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CFO

FINDING VALUE IN THE **PROCURE-TO-PAY CONTINUUM**

HOW A DIGITAL-CENTRIC APPROACH TO P2P IMPROVES PERFORMANCE AND BUSINESS CONTINUITY

In their roles as financial gatekeepers, CFOs have relied on CPOs to reduce costs. That's still a big part of the job, but there is more involved in today's CFO-CPO partnership. Modern finance chiefs are looking beyond cost to ensure that they are getting value for their spend by looking beyond short-term savings and contemplating the company's long-term ability to make informed financial decisions during times of uncertainty.

Managing back-office operations such as procure to pay (P2P) today requires a new level of orchestration between Finance and Procurement. By focusing on remote-centric digital approaches, best-in-class organizations can maintain business continuity using technology, by meeting the ongoing demands of both internal stakeholders while effectively managing suppliers and other third parties.

The reliance on a digital-centric approach to P2P has the potential to help both the CFO and CPO uncover hidden value with a new sense of increased process efficiency and effectiveness.

But organizations must start their digital procurement journey based on the recent lessons learned by focusing on the digital strategies that ensure business continuity.

This ebook will cover the importance of ensuring that the procure-to-pay process is providing value by addressing the challenges that prevent the alignment between the CPO and CFO and implementing best practices.

THE IMPORTANCE OF P2P IN THE VALUECHAIN

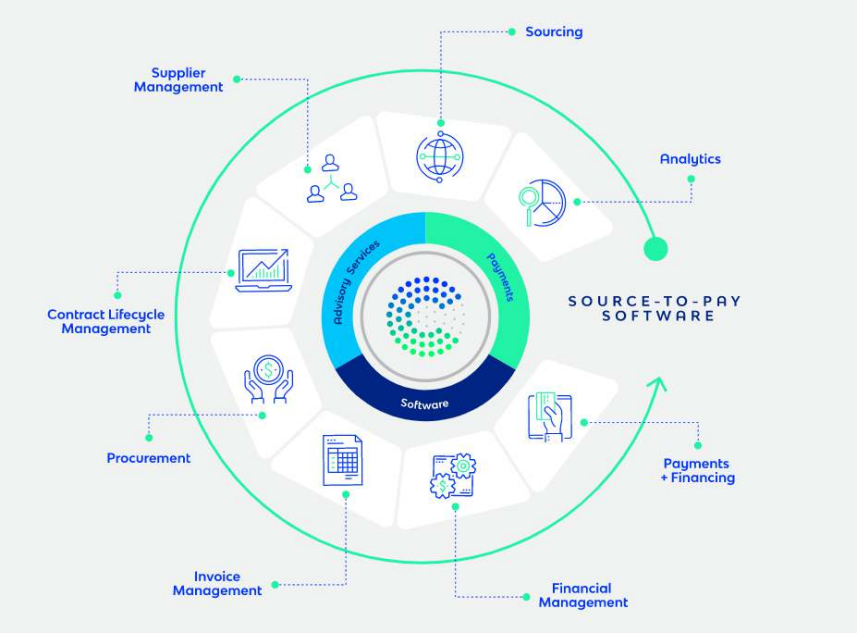
Stronger alignment and process ownership result in improved P2P efficiency and effectiveness. According to The Hackett Group's 2019 Purchase to Pay Performance Study, companies with strong P2P alignment pay $2.54 to $3.57 to processes an invoice. Organizations that lag in alignment pay close to $5 to process an invoice.

Efficiency is at the heart of driving P2P value. Companies with a single P2P owner had a 90% first-match rate, while organizations with weak alignment had a 70% first-match rate, according to The Hackett Group study.

A strong relationship between the CFO and CPO is critical to driving value from P2P. "While negotiating the best deals with suppliers is important, ensuring value goes beyond getting the best price," said Joe Payne, a procurement leader and currently Senior Vice President, Source-to-Pay (North America), Corcentric. "There is inherent value in risk mitigation. When you have a mutually beneficial relationship with a supplier, they are more inclined to assist you during a crisis like the one we're currently experiencing."

EFFICIENCY IS AT THE HEART OF DRIVING P2P VALUE. COMPANIES WITH A SINGLE P2P OWNER HAD A 90% FIRST-MATCH RATE, WHILE ORGANIZATIONS WITH WEAK ALIGNMENT HAD A 70% FIRST-MATCH RATE.

— THE HACKETT GROUP STUDY.



The CPO and the CFO should align their priorities to obtain substantial benefits for the company. "CPOs and CFOs have moved to more strategic roles as business partners driving innovation while mitigating risks and maximizing the company's profitability," said Thierry Jaffry, Vice President, USA & Canada, at Fluxym, a P2P advisory service.

Given the importance of a unified approach, what are some specific steps to improve the relationship between the CPO and CFO?

"One of the avenues for improvement is to increase collaboration in the budgeting phase and overall strategic planning," Jaffry said. "The CPO can bring great insights about market trends, price and consumption evolution. The CPO is also knowledgeable regarding the potential innovation to minimize the impact of cost increase or optimize the cash flow by doing things such as taking advantage of early payment discounts."

Jaffry added that the CPO also needs the CFO to agree on the procurement definition of cost saving. "This, believe me, is the hardest part."

Developing a common scorecard is another method to ensure alignment, said Kurt Albertson, Principal, The Hackett Group. "Everyone needs to buy in regarding the objectives and supply chain's role in achieving them. Are you looking to accelerate payments to achieve early payment discounts, or are you looking to keep cash on hand longer? Are you looking to reduce supply chain risk? Those are questions to ask."

Automation and digitization are essential to achieve better alignment between the purchasing and payment functions. Information that is accessible and visible can more easily leveraged. Greater visibility involves establishing workflows and platforms that are available to all stakeholders.

There are many ways that a carefully managed and fully aligned P2P process enhances the bottom line. P2P brings visibility and control. It reduces maverick spend, implements automated budget control, workflow application and contracts enforcement. It also allows touchless processes for functions such as invoice management. Automation enables the staff to focus on value-added tasks. "Moreover, the P2P process is the glue between finance and procurement," Jaffry said.

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A significant benefit of digitization is understanding the cash impact of not taking advantage of pre-negotiated contracts. Visibility into who you are buying from, what you're buying and how you're paying is key to managing cash flow and early payment discounts. Payne explained: "For example, you want to take advantage of a 2% discount if you pay within 10 days. If you're manually managing the process, nearly impossible. If you're doing this digitally, you can easily set up rules around cash flow and taking advantage of early payment discounts. That increases forecast accuracy."

Visibility into contracts through digitization helps stakeholders understand the cash impact of not taking advantage of pre-negotiated contracts. When everyone has access to the data there is a reduction in spend leakage and maverick spend.

Sourcing savings eroded by maverick spending behavior are a significant source of value leakage, according to The Hackett Group. The percentage of targeted negotiated cost reductions due to maverick buying is among the highest in finished goods for resale (16%), administrative and business services (15%), and travel and entertainment (10%).

Reducing maverick spend is eight times more effective than efficiency improvements, The Hackett Group's Albertson said. "Most of the spend leakage is happening when people purchase off-contract because of a lack of visibility and understanding of the overall impact that spending will have on the bottom line."

Dave Quillin, Senior Manager, Procurement, Alliant Credit Union, said a P2P system from Corcentric provides compliance tracking, among other benefits. "We are able to report to management about compliance with procurement policies."

Because purchases go through a preapproval process, there is better control over spend. "Stakeholders have the ability to pose questions and get answers before funds are committed," Quillin said.

The credit union is also able to consolidate vendors and set standards for purchasing, according to Kevin Devlin, Alliant's VP, Accounting & Financial Reporting. "We couldn't do that without a solid data foundation."

CHALLENGES TO MANAGING P2P

The risks of ignoring the digitization of P2P are clear. Organizations that continue to rely on manual processes have no visibility into what is being spent, where it is spent, or by whom. Some organizations still negotiate contracts that are not enforced locally because there is no P2P system in place to monitor it.

While it seems impossible to ignore P2P digitization, some organizations continue to struggle to implement an end-to-end solution.

A lack of self-service buying tools to make routine purchases with known/sourced suppliers was the top challenge cited in The Hackett Group survey. When people cannot make a purchase easily, they are likely to bypass the system. A complicated P2P process lacks data and insights to improve and encourage the use of preferred suppliers.

Another main challenge is data quality, Jaffry said. "Supplier data needs to be cleansed before a P2P implementation project, as it is a major risk of non-adoption of the future system."

Albertson also noted that there is a lack of strategic thinking about purchasing in some organizations. "If you're looking to purchase an item that is not available from approved suppliers, is there a procurement policy and finance policy that supports the purchase? Do you really need this item?"

Another issue is the need for global alignment of processes that can spur many disparate solutions, Jaffry noted. "That is especially true of multinational companies where local exceptions can lead to building a monster that can't be sustainably maintained."

A lack of automated controls is another roadblock to managing P2P more effectively. "There isn't clear communication to proactively explain why using supplier A will save money. And when there are purchases made in the field, for example, there are no controls or approval processes that will provide insight before the transaction takes place," Payne said.

While there are some technical and communication hurdles, there are also some cultural barriers to managing P2P. People are stuck in their old ways of doing things. In the past, they've made a purchase and submitted an invoice without thinking of the broader impact.

> **"COMMUNICATION AND SOCIALIZATION OF THE BENEFITS OF THE PROJECT ARE NOT ONLY IMPORTANT AT THE BEGINNING OF THE PROJECT** BUT THERE NEEDS TO BE A CONTINUOUS FEEDBACK LOOP."
>
> **— KEVIN DEVLIN, VP, ACCOUNTING & FINANCIAL REPORTING, ALLIANT**

BEST PRACTICES TO BOOST ADOPTION

The readiness phase is vital when embarking on a P2P transformation. Don't start a P2P project before ensuring that harmonized target processes are in place and validated globally, Jaffry said. "You also want to ensure that there is strong support from both the CFO and CPO, and the data has been cleansed and prepared for the future system, and a governance process is defined."

Successful projects start with clear objectives. At Alliant Credit Union, the goal was to establish a preapproval process. "This helped with compliance, but it was also important to communicate the benefit to stakeholders," said Quillin. "We needed to communicate how this was going to make their lives easier by having a process to follow rather than having to figure things out on their own."

As with any initiative, there should be an agreed-upon set of metrics to measure P2P performance, according to The Hackett Group's Albertson. Albertson said one crucial metric to track the return on accelerated payments. "If you're not getting a significant incentive to pay early, it might just be better to have the cash available."

Days payable outstanding (DPO) is another critical indicator of performance. Poor DPO directly impacts cash flow, enabling the finance team to make decisions based on a more accurate forecast of working capital.

Focusing on contract compliance will help ensure that P2P is contributing to profitability. Make sure you're paying for what you agreed to. Look to take advantage of early payment discounts. "While these things can be picked up in an audit, it is much easier to correct them before it gets to that point," Albertson said.

Data is essential to generating reports for the executive team on compliance, according to

Albertson said most people want to make good decisions, and incentives can work to encourage the desired behavior to make P2P a center of profitability. "If you incent people to use preferred suppliers, you'll see greater compliance."

Foster a culture that encourages people to think strategically about purchases, Albertson said. "We strongly encourage a guided buying approach that leverages technology to point stakeholders to the right source for routine purchases."

Finally, seek feedback and be prepared to adapt, said Alliant's Devlin. "Communication and socialization of the benefits of the project are not only important at the beginning of the project but there needs to be a continuous feedback loop."

CONCLUSION

The transformation of the P2P process requires a strong partnership between the CFO and the CPO. They must work as a team to realize the value from a high-performing P2P function that goes beyond cost reduction. In a rapidly changing business environment impacted by a pandemic and economic uncertainty, the supply chain can easily break down. Building an end-to-end process that is mutually beneficial for all stakeholders can help mitigate the risks.

KEY TAKEAWAYS INCLUDE:

- **Organizations can find value in transforming the P2P process, including lower invoice processing costs and greater contract compliance. They can also improve cash management and working capital and take advantage of early payment discounts by reducing manual processes and increasing visibility. The reduction of exceptions leads to more effective strategies and the ability to take advantage of early payment discounts.**

- **A lack of tools and data can hamper the ability to pivot the P2P function from a cost-containment mindset. Automation elevates the status of the P2P process beyond the back office by to one of strategic value with a seat at the table.**

- **Common metrics and greater collaboration are key components of transforming the P2P process and gaining alignment in the future.**

ABOUT CORCENTRIC

Corcentric is a global provider of market-leading source-to-pay, order-to-cash, and fleet solutions. From the mid-market to Fortune 1000 businesses, Corcentric delivers technology, managed services, and strategic advisory focused on reducing costs, optimizing working capital, and unlocking revenue. Since 1996, thousands of companies have trusted Corcentric's expert team and its suite of world-class solutions to spend smarter, optimize cash flow, and drive profitability.

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