



Purchase to pay processes for the modern CFO



Introduction

Maximize your profit, take full control of your purchases, implement savings, maximize process efficiency, optimize your working capital, and connect with your suppliers. It doesn't sound easy, and what does this all mean in numbers? How are others doing it, and how is it working out for them?

Using this guide, we hope to give you the answer to how to best equip yourself in assuring the quality and improving the process of purchase to pay (P2P).

A big part of this process is to streamline and automate various procedures, supported by new technologies in a digitalized world.

How can we best assimilate new technologies? How do we best identify the possibilities that ensue, and what are the effects of digitalization for us? How are others doing it, and how well are they succeeding? A good choice in a mature market is often Best Practice, the best choice in terms of tested, standardized processes that can be used by everyone. From experience, we can see the importance of considering the processes, needs and desires that are specific to the organization.

Thus, flexibility is required to develop technological solutions with your own needs in mind. Flexibility should be reflected in the product, where the organization has the possibility to change, and to develop the solution using their own resources.

“You need to know where you are today, to be able to warrant your investment.”

Where do you start?

The greatest challenges of the CFO are reflected in regular and continuous surveys, and we see that the following issues are almost always rated highly:

- **Maintain profitability**
- **Cost control**
- **Correct decision making**

No matter the challenges, you need to know where you are today, mainly to be able to warrant your investment. If you have actual numbers on your current position and where you want to go, you also have the means to measure your investment. If you implement a new system, the results will follow from day one, no matter if it's in regards to work efficiency, realizable savings or other possible profits.

Let's divide the possible improvements into profitability and productivity (inner efficiency). By identifying measurable KPIs in these two fields, we get the answer to where we are right now. Looking back, we can compare ourselves with others, and from that set realistic goals.

Profitability

Of course, it's easier to measure profitability than to maintain and improve it. In a receding market, it's important to maintain good profitability. As the CFO, I have the ability to govern and control parts of the organization in order to have an impact on my profitability, usually by looking at the costs in the business. In order to have an impact on profitability, you have to work more strategically and start to measure purchases. If you're not in control as of today, it's time to grab it. Where are we today? Having the right tools in place gives you an advantage against your competitors. This allows you to be proactive, and in time to take control by easily identifying where to curb costs.

To be there at the right time, you need to be prepared in the best possible way:

- **You need to have a more strategic position regarding purchases**
- **You need to have technological solutions in place, supporting the strategic work**
- **You need to have identified targets, and the ability to follow these up**

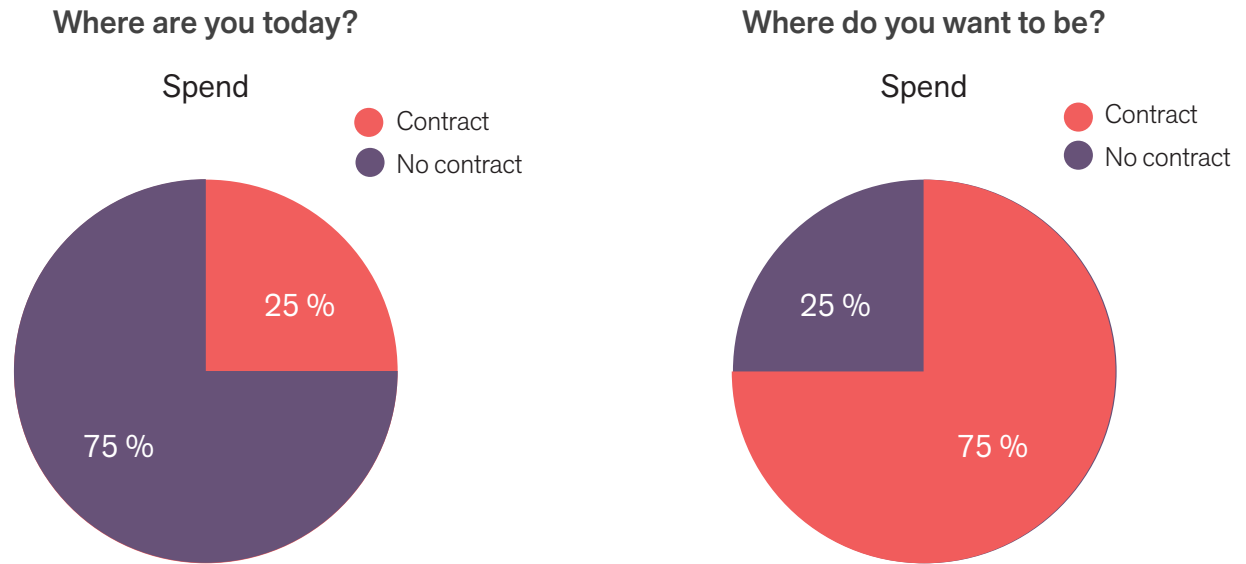
Working in a structured manner with targets, with a focus on steady improvement, is a recipe for success in regards to becoming more strategic about purchases, and it's also a great tool when working on making invoice management more effective. The following three metrics (KPIs) serve as a good measurement of value:

1) Contractual purchases (Spend under management)

Contractual purchases (Spend under management) are the volume of contractual purchases in contrast to Maverick spend. Maverick spend relates to purchases made without contracts or appropriate authorization, and sometimes also to purchases made outside the rules and policies in the organization, which also includes pre-committed spend.



In order to build a good foundation, a Spend Analysis is usually conducted early on. The result of the Spend Analysis will help you when moving forward in several aspects: priorities of procurement/negotiation of new agreements/conditions. The Spend Analysis is also a great tool when you are implementing a system for the P2P process, mainly in order to prioritize the connection of suppliers. When this is in place, giving you continuous, automated follow up on everything that is managed by your organization – well, then you never have to worry again about costs spiralling out of control. All you have to do is set up a budget for purchases and you can easily monitor your progress using continuous reports on these purchases.



2) Savings targets

Using the Spend Analysis, you get a map of where you are today, and with the Spend Analysis as a foundation, you set up your priorities and set reasonable savings targets in every department. The targets are meant to be reasonable, and a savings target of 5-6% on average will ultimately translate to significant savings. Savings can be made in every organization, no matter if it's a small business, medium sized business or a global enterprise.

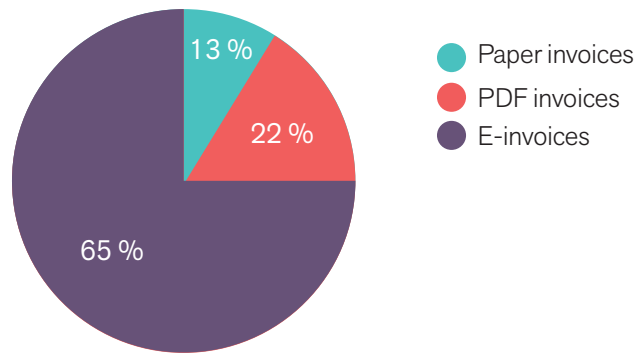
3) Number of connected e-suppliers (Maximize Supplier Enablement)

Having a system in place for purchasing and invoice management is a good start, but you can't forget your affiliates and your suppliers within the organization that must be provided with information regarding contracts and prices, and they need to be accessible in the system for those who are ordering the goods.

More and more businesses have made great strides in terms of digitalization, both in terms of sending and receiving electronic documents. When we're talking about 100% digitalization, we're depending on being able to easily connect all of our suppliers to our electronic business network.

The connection needs to be simple and to not depend on long negotiations and discussions, with no complicated contracts regulating how to get things done, and no big projects to adapt our systems to digital technologies. In short, you need a support system for the entire P2P process that efficiently puts you on the digital map. From there, you navigate in a streamlined manner while connecting your suppliers.

Number of e-invoices



Productivity

Streamlining processes and freeing up time in different ways in the organization can be a difficult thing to measure, despite how obvious it can be that there is time to be saved. Even though it's complicated, it's worth the hassle to make the measurements.

In regards to purchases, the savings are primarily related to being able to streamline the purchasing process including the ability to enforce corporate spend policies automatically which translates to obvious time gains within the organization. In contrast, you have invoice management, where the biggest time gains are in regards to administration of invoices, mail management, arrival registration, accounting, filing etc.

You'll find three important metrics (KPIs) related to productivity listed below. When you're planning and setting up a solution for managing the entire P2P process, it's important to bring your metrics into the new solution. This way, you will be able to see the results of your investments from day one.

1) Average requisition to order cycle time

Processing purchases can be very time consuming, so it's appropriate to start looking at how orders are made in the organization. This includes researching the purchase, finding the correct supplier, getting order approval, and creating and sending an order. This also includes creating/ sending in terms of manual mail management by e-mail, phone or from the supplier's own webshop.

Identifying time thieves, implementing support systems, and connecting suppliers electronically contributes towards a positive and more streamlined way of processing purchases within the organization.

2) Average invoice to payment cycle time

This lead time includes all the work on supplier invoices – everything from mail arrival, accounting, approval, to final inspection and finally payment. It can be a long and winding road and it might require dialogue with management, co-workers within the organization, and suppliers. Having a streamlined process for invoices is fundamental when you want to reduce lead time and costs in the organization, and in the end efficiently increase profitability.

3) Number of automated invoices related to matching orders

Connected to invoice lead time, we'll find the number of automatically matched invoices. The number of matched invoices will directly impact lead time related to invoice management, creating incentives to start working on improvements specifically related to your own targets on matched invoices. The degree of matching can vary, but the ultimate goal is 100% matched invoices, creating Touchless Invoices.

Maximize Supplier Enablement

The value of implementing e-invoicing in the organization is uncontested and no one can deny the benefits of reduced paperwork and a more automated work flow for invoices. The quality of invoices increase, and we increase our ability to automatically match invoices while we simultaneously reduce lead time on the invoices.

More and more businesses have made great strides in terms of digitalization, both in terms of sending and receiving electronic documents. When we're talking about 100% digitalization, we're depending on being able to easily connect all of our suppliers to our electronic business network.

The connection needs to be simple and not depend on long negotiations and discussions, with no complicated contracts regulating how to get things done, and no big projects to adapt our systems to digital technologies. In short, you need a support system for the entire P2P process that efficiently puts you on the digital map. From there, you navigate in a streamlined manner while connecting your suppliers.

” The value of implementing e-invoicing in the organization is uncontested”

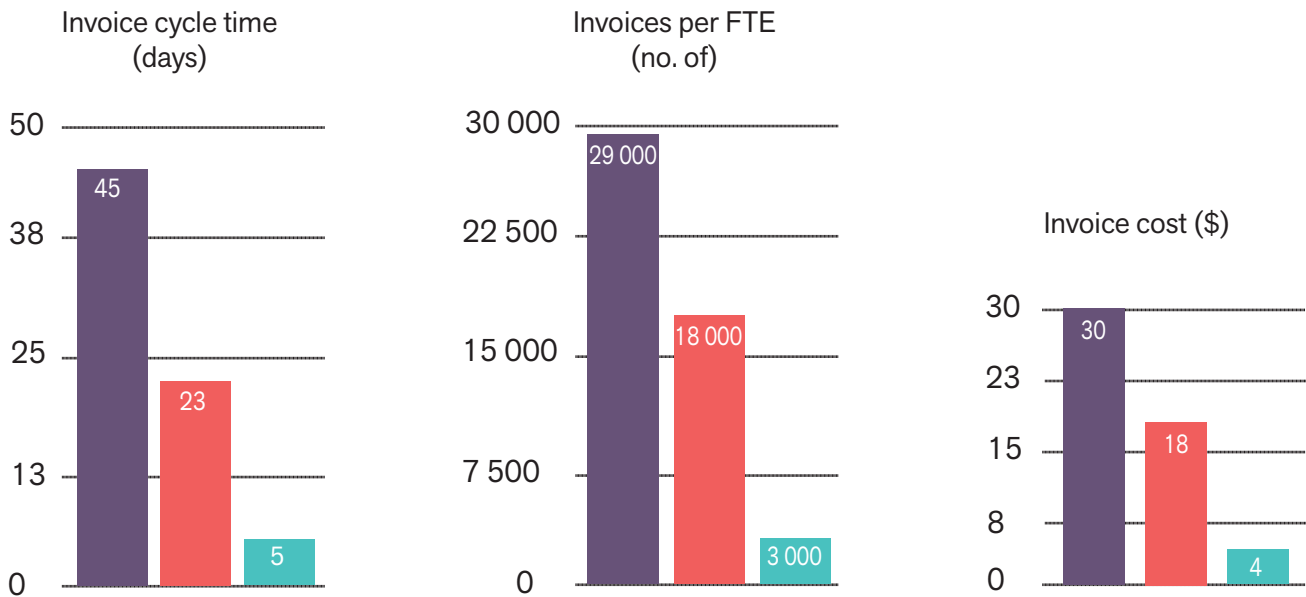


To sum it up

Knowing where you are today with a clear vision is the best start you can get. This also provides you with a good indication of how you should set up your system. Put your vision into measurable KPIs and bring these into your planned projects.

In order to reach your targets, it's also important to have the support of your own organization, managers and co-workers. Bringing the entire organization with you early on is perhaps the single most important issue in terms of successfully implementing new technological solutions.

Where are you today? Where do you want to be?



Follow this up with reports and continuously conducted surveys on how the new processes are performing in the organization. Are we reaching our savings targets? Are our end-users happy? Are the systems working as expected? Are the goods we need to purchase available? Do we have support and tutorials to simplify all processes?

Follow our blog

to stay updated on
purchase to pay
related issues!

Palette is a market leading provider of financial process automation software with over 3 500 customers across 50 countries. We help companies transform and automate their Purchase to Payment Processes utilising their existing ERP and finance system investment.

www.palettesoftware.com

