

An introduction to Purchase to Pay (P2P) process improvement

e-procurement is no longer seen as a front end requisitioning tool but part of a suite of holistic end to end processing tools that form the P2P cycle.

What is P2P?

The P2P process consists of many sub-processes from sourcing, ordering, receipting, payment through to contract and relationship management. Through automation, components of the process can be either removed or deskilled improving efficiency and reducing costs.

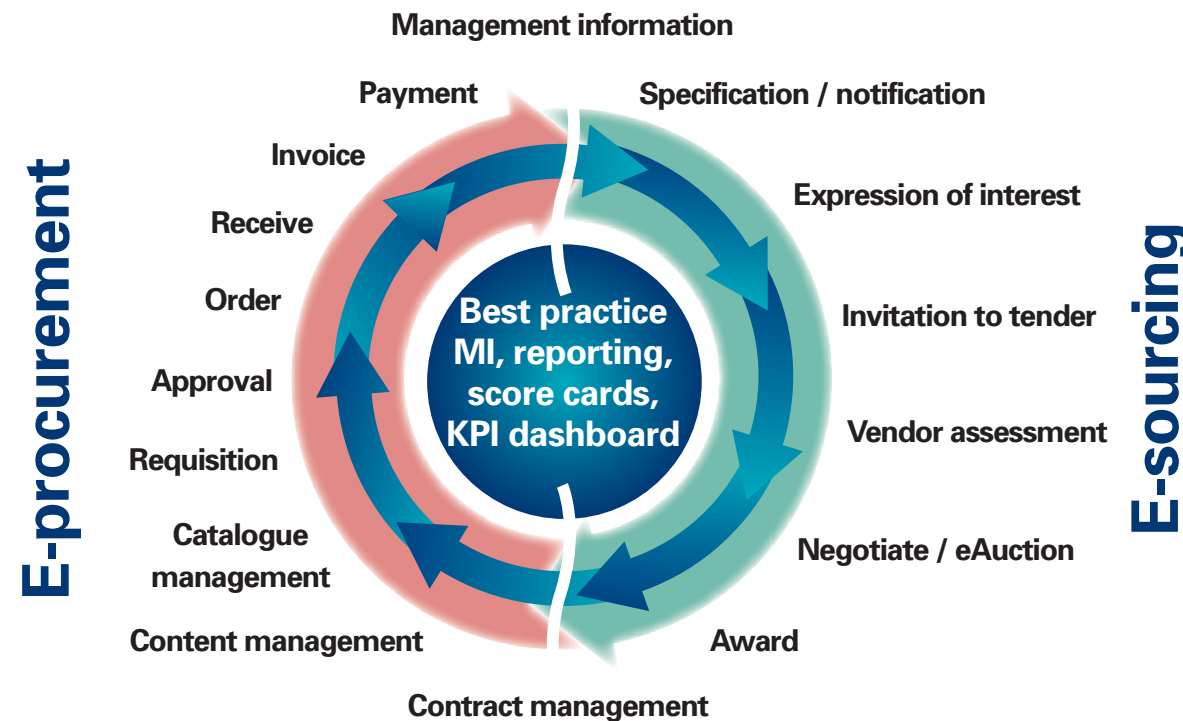
What drivers influenced P2P development?

Technological advances in ERP and web-based procurement systems have provided the tools for purchase and supply management (P&SM) professionals to consolidate information, reduce costs and increase service. This has been the most significant development for P2P maturity.

The evolution of supplier relationships from one off or adversarial, to strategic alliance and partnerships has influenced P2P development. Buyer and supplier work collectively to add competitive advantage in the supply chain for mutual benefit.

The development of Shared Service Centres and outsourcing of procurement and payables is also a driver for change. Consolidating 'back office' processes and decentralising P2P activity as a result of automation.

Purchase to Pay Process cycle



Areas for improvement

Organisations typically face the same operational challenges and areas for improvement.

Metrics - There is often a lack of both internal and external key performance indicators (KPIs). Clear targets for internal process, financial and policy measures, as well as balanced scorecards for supplier, form a P2P KPI reporting dashboard.

Policy - Procurement has a low influence at company level or is new to an organisation. This is common in service and hospitality industries where the procurement activity is much more devolved. As a result there is generally a lack of purchasing and payment policy and guidelines.

Process - Historically P2P processes have been labour-intensive, paper based, transactional activities and the perception is that they add little value to the business. There are often inadequate controls and a lack of process consideration for different spend categories.

Source Emma Brooks CIPS

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People - Decentralised activities carried out by inadequately skilled or trained people with little co-ordination.

Systems - Disjointed, stand alone systems throughout the process chain that concentrate mainly in low value, high volume transactions.

Automation of the transactional, labour-intensive process components reduces waste in terms of time delays, handling, reworking and delivery. Transaction costs can be reduced by using real time, pre-approved suppliers' catalogues, electronic delivery of purchase orders, goods received notes and invoices.

Benefits from P2P process automation



Source Emma Brooks CIPS

The benefits of understanding and improving the P2P span across many areas. The management information provides clarity and accuracy over costs to expedite the budgetary and forecasting process. Consolidating spend data contributes to the sourcing strategy and allows P&SM professionals to influence buying habits by using preferred suppliers, discounts and volume rebates. Better negotiated terms can be controlled through an automated process to allow for early payment discounts, but also improves cash flow by reducing premature payments.

To obtain the full benefits of a P2P process review, organisations must have a commitment to continuous improvement as technology, spend habits and suppliers are constantly evolving. Improving the processes requires an integrated programme with strong ownership and leadership. Some of the key enablers for success include top management commitment and appropriately trained people developing strong supplier relationships.

For further reading refer to the I-SAVE research carried out by CIPS, Oracle and KPMG. Go to www.oracle.com/start and enter I-SAVE.

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