LEVVEL RESEARCH

Benchmarking Procure-to-Pay Transformation

How to Approach Procure-to-Pay (P2P) Automation Based on the Current P2P State

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» P2P Automation Adoption Trends

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» Strategies for Leveraging P2P Automation According to Unique Current State Environments

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Introduction

In order to build a successful Procure-to-Pay (P2P) process, which includes the requisitioning, purchasing, receiving, paying for, and accounting of indirect goods and services, organizations must complete a few important steps. One is to create full synchronization between procurement and accounting departments, which facilitates transparency and more strategic financial planning. Another is to automate the P2P process, which improves an organization's control over spend, reduces costs, and fosters thriving supplier partnerships.

While fully automated P2P processes can be a reality for any organization, the journey will be more complex for some companies than for others. P2P automation is not one-size-fits-all, and the adoption process will differ depending on a number of factors, including a company's current state with respect to automation. Some companies may already have some automated processes in place, such as with an ERP-based or homegrown system. However, these tools typically do not bring companies the holistic data management and efficiency that is possible with more advanced options, such as today's leading cloud-based P2P solutions.

The result of a fully automated state and full visibility into company data will be an improved ability to control costs, manage cash flow, and facilitate on-time delivery of goods. To successfully automate the entire P2P process, an organization must evaluate its current state to determine how and where P2P automation software fits. This whitepaper is intended for organizations at various stages of a P2P automation transformation. It offers a set of current state scenarios against which organizations can benchmark themselves to understand how they can successfully gain full automation in their P2P processes.

Benchmarking the Current P2P State

Depending on the extent of a company's P2P automation, the ability to adequately capture important metrics and insights into back-office performance will vary. The following four scenarios are examples of how companies can work towards automation depending on their current P2P state.

Scenario 1: Manual processes—No AP and/or procurement system

Manual P2P processes are often time-consuming and poorly monitored, and can cause companies to overspend. Levvel's research shows that email and phone-based methods are the predominant way companies without automation manage the procurement lifecycle. For example, in order to get a status update on an order, a procurement professional must call or email the supplier each time they have a question.
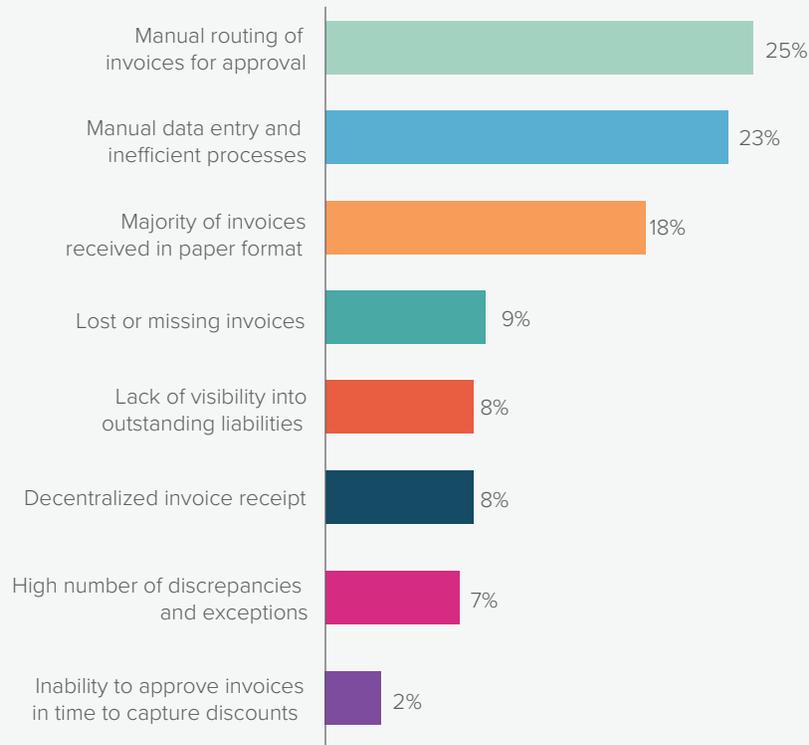
Manual procurement can also cause difficulty downstream, particularly when there is limited synchronization between procurement and payables processes. Under manual processes, Accounts Payable teams often have difficulty seeing the overall flow of goods and spend activity, which tends to lead to more human error, such as inaccurate data entry or lost invoices.

Figure 1 shows that manual processes also typically involve a high volume of paper invoices, lengthy approval cycles, late payments, weakened supplier relationships, and limited control over spend throughout the back office.

FIGURE 1

Top Challenges in the AP Process

Challenge	Percentage
Manual routing of invoices for approval	25%
Manual data entry and inefficient processes	23%
Majority of invoices received in paper format	18%
Lost or missing invoices	9%
Lack of visibility into outstanding liabilities	8%
Decentralized invoice receipt	8%
High number of discrepancies and exceptions	7%
Inability to approve invoices in time to capture discounts	2%

Organizations' Top AP Pains Concern Manual Routing and Data Entry, and High Paper
"What are the top three biggest pain points you experience in your AP workflow process?"

Manual P2P processes also limit C-suite executives from making strategic, data-driven business decisions, as they have a limited ability to gauge spending patterns, inventory levels, and P2P performance trends. Altogether, the inefficiencies associated with manual processes can lead organizations to spend millions of dollars each year in processing costs.

To help support a back office faced with an endless stream of paperwork, companies often hire additional staff to help with damage control. However, this approach leaves the heart of the issue unaddressed—there is little to no insight into the overall P2P lifecycle, including how long it takes to complete certain processes, or where improvement might be possible.

The best way to reduce the issues that come with manual processes is through automation, but knowing where to start when rolling out a P2P software solution can be a daunting task. For older and/or larger companies, which may have widespread national or multinational locations, automating typically requires lengthier, more complicated transitions. To a similar extent, a company using one or more legacy systems on which many back-office teams and processes are dependent may also require a longer implementation period.

Recognizing these challenges, today's P2P software providers typically offer a number of services that can facilitate the transition. For instance, integration specialists and business process consultants can be provided in order to guide IT configuration during implementation and transform current operations into streamlined technology-based workflows.

For smaller and/or younger organizations that are less dependent on complex legacy-based infrastructure, many modern P2P solutions are hosted (e.g., SaaS) and operate in a cloud environment. This means that extensive IT resources aren't necessarily required to implement and maintain an automated P2P solution. If companies have limited resources for technology investments, they can choose to automate their processes in a piecemeal manner (e.g., by building in technology for a specific procurement tool). However, while automation can be undertaken gradually, it should be done with a broader, end-to-end P2P transformation in mind.

Regardless of a company's approach to automation, it should carry out a comprehensive assessment of potential software alternatives and company needs, in addition to a competitive analysis of potential vendors. Companies should evaluate their current state by taking a detailed look at their existing processes and process metrics. These metrics include processing times, labor costs, error rates, and the annual costs of existing systems, including maintenance. A company's current metrics can be used alongside ROI calculators to gain a clearer picture of what the future state of the organization looks like. Companies can also gain insight from considering P2P solution providers' experience with organizations comparable to their own, and/or in similar industries and market segments.

A company's initial step towards P2P automation should be taken strategically; which process the company decides to automate at the outset should be based on a thorough evaluation of existing processes, and the potential benefits of automation in different areas. Another important consideration when exploring

P2P solutions is whether the solution has the capacity for future growth and technological change. For example, a young, small company should ask themselves if they are putting the right infrastructure in place to support future processes should the company increase in size.

By actively engaging in pre-implementation research and preparation, companies increase the likelihood that their selected solution will meet their objectives and specific needs. This also ensures preparedness and enables improvement goals to be clearly defined, timelines to be established, and budgets to be decided (based on anticipated ROI).

Scenario 2: Homegrown system / ERP-based system

Starting in the 80s and 90s, many companies adopted ERP-based or homegrown solutions as a means of customizing automated P2P processes. However, over time and given technology's continuous evolution in many areas of IT and business operations, companies reliant on these types of solutions are facing many challenges. They often struggle to keep their systems functional, up-to-date, and well-integrated with other back-office systems and processes.

While ERP-based, bolt-on modules enable companies to integrate back-office processes already reliant on ERP systems for many activities, the tools typically have limited flexibility (e.g., the inability to create invoice-routing exceptions). They are also notorious for their lack of agility when it comes to adjusting to market demands or a company's needs as it scales in size.

Some organizations, unsatisfied with both their ERP's bolt-on offerings and the cost or selection of off-the-shelf software options, have elected to develop their own "homegrown" P2P systems. The primary advantage of a homegrown solution is that companies can customize the solution precisely to meet their needs. However, homegrown solutions still present many challenges of their own, such as a limited ability to scale. Another challenge is the resource-intensive process involved in maintaining and upgrading of a homegrown solution, as it often overburdens IT teams.

Over the last decade, native ERP and on-premise solutions have been gradually eclipsed by more affordable and technically versatile cloud-based solutions. Unlike with on-premise solutions, cloud-based technology providers manage the solution's entire system security and maintenance. Solution providers are

also available to troubleshoot any user issues, and to provide training for new feature releases. Cloud-based solutions are more flexible than ERP-based and homegrown solutions, as they allow teams to work together within the same system regardless of geographic location, and provide a seamless flow from procurement through to payment.
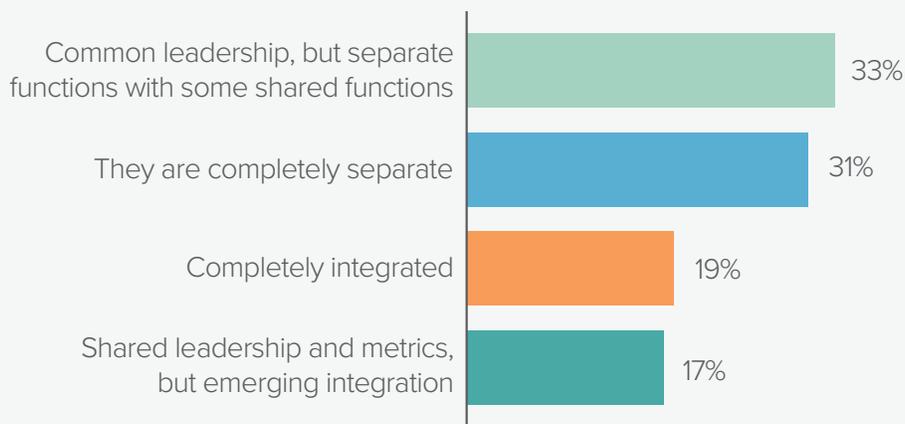
As companies look towards cloud-based, standalone P2P solutions, they should invest time in evaluating potential providers that have experience with the company's existing ERP solution. In the case of homegrown solutions, companies should connect with migration and IT consulting services that can facilitate (via change management) the transition from the homegrown solution to a provider-based arrangement.

Scenario 3: Automated but segregated AP and procurement

While cloud-based solutions offer a step in the right direction in terms of managing the P2P lifecycle, a significant barrier to maximizing visibility and efficiency in P2P lies in AP and procurement processes being siloed. Integrating the two functionalities can also address many other challenges stemming from a lack of visibility. However, despite the many advantages of integrating payment and procurementcfunctionalities, many organizations maintain some degree of separation between the two, see Figure 2.

FIGURE 2

Organizations' P2P Process Integration

Common leadership, but separate functions with some shared functions	33%
They are completely separate	31%
Completely integrated	19%
Shared leadership and metrics, but emerging integration	17%

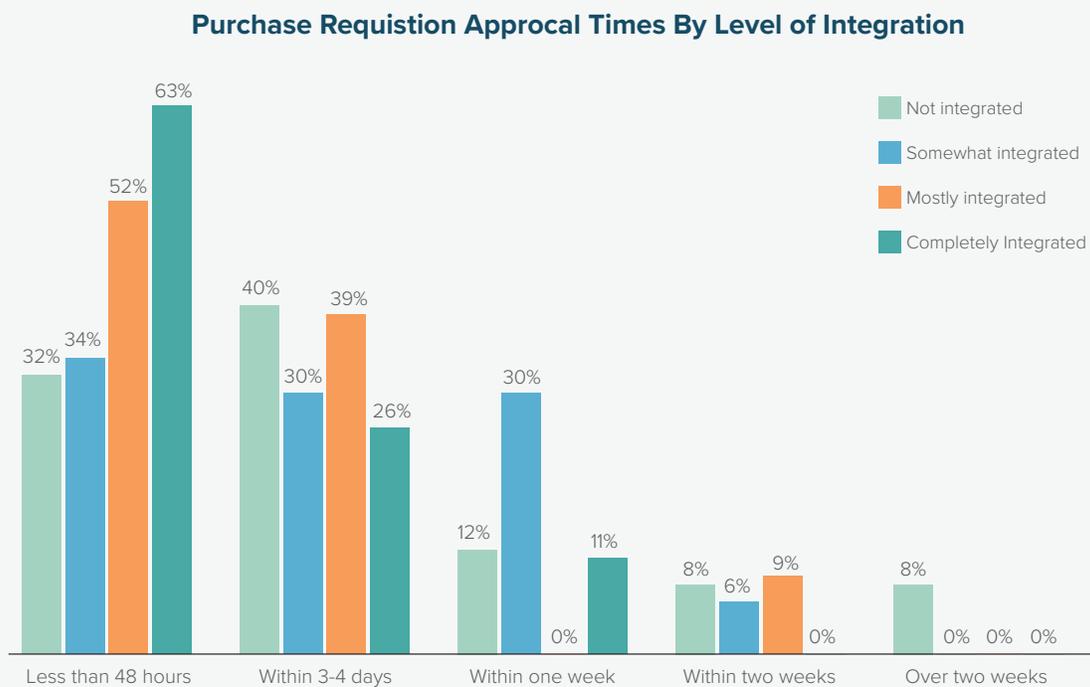**Most Organizations' P2P Processes Are Not Fully Integrated**

"How would you describe the process flow between Procurement, AP, and Payments?"

While procurement and AP department are often run separately, their objectives are interdependent. For example, AP uses procurement's data to ensure that vendors are compliant with their contracts, while procurement analyzes spend data from the AP department to inform their purchasing decisions. Although these processes appear relatively straightforward, in the absence of integrated systems and processes, there are many opportunities for inefficiencies or errors to occur.

For example, maintaining disparate systems for back-office functions runs the risk of oversight (e.g., purchases being made without record), lost discounts due to late payments, and errors in documentation. Another example is in approval times. Research shows that companies with disparate procurement and payables processes tend to have slightly longer approval times, see Figure 3.

FIGURE 3

Purchase Requistion Approcal Times By Level of Integration

(Legend: Not integrated, Somewhat integrated, Mostly integrated, Completely Integrated)

	Less than 48 hours	Within 3-4 days	Within one week	Within two weeks	Over two weeks
Not integrated	32%	40%	12%	8%	8%
Somewhat integrated	34%	30%	30%	6%	0%
Mostly integrated	52%	39%	0%	9%	0%
Completely Integrated	63%	26%	11%	0%	0%

Integrated Purchasing and Payables are Associated with Shorter Requisition Approval Times

"How would you describe the process flow between Procurement AP, and Payments?"

With integrated and automated procurement and payables, organizations gain more visibility into spend data; the more visible P2P data, the more rapid the P2P transaction cycle becomes. Reconciling disparate systems allows end-to-end transaction details (i.e., from PO to payment) to be recorded within one system, streamlining purchasing and AP. Procurement and AP members can review documents for discrepancies and reconcile data issues between their two departments more easily and quickly. By bridging the disconnect between finance and procurement, all purchasing and payment data can be organized and archived, and used for historical comparisons or industry benchmarking. A single system is also beneficial from a data management perspective, as it facilitates the creation and maintenance of a master data set between the two teams, circumventing the risk of inconsistencies between the two processes or of either team relying on outdated information.

Automation and collaboration not only streamline P2P processes, they also enable a company to execute more strategic, well-informed decisions. For example, integrated and automated AP and procurement systems allow for more accurate forecasting of future cash flow positions and easier identification of where cash is trapped on the balance sheet. Overall, the more integrated the P2P process, the greater the potential competitive edge a company can have over others who have yet to integrate these functionalities.

While integrating systems, an organization can streamline the transition by educating both sides on the challenges each team faces, as well as their shared characteristics and goals. Increasing awareness between the two departments can help with gaining buy-in and commitment to new processes and systems. For instance, AP and procurement teams may have similar but unaligned priorities, procedures, and benchmarks for success. These teams could align on achieving a KPI, such as an early payment discount capture rate, and work together towards this common goal.

Scenario 4: Fully automated P2P

The end goal of any organization, regardless of current state, should be a fully automated P2P process. A holistic solution gives executives and other decision makers valuable insight into spend data, permitting them to make more informed decisions about spend and strategic resource use, and allowing them to transition from managing their company based on intuition to managing based on accurate, holistic data. End-to-end P2P automation also enables quicker, more efficient communication between internal teams. Employees can monitor purchase requests in real-time, with the ability to quickly correct any problems that arise through messaging capabilities that are built into the P2P solution. All of this is facilitated by cloud-based technology connecting multiple teams across different geographic locations from one platform.

An additional benefit of visibility into spend is that companies can gain a better sense of employee behavior (e.g., maverick spending among team members) or instances of missing information (e.g., incomplete data on PO forms). By detecting these types of anomalies in the P2P process, the solution helps to create a more efficient and controlled P2P lifecycle.

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Leveraging P2P Data with Future Business Goals

One of the most beneficial results of a fully automated Procure-to-Pay process is the ability to gain full visibility into all spend and process data, and the ability to use that data strategically. These abilities are even more powerful when leveraged with one of the most exciting modern technologies—artificial intelligence (AI).

AI is a technology that enables computers to simulate human intelligence (e.g., learning, reasoning, problem solving) and, more broadly, human behavior. Machine learning (ML), a branch within AI, uses statistical algorithms to analyze data, revealing patterns and anomalies.

As more companies automate their P2P processes, solutions that leverage AI technology are emerging. One example is in invoice data capture. AI has the capability to take unstructured data and convert it into structured data, and an intelligent P2P solution can quickly ingest and extract data from invoices, regardless of their format. What differentiates standard optical character recognition (OCR) technology from an intelligent data capture tool is that, over time, ML becomes familiar with certain document elements, such as the handwriting of particular vendors, and can improve the accuracy of its data capture. This helps to further streamline data ingestion and reduces the chance of errors. Machine learning can also detect patterns that would be difficult for humans to identify by themselves.

Using AI and sophisticated data analytics techniques, companies are gaining valuable insight into their back-office processes. C-suite decision making is facilitated by data-driven insights, which enables these decision-makers to form more sound business predictions and financial forecasts. The use of AI also improves employee productivity. For example, back-office employees no longer need to chase down lost invoices or signatures for approval, as AI technology is able to determine invoice routing patterns and identify who typically approves the invoice in question. With more sophisticated AI in place, user experience is also improved, as the system adapts and learns user preferences, much like an individual's preferred websites or mobile applications.

As the degree of automation in a P2P lifecycle increases, so does the amount of data that can be analyzed. With enough data, AI and ML are not only able to identify past and current patterns and issues, they can also identify future risks. For example, machine learning may gradually identify a pattern in late payments

from a supplier, and the system can alert employees that remedial action should be taken.

The increasing use of AI and machine learning technology in P2P automation will have significant returns in terms of P2P efficiency, accuracy, and insight for organizations. Therefore, investment in automation now will benefit companies in the short and long term, and will set them apart for their competitive advantage.

Conclusion

Human error and limitations in capacity are the enemy of efficiency. With holistic P2P automation, data can be continuously aggregated and analyzed. Traditionally siloed business functions can be brought together to help companies identify optimal approval routes, predict payment lifecycles, and reduce inefficient spend policies. The power of holistic data management offered through fully automated P2P has enormous benefits for today's organizations and sets the foundation for intelligent P2P.

About the Sponsor

Basware is a global leader in cloud-based, Source-to-Settle solutions. The company works to help each customer achieve 100 percent supplier onboarding, user adoption, and invoice automation. Basware also grants customers full visibility into spend and the ability to capture all of their financial data in one solution. Basware provides scale and reach for organizations of all sizes, enabling them to grow their business and unlock value across their operations by simplifying and streamlining financial processes. Organizations around the world achieve significant cost savings, more flexible payment terms, greater efficiencies, and closer relationships with suppliers.

About Levvel Research

Levvel Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Levvel Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Levvel Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Levvel Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Levvel Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

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