10 Key Take Aways: Transforming the Source-to-Pay Process

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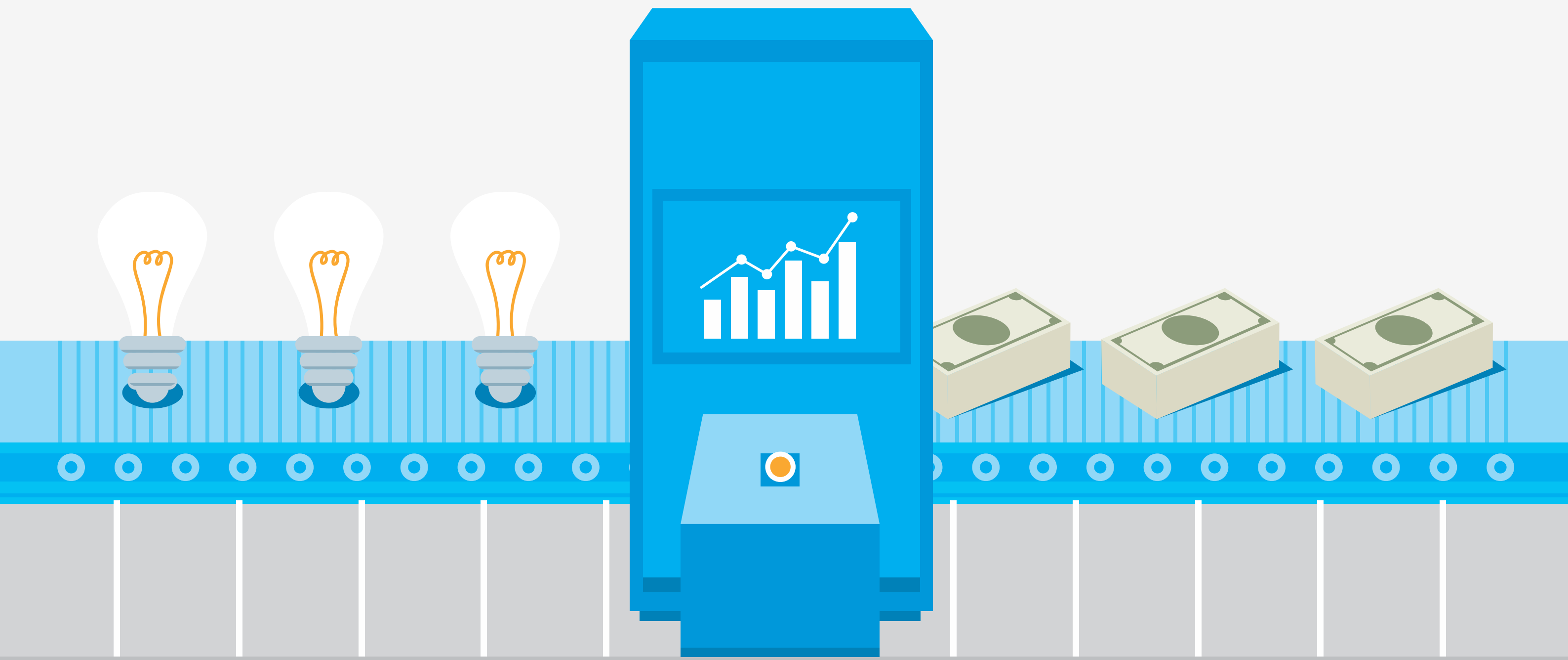


Introduction

Transforming the Source to Pay Process

Many senior managers view a source to pay process as merely a mechanism to complete a transaction. They completely miss the point that there are significant opportunities, cost and value improvements, benefits and integration points can be achieved through an effective source to pay process.

Organizations still run many source to pay processes on antiquated software spend cubes with add-on third-party software and in some cases even spreadsheets. While these systems are effective managing transactions, they are very limited in offering the vital data and tools to enable sourcing professionals to reduce complexity, ease the purchase burden on stakeholders, and provide the necessary data to aggregate and analyze this expenditure in a meaningful way. This paper focuses on a view of the future and details how reviewing and implementing a good source to pay process and system can provide strategic benefits that will improve productivity, efficiency, cost and value.

It is surprising how many companies have not yet automated the source to pay process and have significantly created supply relationship issues, employee issues, extreme complexity, inaccurate financials and failure to effectively manage contracts. Some examples of these problems can be seen through some case studies:

- One Biotech firm has a cycle time of 47 days to issue a purchase order.
- A financial services company's stakeholders made contracts with no central contract depository, exposing the company to unknown liability.
- A company empowering stakeholders for indirect expenditures, requiring only a signed invoice, which generated many deliveries on the receiving dock with no company contact requiring requisition initiators to be hunted down or material returned. Stakeholders also had a chance to manipulate invoices for budgetary reasons, sometimes losing them, causing endless calls from suppliers and duplication of work for accounting and procurement.
- Many companies have no detail on indirect and maintenance expenditures at the line item level.
- One Pharmaceutical firm, without an effective process for invoices, found many Sarbanes-Oxley compliance issues where payments were made without work on projects starting near year-end.
- One firm with supplier relationship issues because invoices were routed around the global company and lost, experienced significant delays and increased labor to resolve issues. In some cases, suppliers executed credit holds to assure payment of delayed payments.
- One mining company's process required the procurement team and accounting team to enter transactions in four places on the system. There were a total of 250,000 purchase orders, but the result was

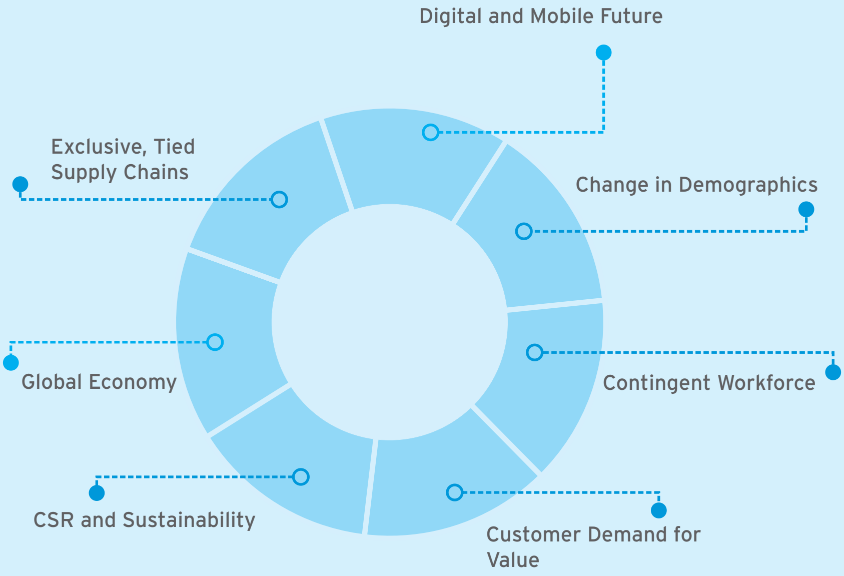
team actually handled 1,000,000 transactions. The company could not understand why, when benchmarked with other firms, they had 3 times the staffing. A template was made to ender the data once, which solved the problem, increased efficiency, productivity and enabled the sourcing team to improve cost by changing the focus from transactions to more strategic management of the spend.

While these are some examples of extreme cases, they happen on a recurring basis in many companies. The result is always the same: increased manpower, inefficiency, lost efficiency, focus on tactical and transactional activities and lost opportunities to reduce cost and add value.

Some of these issues can be easily managed through upgrading the source to pay process. As we look to the future, companies operating in the transactional mode will lose competitive advantage and could cease to exist.

Mega-Trends for 2020: A Look to the Future

Figure 1 represents a view of the trends companies must consider for future survival. They should be generating strategies and plans to be successful.

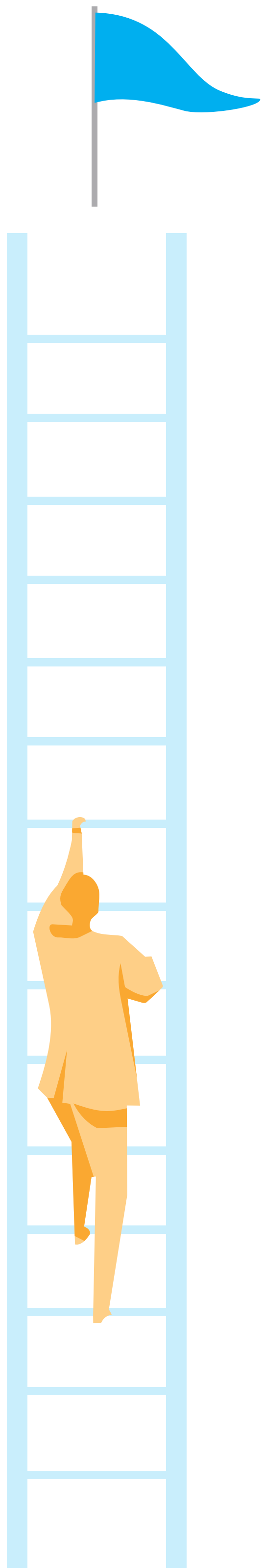


There is be little doubt that the digital disruption is impacting virtually every industry. A Mobile and Cloud-based future is accelerating, forcing companies to transform the way they do business. Speed and velocity are dominating supply chains, driving change in technology, integration, flexibility and alignment. It is likely that companies that can't adapt quickly will lose profit and market share. In Ernst & Young's Megatrends 2015 Making Sense of a World in Motion report, they note that hardware and software will eventually replace human interaction and transactions. The implication of this is that many of the source to pay processes will occur with a minimum of human intervention in the future.

We are also experiencing a significant change in demographics as millennials now comprise over 51% of our current workforce. This sector of the work force is extremely tech savvy and will be attracted by companies that automate tactical and transactional work. They will be looking for challenging work with the aid of technology.

Eventually supply chains will start to integrate as we are seeing with suppliers like Apple, Walmart and others. This integration will significantly impact the source to pay process as there will be linkages in data systems from demand planning, sourcing, logistics and payments across the entire supply chain from first source through to the end customer.

Benchmarking Your Current Process



What should you do if you are weak in the source to pay process? Look for leaders in the source to pay process and technology area. Ask the following questions:

- Does your current process require high labor?
- Does your process have many work arounds?
- Are there constant invoice mismatches or errors?
- Is your procurement staff spending more that 5% of their time on transactional activity?
- Are your stakeholders receiving goods before a PO is issued?
- Do you have many people involved in the source to pay process?
- Do you experience supplier relationship issues for invoices that are lost or missing?
- Are your purchasing and payment cycle times 24 hours or less?
- Are there designated points of contact or do suppliers email everyone they can?
- Do you have predefined catalogs for stakeholders to order from with no human intervention?
- Are purchase orders and invoices generated mapped and paid by your current process?

These are just a questions to consider when reviewing your process against others in and outside your industry. If you are still using lots of people and a manual system, you're missing an opportunity for cost and value improvement, headcount reduction, productivity, efficiency and improved supplier relationship.

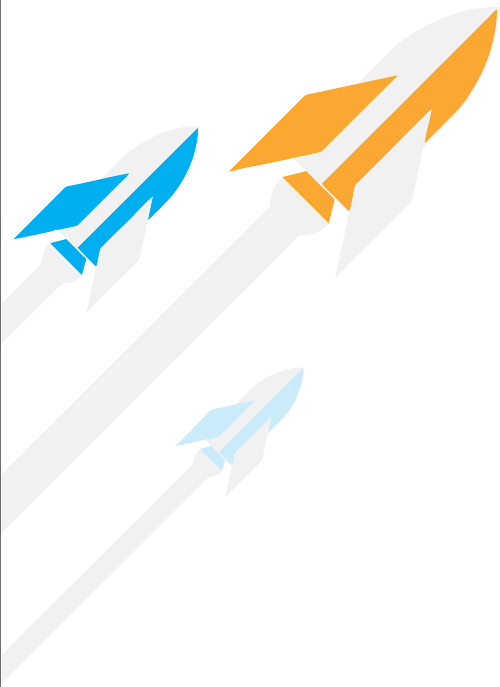
A good source to pay process will automate requisition and approval processes optimizing cycle time. It should simplify transactions from an approved catalog where authorized stakeholders can shop, receive and pay for goods with out human intervention. The catalog approach also reduces complexity by reducing the supply base and maverick spending. Purchase order and invoice management can be automated so that human interaction is minimal and suppliers can view the status of their invoices at any time.

The Benefits of a Good Source to Pay Process

A good source to pay process will collect and identify all of the company's direct and indirect expenditure. This will facilitate global expenditure analytics and strategic sourcing. Global spend can be segmented into global, regional, local spend. Volumes can be aggregated the supply base can be consolidated and maverick spend can be eliminated. Even complex expenditure like maintenance and travel can be impacted for millions of dollars.

Contracts can be managed in a central depository for expiration dates, performance and opportunities to leverage and improve both performance and cost. The company will have an assessment of the total liability for perhaps the first time. The procurement team can start to drive supplier relationship management and begin developing the strategic suppliers that will be the integrated supply chain of the future. The result is increased time and tools to focus more strategically on a category management process will no doubt drive lower cost and increased value to your firm.

The Way Forward



1. Build a business case from your benchmarking and analysis of the current system and include what it will cost and the ROI
2. Map the current process and develop a vision for a new process
3. Develop a detailed list of business requirements
4. Look for technology matching the business requirements you have defined (Classify needs, wants and wishes)
5. Secure top management support and engagement
6. Involve stakeholders in the process
7. Develop a business wide cross business cross functional team
8. Communicate the plan
9. Lead the project managing all road blocks
10. Implement on time

Many companies may not see the need for change, but considering the megatrends, change in this area will assure competitive advantage and survival in a digital world.

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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