# THE VALUE OF MODERNIZING PROCESSES THAT ENABLE INDIRECT SPENDING

An APQC White Paper

# PERSPECTIVE FROM THE RESEARCH SPONSOR: ORACLE

Procurement organizations are continually challenged to keep costs under control. To do this, they must increase their influence over both vendors from whom they source goods and services for the business and over the spending activities of the company's employees. Procurement leaders also need to control the costs of outdated and inefficient processes that often involve paper documents, ineffective collaboration and the re-keying of information from one system to another. As companies grow, so do the demands on their procurement departments. However, as economic uncertainty continues, most companies are resistant to adding headcount and raising their cost structure. Lacking the ability to add more people, procurement departments need to modernize the company's source-to-pay process to handle increased volumes. The solution is adopting modern technology that automates routine tasks and enables better collaboration with suppliers and colleagues, which results in significant enhancements in efficiency as well as improvements in productivity and reduced cycle times.

At Oracle, we've had the opportunity to work with our customers and observe how they utilize technology to drive greater efficiencies across the source-to-pay process. Many of them are increasingly adopting cloud-based applications that incorporate modern functionality that helps change the way people work. A large food products company recently consolidated disparate systems from across the company into a single, integrated source-to-pay system resulting in a seamless process flow across the entire cycle. They've also reduced their costs by millions of dollars through greater spend visibility across suppliers and improved negotiation capabilities. A telecommunications company was able to get its "maverick" spend under control through the broad deployment of self-service procurement to its employees resulting in greater user satisfaction and lower costs. Further, many customers describe the benefits of having a truly integrated source-to-pay process where procurement and accounts payable collaborate more effectively. Manual processing of internal requisitions and approvals, creation of purchase orders, and reconciliation of vendor invoices combine to drive up costs. It also increases cycle times and makes it difficult to process invoices quickly to take advantage of early payment discounts. Examples of both functions working in concert include creating procurement contracts that contain provisions for electronic invoicing and early payment discounts. Automated invoice reconciliation ensures that vendor invoices are processed and paid quickly, allowing the company to take early payment discounts and increase returns on working capital.

Cloud-based applications can play a key role in modernizing your source-to-pay process. They not only reduce the cost of deploying enterprise applications, they also incorporate modern technologies that provide capabilities that were not previously available in legacy systems such as social collaboration, more intuitive user experiences, embedded analytics, and support for mobile devices. We've identified five key characteristics of modern cloud-based procurement systems that enable procurement and AP to collaborate more effectively, work more efficiently, and reduce the cost of operations.

## Strategic

Procurement's greatest value to the organization comes from identifying and evaluating potential vendors, selecting those that offer the best value and negotiating agreements that secure the best pricing terms for the company. Technology helps automate the source-to-pay process by reducing time-consuming administrative tasks and enabling procurement professionals to focus on what they do best— evaluating potential vendors, selecting those that offer the best value, and periodically re-qualifying them. Technology solutions can also help sustain procurement's contribution by enforcing disciplined and compliant purchasing throughout the company to ensure that negotiated pricing is translated into savings and improvements in operating margins.

## Insightful

Procurement professionals benefit from graphical award analytics that give them the ability to compare criteria across multiple vendor quotes, make faster vendor selections, and provide the best value to the company. They can also leverage insight to manage supplier negotiations in real-time. When making self-service buying decisions, employees can tap embedded analytics that help them make faster product comparisons that improve satisfaction and productivity while encouraging on-contract purchasing.

## Collaborative

Modern procurement applications improve collaboration on several dimensions. Using social collaboration, a conversational stream embedded in transaction screens, helps increase cross-functional team communications and information sharing. It enables people to partner across departments to define requirements, negotiate contract terms, and achieve faster execution. In addition to social collaboration, powerful built-in workflow capabilities help them collaborate with suppliers through online portals to streamline information sharing, receive RFP responses, and transmit purchase orders, invoices and payments between parties faster and more accurately.

## Efficient

Modern procurement systems feature consumer-like experiences that make it easy to adopt. You need to make sure the hard work of selecting and qualifying suppliers and negotiating better prices translate into actual cost savings. Procurement's internal customers, the company's employees who initiate purchases, require an application that makes it easy for them to find what they need through an intuitive online catalog that also ensures their purchases will be contract compliant. Modern user experiences and mobile device support also help reduce administrative work by making it easier for regular users to find what they need, prioritize actions, secure approvals, and complete their work faster.

## In Control and Compliant

Organizations that still rely on paper-based contracts and manual authoring are spending too much time creating, revising, and approving contracts. After awarding business to a supplier, modern procurement systems simplify the step of creating contracts through guided document authoring, terms libraries, and revision workflows that decrease workload, increase efficiency, and reduce risk. They also ensure that contracts comply with company-wide standards and incorporate pre-defined business rules that guide reviews and approvals. They also help streamline the entire process and translate contract terms into policies and rules that enforce compliant buying behavior, approvals, and reviews with robust audit trails.

# The Oracle Cloud

Oracle is helping our customers achieve procurement excellence by delivering modern cloud-based solutions as part of our Oracle ERP cloud. They were developed from the ground up with modern technologies like social collaboration, embedded analytics, and support for mobile devices. They also feature an engaging consumer-like user experience to increase user adoption, standardize and automate routine transactions, and manage all of an organization's source-to-pay needs. With comprehensive functionality across business processes, customers can solve their business problems with end-to-end execution and complete visibility to help them modernize their procure-to-pay cycle, keep costs under control, and maintain profit margins.

For more information: https://www.oracle.com/procurement-officer

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## THE VALUE OF MODERNIZING PROCESSES THAT ENABLE INDIRECT SPENDING—AN APQC WHITE PAPER

There's a clear trend afoot: managers of business procurement processes, along with their counterparts on financial management teams who focus on accounts payable, invoice processing, and management, are keenly interested in strategic benefits that can be obtained by moving forcefully to modernize.

In early 2015, APQC conducted a survey to learn what plans companies have for modernizing aspects of their procure-to-pay (P-to-P) process. Another goal was to explore the strength of collaboration between procurement and accounts payables (AP) professionals. The primary focus was on indirect spending: the procurement of and payment for goods and services commonly bought for consumption by internal stakeholders, rather than external customers or clients.

APQC sent the survey to both procurement and finance professionals and received responses from 132 organizations, nearly two-thirds of which individually generate more than $1 billion in annual revenue. Nearly half of the respondents work in the procurement function and one-third in finance. The rest held titles that indicated they had responsibilities in both procurement and AP or were business process management experts. In addition to fielding the survey, APQC conducted personal interviews with several organizations that, based on their survey responses, appeared to be further than most along on the path to progress.

## WHY THIS RESEARCH NOW?

APQC launched this study after observing a surge of interest in P-to-P process improvement. A growing number of organizations are investigating the benefits of streamlining their process models and enabling them with technology such as e-invoices,[1] self-service portals for employee requisitions, and automated workflows to accelerate invoice processing. Moreover, there has been a groundswell of demand for APQC's procurement and AP process benchmarks, a sign that managers want to measure their improvement opportunities and pursue the most promising.

One example is Woodward Inc., which integrates technologies into fuel, combustion, fluid, actuation, and electronic control systems for aerospace and energy markets around the world. Company headquarters are in Colorado. Martin Schulz is financial manager for corporate analysis and systems. He oversees process improvement for core financial management activities. Currently, he is working with the global supply manager for indirect services to plan a shift from paper-based invoice management to automated invoice processing using software from OpenText. They expect implementation to begin in the second half of 2015. Meantime, they are working to implement an e-procurement system, which involves software-as-a-service (SaaS), in other words, cloud technology. The goal is to have all 22 sites worldwide eventually using standardized processes and systems with the ultimate aim being stronger control and compliance and a better audit trail. "In addition," said Schulz, "we want to gain better visibility into the process and therefore get better visibility on bottlenecks." They also want to improve the experience for their internal customers. For example, they will have a hosted catalog, which does take some effort to put together. But Woodward sees the benefit: it will provide a capability to drive toward negotiated pricing. If a vendor resists the notion of the e-catalog, then that supplier can be persuaded to join a supplier network set up by the SaaS supplier, which has Woodward's chart of accounts so it can manage direct communications with the company's ERP system.

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[1] The true definition of electronic invoicing is the exchange of the invoice document between a supplier and a buyer in an integrated electronic format. The e-invoice should contain data from the supplier in a format that can be entered (integrated) into the buyer's AP system without requiring any manual data entry by the buyer. Source: Open Text Corporation.

Schulz went on to explain the plan for the new approach to invoice processing. "Paper invoices will be sent to a third party for scanning or sent to a dedicated email site so that we can extract digital data. If it's a purchase order (PO) item, we'll kick it to the ERP for automated three-way match. If it's non-PO, we'll kick off an automated approval workflow." Moreover, if a PO item fails to match automatically, "there will be several email workflows [that facilitate communications to reconcile the issue], and this will give us substantial time savings," said Schulz. At the back-end, Woodward will have a single archive that will be highly searchable. Schulz ended by explaining the beginning: he did process benchmarking to identify efficiency gaps. From there, "I did a discounted cash flow analysis to get a net present value target and then I was able to see an overall payback," he said.

As explained below, the vast majority of organizations that participated in the APQC survey are moving to modernize their P-to-P processes. Many are starting the journey in the realm of indirect procurement. For a lot of companies, this is a good place to begin because the process of developing a proof of concept is straightforward. What's more, today's software solutions, whether cloud-based or on-premise, are quite mature.

What are the driving factors behind P-2-P process improvement? APQC's survey shows that organizations want to enhance:

* service to internal customers,
* cost efficiencies,
* staff productivity,
* policy enforcement and controls,
* the ability to identify and reduce "maverick" spending, and
* collaboration with vendors.

Process cost reduction is always on the list of outcomes drawn up by process owners. Beyond that, organizations today are looking for tools and techniques that will strengthen enforcement and control of spend policies—ideally, without having to add more people to the procurement staff. Recent technology innovations are helpful in this regard. For example, e-catalogs accessible via online portals can make it quite easy for employees to order supplies from approved vendors. At the same time, an e-catalog can ensure that employees are buying materials or services at pre-negotiated prices. Beyond that, analytics software can help procurement and AP managers easily analyze patterns of spending, which in turn can inform pricing negotiations. Another example: cloud-based technology, with its embedded collaboration, workflows, and analytics, reduces the processing burden on both procurement and AP staffs.

## KEY RESEARCH FINDINGS

The vast majority stated that their organizations are committed to continuous improvement. Given the relatively large size of the companies surveyed, this is not surprising. Many large companies that operate globally, which is the case here, have developed strong process management capabilities over time. That, in turn, helps them in their efforts to standardize and leverage technology breakthroughs.

Half of the organizations surveyed have pursued cross-functional process improvement involving procurement and AP over the past two years (Figure 1). Most who have not yet done so expect to be engaged in such initiatives in the two years ahead (Figure 2).

Have procurement and AP embarked on a joint effort to drive cross-functional process improvement in the past two years?
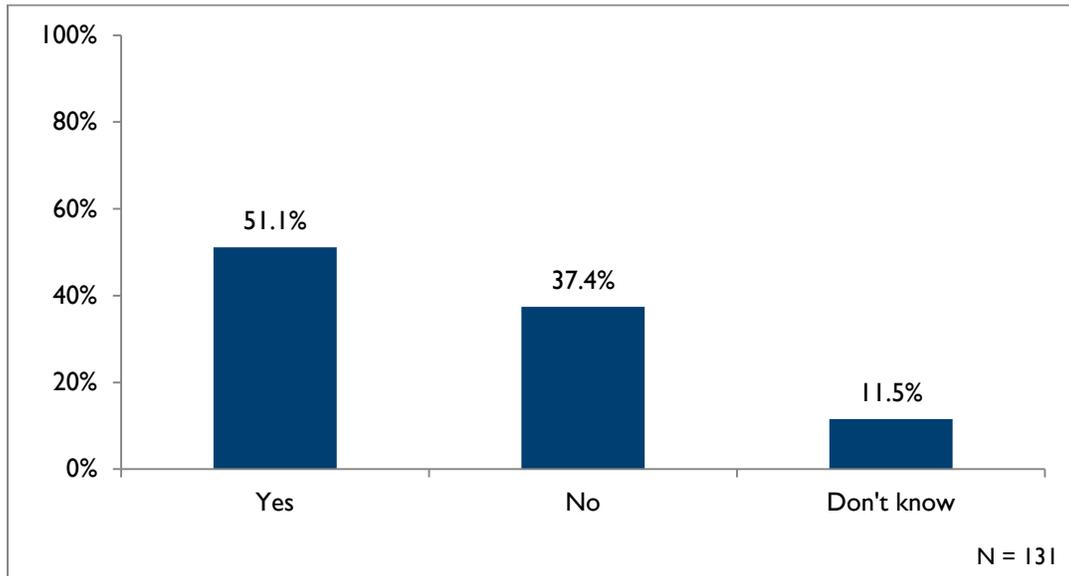


Figure 1

If you've not yet moved forward, what is the likelihood that your company will require procurement and AP to drive a cross-functional process improvement program in the next two years?
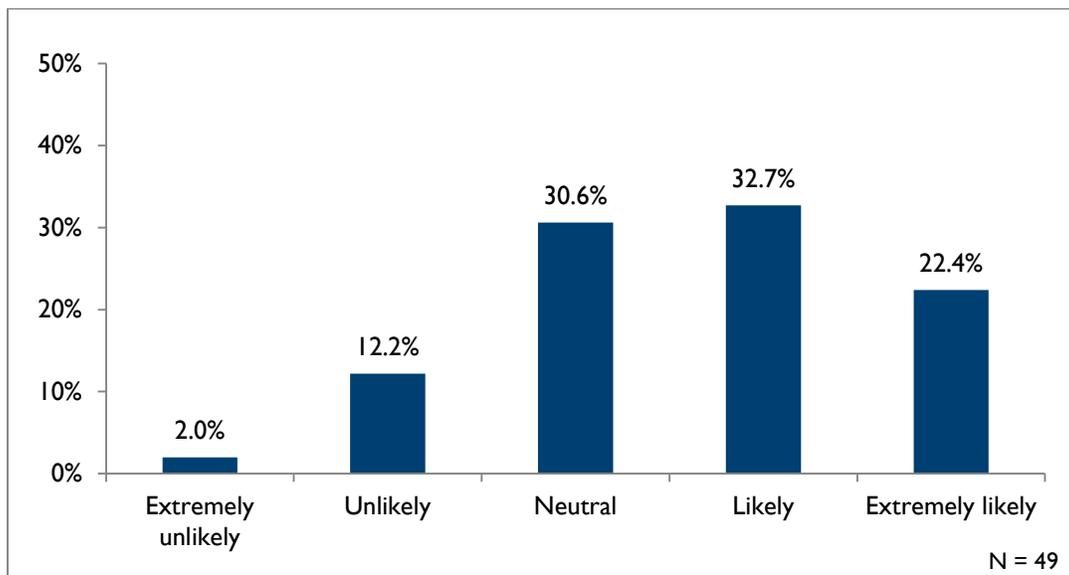


Figure 2

Chances are, however, that cross-functional improvement efforts will prove quite challenging for many companies. Why? Only one third of survey takers were willing to describe the current level of collaboration between procurement and AP as effective (Figure 3). With another survey question, APQC learned that 40 percent described collaborations between the two areas as "sporadic, good faith efforts but little communication takes place."

*In your opinion, how effective is the collaboration between procurement and AP when it's time to review cross-functional process efficiency and effectiveness?*
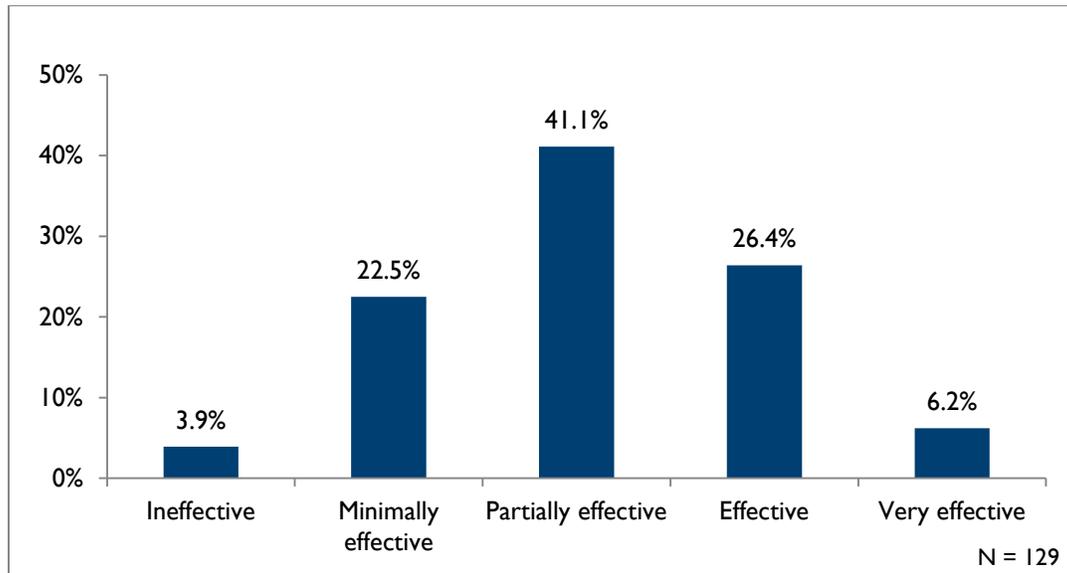


Figure 3

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## STEPPING UP TO MAJOR CHANGE

Lars Henriksson is the global process leader for indirect materials and services at IKEA Group based in Sweden. IKEA is a global network of franchised stores that sells home furnishing products with an iconic brand. Henriksson explained that five years ago the company set a goal of doubling revenues by 2015. That meant major change. They began with a detailed mapping of the processes that support indirect procurement and then implemented a standardized procurement system. Today, employees who need to buy materials or services can search an online catalog, and this way IKEA can achieve attractive volume discounts and ensure contract compliance. The system also features an automated workflow capability that streamlines and documents the approval of requisitions and generation of purchase orders. Moreover, store-based administration of indirect procurement shifted into shared services organizations, one in Poland and one in China. "We moved all of the transaction work around AP and T&E into the shared services centers, and now we have one global process for handling invoices," said Henriksson. He explained that strong process governance is pursued by way of a Business Process Council that includes representatives from global treasury, procurement, and AP/finance. Henriksson also shared that there is a plan in place to start using cloud-based solutions in a year or so. The plan is to take advantage of new capabilities being rolled out by the company's software vendor once it is clear the new code works smoothly.

# THE MARCH TO MODERNIZATION

Nearly 85 percent of survey takers say their P-to-P process would benefit from modernization. Note that APQC defined modernization as using IT innovations such as e-commerce portals, automated workflows, or online self-service tools for employees (Figure 4). Respondents overwhelmingly agreed that modernization would allow them to improve service to internal customers, bolster policy enforcement and controls, and vastly reduce the effort that AP has to put into reconciling invoices and invoice management.

*Do you personally believe that the P-to-P or various sub-processes at your organization could stand to be modernized?*
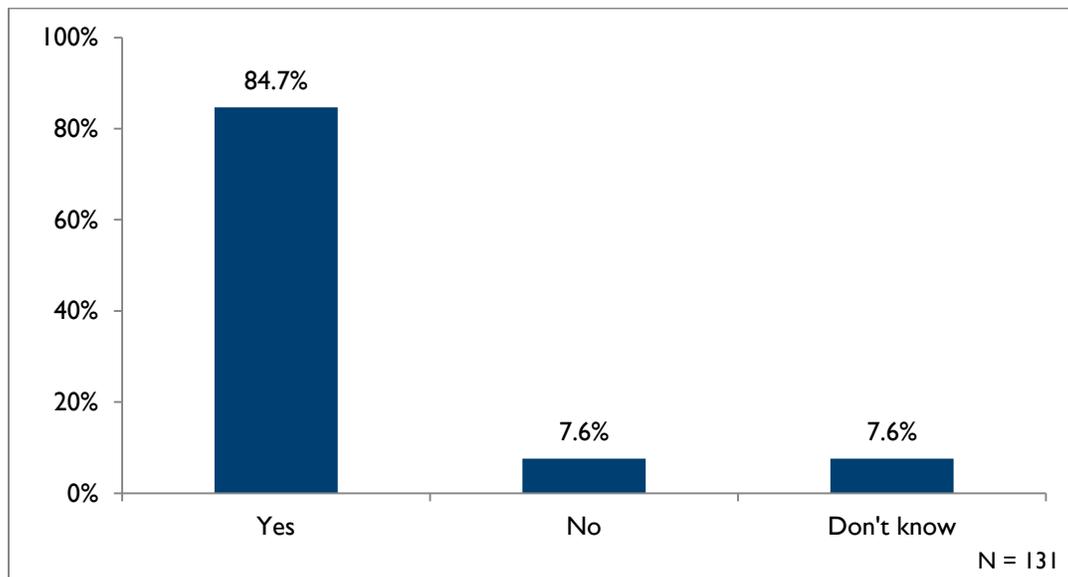


Figure 4

## The Growing Appeal of Automation

It's not hard to see why P-2-P process modernization efforts are on the drawing board at many of the companies surveyed. Accounts payable (AP) functions are still drowning in paper, but that may be about to change. According to APQC's Open Standards Benchmarking in accounts payable, at the median, 60 percent of invoices are still manually keyed into the financial system. Top-quartile performers have pushed that percentage down to 43 percent. Although myriad technologies perform an incredible array of tasks in successful companies around the globe, AP departments are only now approaching the crucial tipping point where the processing of electronic purchase orders, electronic invoices from vendors, and automated payments—whether enabled by on-premise computing or cloud-based solutions—will overtake manual, paper-based processes.

Electronic payment systems now on the market promise efficient communication, reliable audit trails, and faster/smoother data processing between internal departments and external suppliers. Differing systems offer various levels of transparency, approvals, and monitoring from procurement to payment. However, the common theme is less paper and less manual keying of data.

The numerous benefits of automating the AP process would appear to make the conversion decision beneficial in nearly all organizations: electronic invoices promote visibility, both from a procurement standpoint—to identify where spending is directed and spend by vendor—and a speed perspective, minimizing the need for estimating near-term liabilities. These benefits lead to working capital efficiency as finance can more accurately forecast upcoming cash requirements and make decisions regarding speed of payments and discount opportunities.

For more on this topic, see APQC's [Accounts Payable Automation: Electronic Invoicing Gains Momentum](#)

## A LOOK AT THE CLOUD

Typically, organizations purchase software, install it in their own data centers—with user access enabled through their proprietary network—and then maintain it until the next version is released. The rapidly expanding offerings of Software-as-a-Service (SaaS), which shifts the paradigm from a buy to rent model for many advanced software systems including procurement and invoicing, hold great appeal as an alternative for businesses of all sizes. SaaS providers make their software programs available via the Internet, and users can log in from anywhere to use the programs. Companies license the programs through a subscription agreement based on the number of actual users.

APQC's survey found that the vast majority of organizations do not currently use cloud-based technology to enable the primary aspects of P-to-P (Figure 5). However, a case could be made this picture will shift in the foreseeable future.

## Has your organization moved any of the following activities to the cloud?
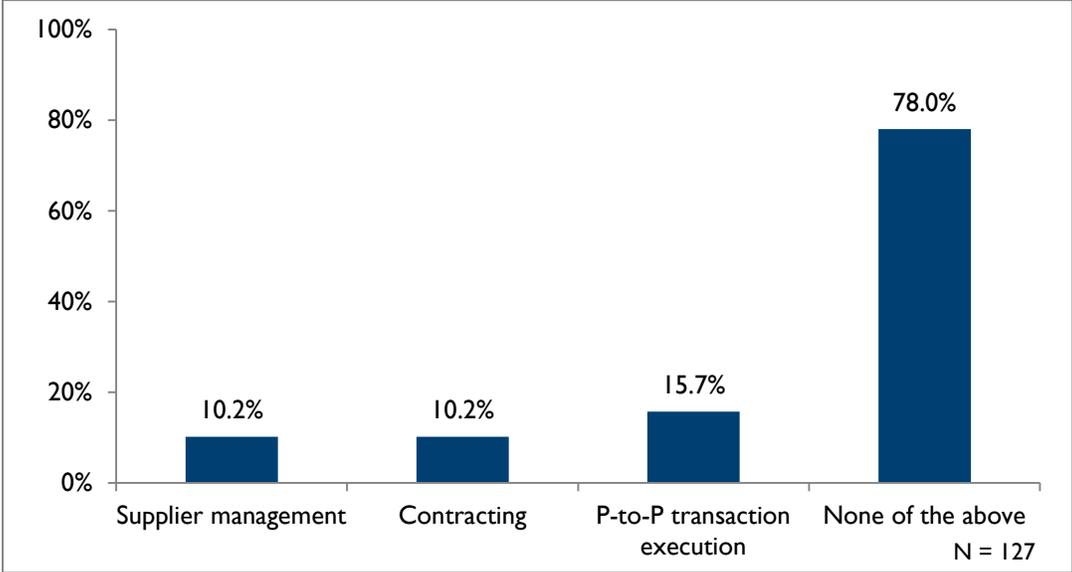


Figure 5

Among the finance community in general, however, concerns about the cloud remain. While there are early signs that these concerns will melt away over the next few years, at the moment, a marked sentiment is: "we will get there soon enough, but we just don't want to be the first in our sector." More than one-third of survey respondents said the cloud is not currently an option. Another third simply didn't have enough knowledge of the situation to answer either way. But more than one in four are now using cloud technology to support P-to-P, have plans to do so, or have the idea under consideration (Figure 6).

*Those not currently using the cloud were asked: What are your organization's plans for deploying cloud technology to support these P-to-P processes?*

No plans to move to the cloud — 38.1%
Don't know — 33.0%
Now considering a move to the cloud — 14.4%
Currently some work is enabled by cloud technology; likely to increase in the future — 9.3%
Planning a move to the cloud in the next 12 months — 3.1%
Planning a move to the cloud, but it's more than a year away — 2.1%
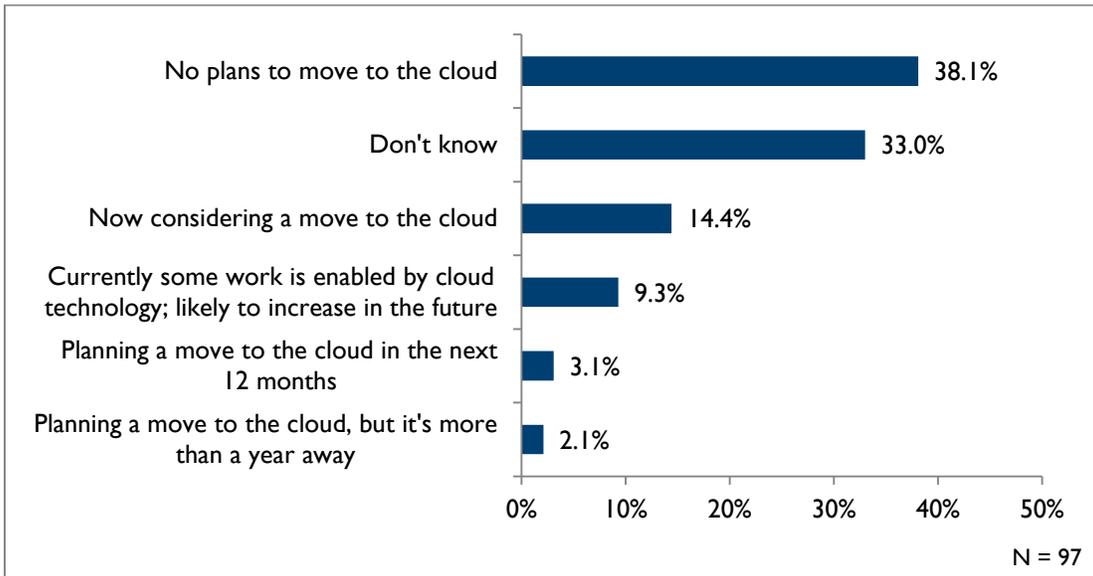
N = 97

Figure 6

## SUMMARY

There are several reasons that more companies today are looking at cloud solutions, and lower cost of ownership is the one most frequently mentioned. That said, concerns about data security continue to linger in the minds of both procurement and finance executives. The majority of survey respondents who said they do not now use cloud technology say that the perception of security risk is a barrier they cannot overlook. However, one can assume that as the CFO community becomes increasingly comfortable with the cloud paradigm over the next few years, and as the major service providers build confidence that their security defenses are formidable, we will still resistance slowly melt away.

In all, there is a clear march toward modernization of P-to-P processes, systems, and protocols. With unrelenting pressure on back-office administrative functions to "do more with less" and, simultaneously, improve control over spending behaviors and boost service to a mobile employee population, eventually, concerns about the cloud will subside. That said, large organizations that have invested heavily in on-premise computing are probably not all that ready to abandon that strategy entirely. It will be interesting to observe over the next year or so how various management teams step up to this challenge.

## ABOUT APQC

APQC is a member-based nonprofit and one of the leading proponents of benchmarking and best practice business research. Working with more than 500 organizations worldwide in all industries, APQC focuses on providing organizations with the information they need to work smarter, faster, and with confidence. Every day we uncover the processes and practices that push organizations from good to great. Visit us at www.apqc.org and learn how you can make best practices your practices.

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