corcentric™

PURCHASE-TO-PAY PROCESS PERSPECTIVE

Four Dimensions for Measuring Digital Progress in Purchase-to-Pay

Levels of automation, information, stakeholder-centricity and talent reflect how – and how well – companies are digitally transforming this crucial function

PRESENTED BY:

The Hackett Group
World Class Defined and Enabled

The Hackett Group
World Class Defined and Enabled

PURCHASE-TO-PAY
PROCESS PERSPECTIVE

Complimentary Research

Four Dimensions for Measuring Digital Progress in Purchase-to-Pay

Levels of automation, information, stakeholder-centricity and talent reflect how – and how well – companies are digitally transforming this crucial function

By Jimmy LeFever and Christopher S. Sawchuk

EXECUTIVE SUMMARY

Spurred by promises of major efficiency gains, purchase-to-pay (P2P) organizations have been navigating digital transformation for at least several years. However, most still struggle with full process digitization and automation. Organizations should approach P2P automation with customized buying channels and invoice submission methods that are tailored to supplier capabilities. These initiatives, along with supplier consolidation, will lead to cleaner spend information and more effective P2P teams. This in turn will raise stakeholder satisfaction. Notably, the skills required to effectively manage and maintain digital transformation initiatives are quite different from the traditional P2P talent profile.

THE PERFORMANCE GAP: LARGE BUT NOT INSURMOUNTABLE

Automation is a key building block of digital transformation, but most procurement organizations still have far to go before they can say their purchase-to-pay (P2P) process is fully (or even highly) automated. For example, in most companies, only 30% of purchase orders and invoice receipt transactions flow through electronic or invoice-less channels – despite the presence of e-invoicing tools at 80% of those participating in our 2019 Purchase-to-Pay Performance Study. Even the study's top performers have room to improve. For example, they process only 45% of indirect transactions through an e-catalog.

While the digital gap between the peer group and top performers is sizable, it can be closed. In this report, we will look at four dimensions for measuring digital transformation progress, using relevant metrics from our most recent performance study.

Measuring digital progress along four dimensions

Recently, we analyzed our purchase-to-pay performance study data to understand how – and how well – companies are digitally transforming this crucial function. Specifically, we studied four dimensions of a fully digital P2P model: automation, information, stakeholder-centricity and talent. Automation is where the largest gap exists between the peer group and top performers, but the other objectives are no less important. All are interdependent and therefore must be addressed holistically, rather than in standalone initiatives.

TOP PERFORMANCE DEFINED

As defined in our methodology, top performers are organizations that fall in the top quartile in a range of efficiency and effectiveness metrics. Examples of efficiency metrics include cost per transaction, transactions per full-time equivalent (FTE), span of control, order cycle time, invoice processing cycle time, percentage of electronic transactions and level of automation.

Examples of effectiveness metrics include first-pass match rate, on-time payment rate, level of spend visibility, level of centralization, training investment, compliance with preferred suppliers and supply base concentration. The metrics presented in this report represent the median top performer and median peer group performance data.

1. AUTOMATION

Despite having systems in place, most companies are far from having 100% of their transactions, spend, users and suppliers flowing through an automated process. Top performers come close, particularly in upstream requisition, purchase order and change order processes (Fig. 1).

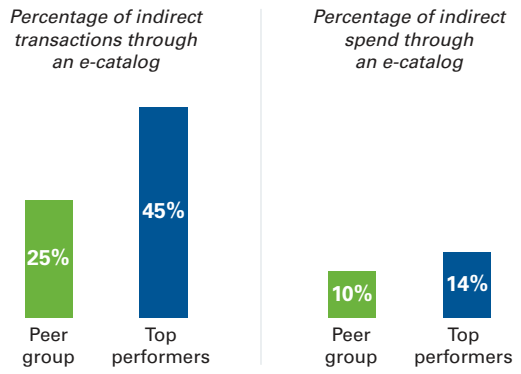
Many companies look at transaction automation as an efficiency play, but this is only part of the picture. Automation also yields improvements in effectiveness, such as greater spend visibility and better, faster decisions made possible with access to clean, comprehensive data through digital channels.

Automation in P2P can be broken down into two parts: procurement and invoicing.

Procurement automation

While e-procurement spans requisitions management, purchase order management, approvals and workflow, most organizations understand it to mean the conversion of requisitions into on-contract digital transactions. Catalog-based buying technology has come a long way in this area. However, catalogs can only go so far. They will never offer everything stakeholders need. Thus, 100% of transactions will never be fully digitized if e-catalogs are the only requisitioning resource for stakeholders. Indeed, most companies studied fall well short of this goal (Fig. 2).

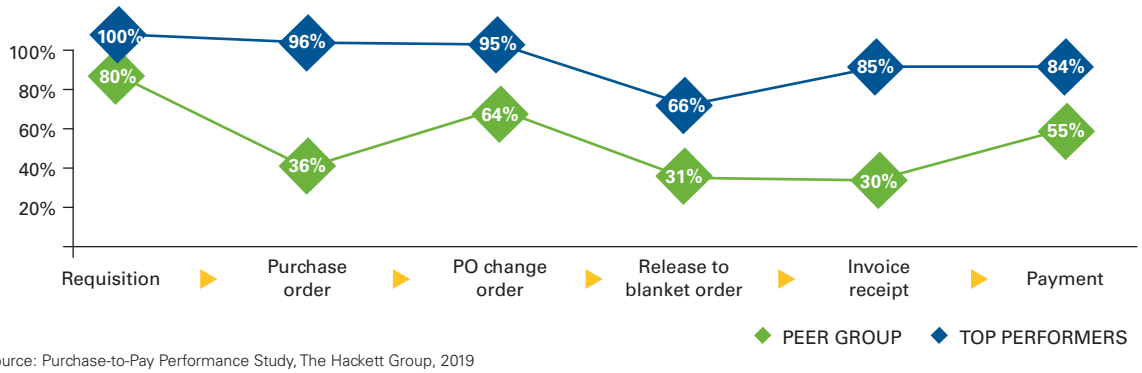
FIG. 2 Use of e-catalogs



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

Tail spend – uncategorized, mostly indirect purchases that don't flow through existing source and buy channels – is a significant contributor to this digital gap. Reducing tail spend to bring procurement closer to a 100% digital

FIG. 1 Percentage of procurement processes that are fully automated



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

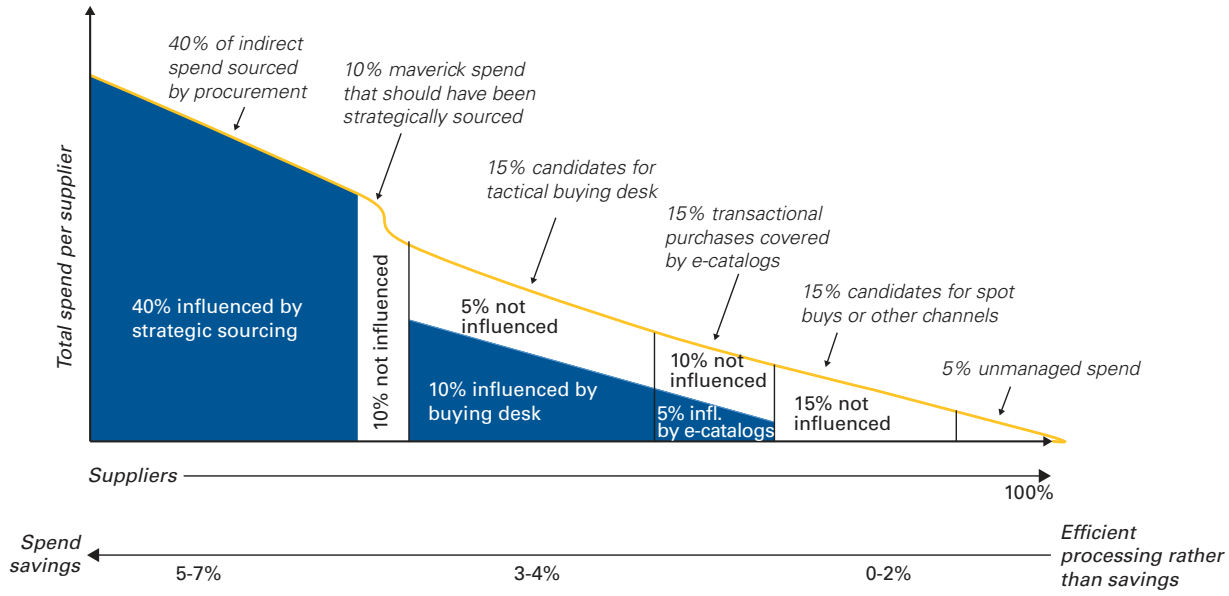
buying process requires an electronic buying channel for all spend categories. Mandatory use of online channels not only helps eliminate tail spend, it also improves user experience, compliance and spend visibility while reducing maverick spend and other supply risks. Most importantly, it creates greater value by leveraging previously negotiated pricing and volume discounts.

In an optimized model (**Fig. 3**), some spend already flows through a defined channel (likely an e-catalog as described above). The remaining tail spend is then analyzed, reclassified and re-routed into a preferred channel for future purchases. Ad hoc requisitions are also analyzed for catalog potential.

This analysis may then point to the need for and help define new channels needed to bring the organization closer to its goal of capturing 100% of spend electronically. **Fig. 4** outlines common requisitioning channels by spend type. Keep in mind that an organization's unique spend and strategy will determine which additional channels it needs to develop.

Hackett guidance: Don't force all requisitions through an e-catalog. Analyze remaining tail spend and consider a hybrid approach using tailored buying channels.

FIG. 3 Optimized model for guiding spend to defined channels



Source: The Hackett Group

FIG. 4 Optimizing requisition channels

Spend type	Typical indirect categories	Primary requisitioning channel	Executed by
Large, strategic project spend	Outsourcing, strategic consulting services, benefits	**Contract-based ad hoc requisition through ERP or e-procurement platform**	Internal or external buyer team
Recurring spend with contracted suppliers	Travel, promotional items, office supplies	**E-catalogs**	Internal or external sourcing and data teams
Contingent workforce and complex services	Temporary labor, SOW workers	**Services procurement tool**	Internal or external sourcing and data teams
Recurring consumable spend with contracted suppliers	MRO supplies, lab supplies	**Stockroom inventory, vending machines, RFID refrigerators**	End users with procurement enablement
Specialized recurring spend with medium to low risk factors	Print, marketing, promotions	**"Lite" or specialized e-sourcing tools that feed into e-procurement process**	Tactical sourcing team (internal or outsourced)
Short-term creative or ad hoc services	Video creation, website design	**Targeted online marketplaces for freelancers**	End users with procurement enablement
Non-recurring business critical spend	Conference speakers, influencers, affiliates	**Consolidation and process management by a third-party tool**	External provider
Recurring or one-time low-dollar, low-risk goods	IT accessories, basic tools	**B2B open marketplace**	Hands-off execution
Nonrecurring or one-time low-dollar, low-risk goods	Birthday gifts, conference room rentals	**P-cards on an external website or retail location**	Hands-off execution
Uncategorized tail spend	Any, especially unmanaged categories like prototypes or local facilities	**Spend analysis along with "lite" e-sourcing tools to find leverage opportunities**	Tactical sourcing team (internal or outsourced)

Source: The Hackett Group

Invoice automation

One of the complexities of invoice automation is the many different ways that suppliers submit invoices. There are three options for invoice automation:

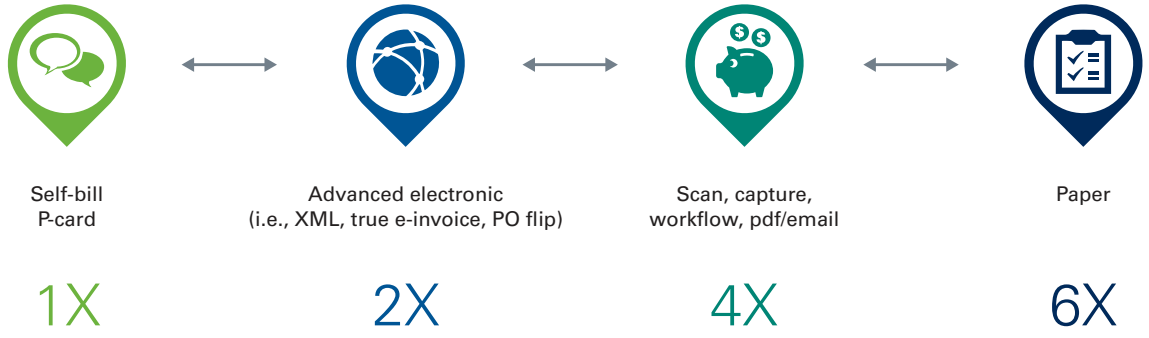
- Invoice elimination through the use of evaluated receipt settlement (ERS), purchasing cards, open marketplaces and consolidated invoicing.
- Advanced invoice processing methods, such as electronic data interface (EDI), supplier portals and file uploads, that receive invoices from suppliers in a uniform electronic format for automated data entry.
- Scan-and-capture technology, which receives invoices sent in a non-electronic format (paper, email, fax) and converts them into data through scanning (e.g., OCR) or a double-blind keying service. This technology is more prone to error because the data does not originate in a uniform electronic format. (As will be discussed later in this report, this method is not optimal and should be viewed as a last resort.)

By moving to invoice automation, procurement can reap significant cost savings, quality improvements and data-visibility benefits. The cost differential between companies that receive the majority of their invoices through electronic channels versus scan/capture workflow and paper channels is significant (Fig. 5). For example, those that primarily use scan/capture workflow incur processing costs that are four times greater than those using self-bill or p-cards for invoice transmission. The cost impact for paper is even greater.

While top performers maximize e-invoicing, most organizations still struggle with adoption. According to our study, 80% of organizations possess e-invoicing tools but transactions are not flowing through them (Fig. 6).

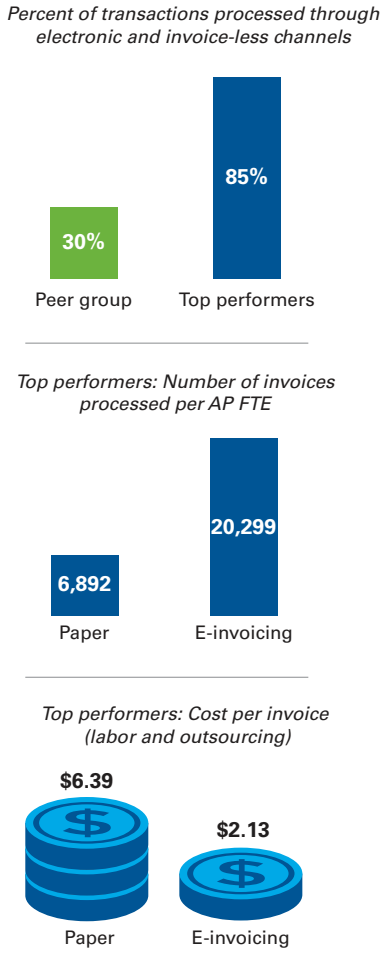
Moving 100% of suppliers to electronic invoicing is probably not feasible, for a variety of reasons. Buying organizations that want to encourage the use of invoice automation should take a hybrid strategy similar to electronic invoice methods. For the highest volume and/or most important suppliers, P2P organizations

FIG. 5 Processing cost differential by invoice transmission channel



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

FIG. 6 Invoice receipt metrics



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

should proceed with traditional electronic invoice methods (EDI, ERS, etc.). Remaining suppliers should be assessed on their importance and technological maturity. Those that are relatively important and technologically mature are well positioned for supplier portals. Invoice processing for smaller, less significant suppliers, or those with low technology capabilities, may be better suited for outsourcing or scan-and-capture solutions. Regardless, all invoices should be transitioned from an internal workflow of a physical paper document.

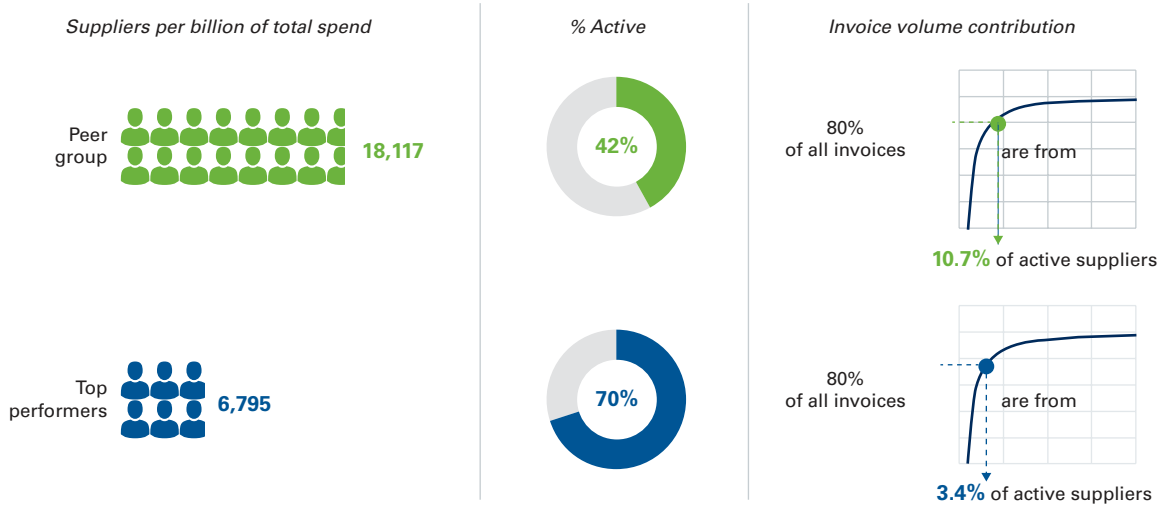
Hackett guidance: Don't force all invoices through a single channel. Segment suppliers and assign them to various electronic invoice or invoice elimination channels based on their ability to meet expectations.

2. INFORMATION

In the P2P process, information management has traditionally centered on facilitating access to supplier, catalog and contract master data, regardless of format. Today, information management increasingly focuses on making it easier for stakeholders to gather data for analysis, including converting it into consistent formats and making it available online.

One of the biggest gaps is line-item visibility. Top performers have visibility into 93% of line-item spend, versus 41% for peers. It is hard to guide purchases to the right guided buying channel without this data. Consolidating the supply base helps close the digital gap. It simplifies processes, makes it easier and less costly to manage master data and reduces purchasing errors. In the example below, top performers have about a third as many suppliers per billion as those in the peer group (Fig. 7).

FIG. 7 Degree of supplier base consolidation



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

Onboarding is the "on-ramp" for managing supplier information. As with other aspects of the P2P process, it helps to take a multi-faceted channel approach based on supply chain risk, information security, regulatory compliance, safety and other factors. For example, strategic direct suppliers go through a comprehensive onboarding process, IT-related suppliers go through portions of the process, and others with lower risk go through an abbreviated information check with routine legal steps.

Hackett guidance: Consolidate the supply base and ensure uniform clean supplier and spend data. This will be the foundation for other aspects of transformation. In addition, create a multi-tier approach to supplier onboarding, ensuring suppliers receive only the level of oversight necessary for their corresponding category of spend.

3. STAKEHOLDER-CENTRICITY

Many of the concepts of digital transformation revolve around listening to and supporting stakeholders. In the P2P realm, this means:

- Streamlining the buying process so that it is easier for stakeholders.
- Equipping stakeholders with self-service tools to perform order placement, status checks and other tasks independently.
- Providing better visibility to order status.
- Responding faster to inquiries.
- Aligning scorecards and service level agreements (SLAs) with stakeholder success metrics.
- Honing client-facing skills.
- Adopting a supplier-as-a-customer mindset.

Technology platforms and streamlined policies and procedures are among the most effective ways to influence and improve the experience for buyers, shoppers or suppliers (Fig. 8). In fact, the five most effective actions in the graphic below all represent a shift in emphasis from efficiency and quality toward more strategic objectives, such as greater enterprise agility.

Hackett guidance: While transforming P2P, maintain a constant focus on improving stakeholder experience through self-service functionality, efficient and effective access to information, and easy to use technology platforms.

FIG. 8 Most effective steps for improving P2P customer experience

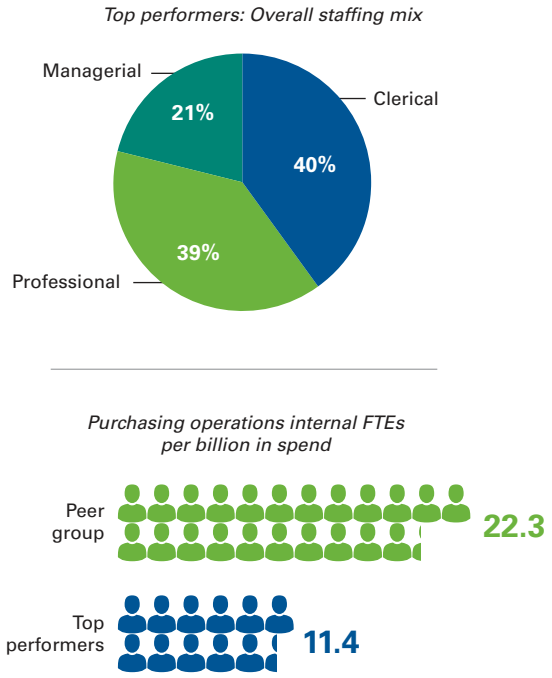
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

4. TALENT

As the P2P process becomes increasingly digital, process roles must evolve to fill critical new needs such as supplier enablement, data management and analysis, RPA orchestration, inquiry escalation, project management and contract management. The ability to transform and fill roles effectively in this changing environment will determine the potential for efficiency and effectiveness gains.

From the study, it is clear that top performers accomplish more with fewer resources. In purchasing operations, the staffing mix includes an almost equal number of clerical (primarily administrative) and professional (primarily analytical and technical) FTEs **(Fig. 9)**. Top performers capitalize on talent to build a smaller but more skilled purchasing operations workforce. Purchasing operations include requisition and purchase-order processing, supply data management, receipt processing and supplier scheduling processes.

FIG. 9 Purchasing operations: Top performers have a smaller yet more capable workforce



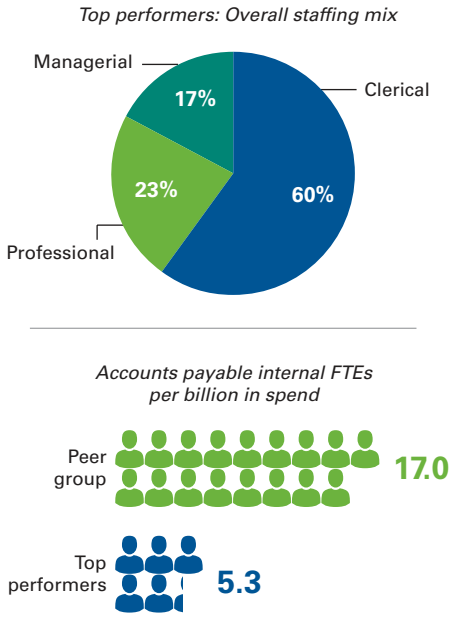
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

The difference between top performers and the peer group is more pronounced in accounts payable, which has a higher concentration of clerical/administrative workers. Top performers operate with far fewer FTEs and at a lower internal labor cost rate **(Fig. 10)**. Accounts payable includes supplier master management, pre-processing, verification/approval, processing, discrepancy resolution, payment, inquiry/response activities, file/store/retrieve, and reconciliation/accrual/compliance.

With digital skills in high demand, a comprehensive talent strategy focused on attracting, retaining and developing the right people is more important than ever **(Fig. 11)**. The incoming workforce is comprised of digital natives who are not interested in pushing paper. They can, however, help an organization cross the digital divide.

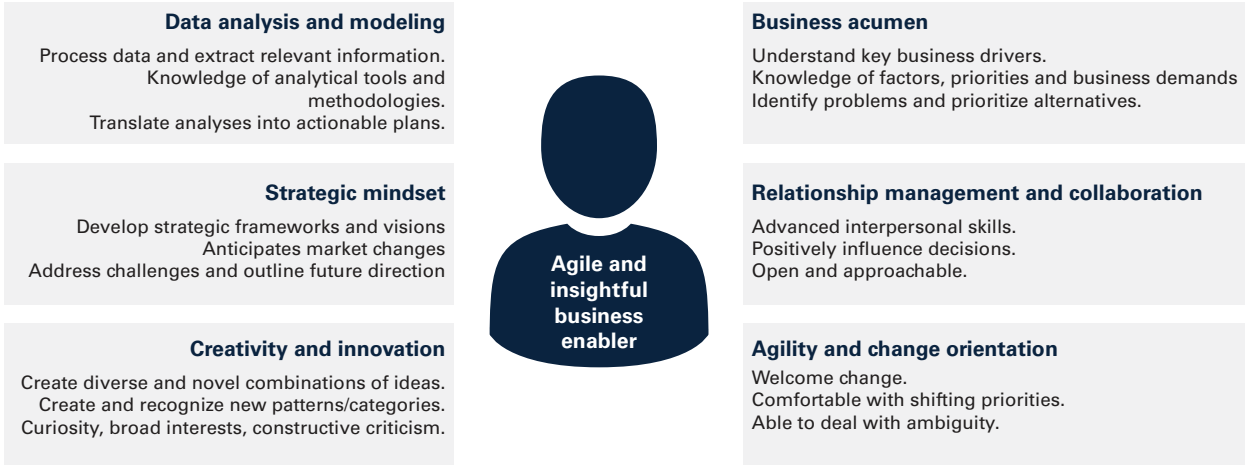
Hackett guidance: As procurement becomes more automated, there will be less demand for clerical staff. Train existing resources with digital skills to ensure they're effective and continue to provide value to the organization.

FIG. 10 Accounts payable: Top performers operate with far fewer FTEs



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2019

FIG. 11 Emerging digital skills



Source: The Hackett Group

CONCLUSION AND NEXT STEPS

Even top performers struggle when it comes to certain aspects of transforming purchase-to-pay for the digital era. Until information is fully digitalized, the lack of true spend visibility will continue to hamper decision-making and use of emerging technologies.

Sadly, not much has changed in two years. Since the last iteration of our Purchase-to-Pay Performance Study, cost structures in P2P have been fairly stagnant and automation hasn't increased in a meaningful way. That suggests new approaches and mindsets are in order. Following are several recommendations for breaking the impasse:

- Assess the P2P organization's progress using the peer-group and top-performer metrics highlighted in this report.
- Devote more attention to experience and effectiveness metrics, rather than efficiency metrics, to unlock new financial benefits.
- Adopt a channel approach to each process, guiding users intentionally down a path that is optimized for risk control, efficiency and stakeholder experience.
- Put the stakeholder at the center of the process, with technology and information designed to improve the experience.
- Consider how talent needs will continue to shift as automation eliminates traditional roles and how the organization will employ the range of training and sourcing options now available to transition skills and talent.

ABOUT THIS RESEARCH

The Hackett Group's Purchase-to-Pay Performance Study is a detailed quantitative assessment of transactional P2P processes ranging from requisition to payment. For the 2019 edition of the study, we analyzed performance data from approximately 100 companies across various industries and geographies. Our methodology is based on a rolling sample, with benchmarks calculated every two years using 12 months of data from participating companies. The study incorporates labor, outsourcing, technology/systems and overhead costs across all purchase-to-pay sub-processes. It also includes third-party vendor spend and transactions, excluding areas such salaries, taxes and product logistics.

About the authors

JIMMY LEFEVER

Senior Research Director, Procurement Advisory

In addition to conducting research on topical subjects, Mr. LeFever advises clients as they work to optimize their processes, organization and technology (both on-premises and cloud-based). His subject matter expertise includes sourcing, contract management, procure-to-pay, order-to-cash, payments, and travel and expense management. Before joining The Hackett Group, he was director of research and consulting at PayStream Advisors.

CHRISTOPHER S. SAWCHUK

Principal & Global Procurement Advisory Practice Leader

Mr. Sawchuk leads The Hackett Group's global procurement advisory practice. He has over 20 years of experience in supply management, working directly with the Global 2000 and midsized companies around the world and in a variety of industries to improve all aspects of supply management, including process redesign, digital enablement, operations strategy planning, organizational change and strategic sourcing. Mr. Sawchuk specializes in working directly with CPOs to help define a long-term strategy. He is a regular contributor to business publications, a frequent presenter at industry events and author of numerous reports and books.
Mr. Sawchuk's background includes engineering, operations and sales roles with both United Technologies and IBM.

The Hackett Group
1000 Abernathy Road NE
Suite 1400
Atlanta, GA 30328

+1 770 225 3600
1 866 844 6514 (toll-free)
info@thehackettgroup.com
www.thehackettgroup.com

Atlanta
+1 770 225 3600

London
+44 20 7398 9100

Global Offices

Amsterdam
Atlanta
Chicago
Frankfurt
Hyderabad
London
Montevideo
New York
Paris
Philadelphia
Vancouver

CR_1400143