managed and mitigated for de-risking the enterprises operations.

By increasing the level SCM, SRM and risk mitigation, procurement can achieve significant strategic benefits for the organization such as increased leverage of spend, improved pricing, higher discounts, reduced risk of supply failure or contractual disputes. Moreover, effective SCM also tends to result in better supplier segmentation allowing businesses to identify and track their top suppliers and – as a result – better manage risk (an area of particular importance given the high volatility experienced by most businesses in recent years). A risk based evaluation of the suppliers is a good strategy for value creating in the procurement.

Business Services as an operating model for Transformative Engagement

What is the value creation provided by a P2P organization, is a common interrogative often resonate in the corporate world. Common understanding is that the P2P is a cost center and is been perceived as a major cost driver in the enterprises operating costs. The advent of technology and innovations in management of P2P takes the P2P organizations in many corporates to a value creator than a cost driver.

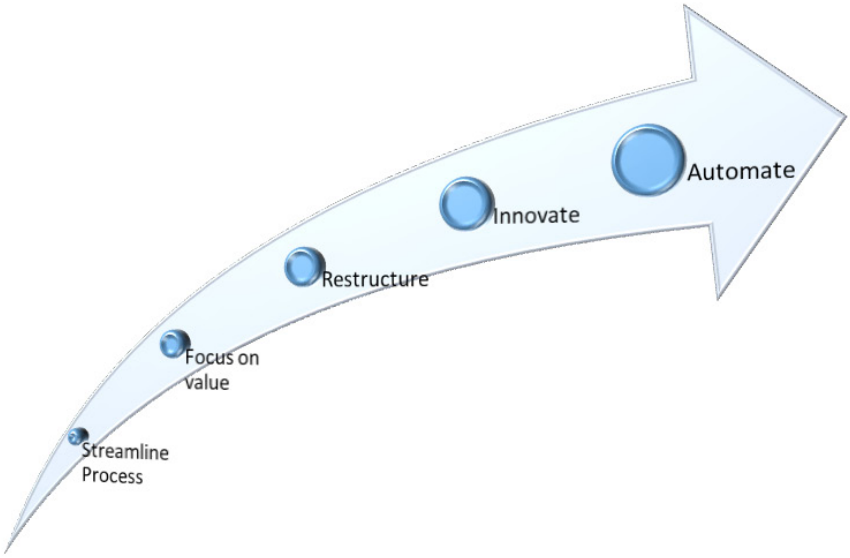
Centralized operating models are widely adopted to synergize the value creation in P2P operations. P2P organizations have already adopted a more centralized operating model; many still face challenges in translating this into strategic value for their businesses. A KPMG study in 2015 says that "Organizations operating under more decentralized models typically report an impact on their ability to maximize value." Centralization of operations is hampered with initial cost escalations while geo spread operations has been a task presumptive with cultural shackles.

Shared Service Centers (SSC) both in captive and third party operated models are originated as an alternative to the centralized operating model of P2P. Third party SSC is a viable option and a value creator for the enterprises, striving to transform the P2P. The Business services offered in such non-captive SSC for P2P have the capability to transcend beyond cost savings and cost leverage.

A good Business Services engagement can be an enabler to P2P, freeing the management of their valuable time managing P2P, enable them on focusing their core business.

Business Services engagement in P2P with a defined mandate for transformation and building process capabilities uses the advances in technology to transform the P2P. Reducing costs, making better use of systems and technology, the transformation is a wide game that have multiple dimensions.

1. **Streamline process:** Business Services engagement enables the organization to streamline the process by centralizing all the procurement functions and processes into a shared service center. Different functions can coordinate better in this model. A process flow chart, preparing as part of the as-is process document, can reveal all functional level activities and their interdependencies. A detailed analysis of the as-is state and to-be state flow charts can act as the baselines streamlining the activities.
2. **Focus on Value:** Focus on the value adds can enhance P2P functional efficiency by eliminating or minimizing the non-value adds. Value ads are those processes which gives enrichment to the function. Value stream mapping and other enabling tools can be deployed for identifying, isolating and optimizing the value functions.
3. **Re-structure functions:** Cost optimization and productivity improvements are the drivers for bottom line improvements of an organization. P2P as a cost function has huge potential for incremental profit contribution by rationalizing the spend decisions, leverage cost and savings in P2P operations. Functional restructuring and reengineering of process are used for gaining these objectives. A shared services model (as in Business Services P2P) are more viable and agile for constructive changes affected by such restructuring and reengineering.



4. **Improve the process, innovate:** Redundant with non-value adds, a P2P engagement should have opportunities for improvements. The non-vale adds either be eliminated or to minimize for improving the overall efficiency of the process. A detailed process review at functional level can throw light on the improvement opportunities. Initiatives in process quality management such as Total Quality Management (TQM), lean process and six sigma process could inculcate an innovation culture.
5. **Automate process:** A lot of repetitive transactional level activities can be automated. PO creation, and matching process are sure candidates for automation while a greater degree of efficiency can be achieved by automating invoice processing. Electronic data interfacing (EDI) technologies reduces the cost of invoice processing and the deployment of optical character recognition (OCR) tools enables high level of transaction process automation.

6. **Re-engineering, the bus word:** The all encompassing re-engineering is to structurally changing the entire P2P. The target is to minimize cost, and drive operational efficiency. Through re-engineering P2P is transformed into a business enabler than a cost center, responsibilities are fixed to substantiate the core business function.
7. **Data for analytics:** Cost matrices, spend analytics, purchase trend analysis, segment data comparatives are all driven by a calibrated data provided by the P2P functions. A good P2P accounting system has the ability to record all transactions at all levels of P2P operations. Publishing regular KPI dashboards for enterprises' stakeholders would help in creating the transparent P2P organization. Data analytics would give an insight into the financials of the P2P organization and help everyone associated with procurement and payables to take an informed decision.

Business process engagement in P2P has to demonstrate mature capabilities in transforming the P2P function so that the engagement can harvest efficiencies across the business at a reduced operating cost while adding significant value to its organization.

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