

MODERN FINANCE IN THE DIGITAL AGE

PROCURE TO PAY
BEST PRACTICES





Introduction

Gartner calls them the “Nexus of Forces.” **IDC** says they constitute the “3rd Platform” for innovation and growth. No matter how you define it, cloud, social, mobile, and big data are changing the competitive dynamics of the global economy and creating significant value for companies that know how to create business models leveraging these technologies.

According to new research by **Deloitte** and **OpenMatters**, the shift to digitally enabled business models is also influencing shareholder valuation strategies.¹ Investors are paying more for companies with business models that embrace and emphasize “intangible assets”—customer, human, and intellectual property—and leverage the wisdom of crowds to co-create products and services. The historic method of value creation matters less in today’s digital age: tangible assets, including plants, property, equipment, and financial assets,

now constitute just 20 percent of total corporate value on the S&P 500, compared to 80 percent in 1975.² CFOs who continue to allocate their company’s capital to tangible assets using previous generations of technology are putting their company’s management and shareholders at serious risk, generating lower levels of performance and enterprise value than digitally and big-data-savvy CFOs who are spending their organizations’ resources on building and mining intangible assets powered by today’s technologies.

“By 2018, one third of the top 20 market-share leaders will be significantly disrupted by new competitors that use the 3rd platform to create new services and business models.”

—**IDC Predictions 2014**

¹ Libert, Barry; Ribaud, William J.; and Fenley, Megan Beck. “CFOS; Embrace Digital or Put Your Company’s Future at Risk,” CFO Journal, Wall Street Journal Online, July 28, 2014.

² Ibid.

Impact of Digital Technologies

Transforming How Industries Create Value



US\$1+ trillion in mobile e-commerce revenue by 2017



US\$17+ billion in big-data revenue by 2015



US\$200+ billion in cloud services revenue by 2015



US\$290+ billion in Machine-to-Machine revenue by 2017



Health Sciences
Personalized Medicine



Hospitality
"Above Property"
Cloud Solutions



Communications
Machine-to-Machine
Communications



Utilities
Smart Grids and
Flexible Power
Consumption



Asset Intensive
Flexible Capital
Planning &
Development



Retail
Commerce Anywhere
on Any Device



Financial Services
Online Banking &
Mobile Payments



“We believe that the shift to digitally enabled business models is very much a CFO issue and opportunity. First, CFOs are the stewards of corporate value; they have the finance background and understanding of market valuation of business models that is needed to comprehend the long-term implications of different business models. Second, they can act as catalysts of business model change due to their understanding of finance and growing oversight of IT strategy and investments. And most importantly, digital transformation provides CFOs with a significant opportunity to be leaders and strategists by rebalancing their investment portfolio into intangible assets that can help create more sustainable, valuable business models.”

—David Pleasance, senior partner, Deloitte Consulting LLP

Not surprisingly, change on this scale has produced new tensions as the C-suite attempts to prioritize competing initiatives to support a more customer-centric approach to business, and meet the growing demands of social-media marketing and an apparently inexhaustible clamor for data. It is becoming increasingly apparent that if organizations are to successfully navigate the challenges of the Digital Age, then the roles of the CEO, CFO, CMO, and CIO must coalesce around a new model of

collaboration with the acquisition, maintenance, and consumption of data at its core.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration. They recognize the need for new rules to measure, manage,

invest, and report on changing sources of corporate wealth, and the demand for new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to potentially assume the CEO role when the time is right.

This research identifies the new best practices of modern finance organizations in five key processes critical to any finance function:



Report and Comply



Measure and Respond



Plan and Predict



Procure to Pay



Project Financial Management

The research also examines how modern CFOs are adopting new best practices in **Change Management** and new ways to measure **Return on Investment** (ROI) in digital technologies to modernize the finance function.

“The CFO is the glue that brings everything and everyone together. In that role, you are the collaborator and the alignment person with the other C-suite executives to make sure that there are no gaps in strategy, in decision-making, in execution. No one else can really touch all the parts of the enterprise the way that the CFO can.”

—Keith Kravcik, EVP and CFO,
Ovation Brands



Procure to Pay Best Practices

“We adopted a modern and flexible procurement platform that would enable us to reduce our costs, gain greater visibility into our spend, centralize it, strengthen contract compliance, and ultimately make it easier for our employees to make the right decisions.”

—**Dan Knutson, EVP and CFO,**
Land O’Lakes

The Procure to Pay (P2P) process includes:

- + Purchasing
- + Supplier invoicing
- + Payables management

What’s changed in the Digital Age?

Most procurement departments report they are being asked to handle increased complexity while maintaining flat headcount. Their main challenge is to find further savings on purchases in an effort to reduce overall costs to preserve operating margins. In order to keep up with the demands on their departments, chief procurement officers and other procurement executives are increasingly turning to technology to improve collaboration and automate manual, paper-based P2P processes.

The following best practices can help you modernize the P2P process:

1. Implement self-service procurement (eProcurement) to control off-contract spend
2. Streamline purchasing with digital technologies to gain visibility and control over spend
3. Automate payables with digital technologies to deliver touchless transactions

#1 BEST PRACTICE

Implement self-service procurement to control off-contract spend

Procurement still struggles to gain influence and control over spend. Ardent Partners reports that total spend under management averages 63 percent.¹² Gaining control over off-contract or “maverick spend” involves several steps, the most effective of which is providing self-service procurement systems to all employees to encourage them to purchase from vendors who are under contract.

Modern procurement systems provide a consumer-like user experience that enables employees to find what they need quickly and make their selections easily. Workflows built into the system route employee requisitions to their managers for approval, which can be enabled on a mobile device to save time, and send them on to the procurement department for the formal PO creation and issuance.

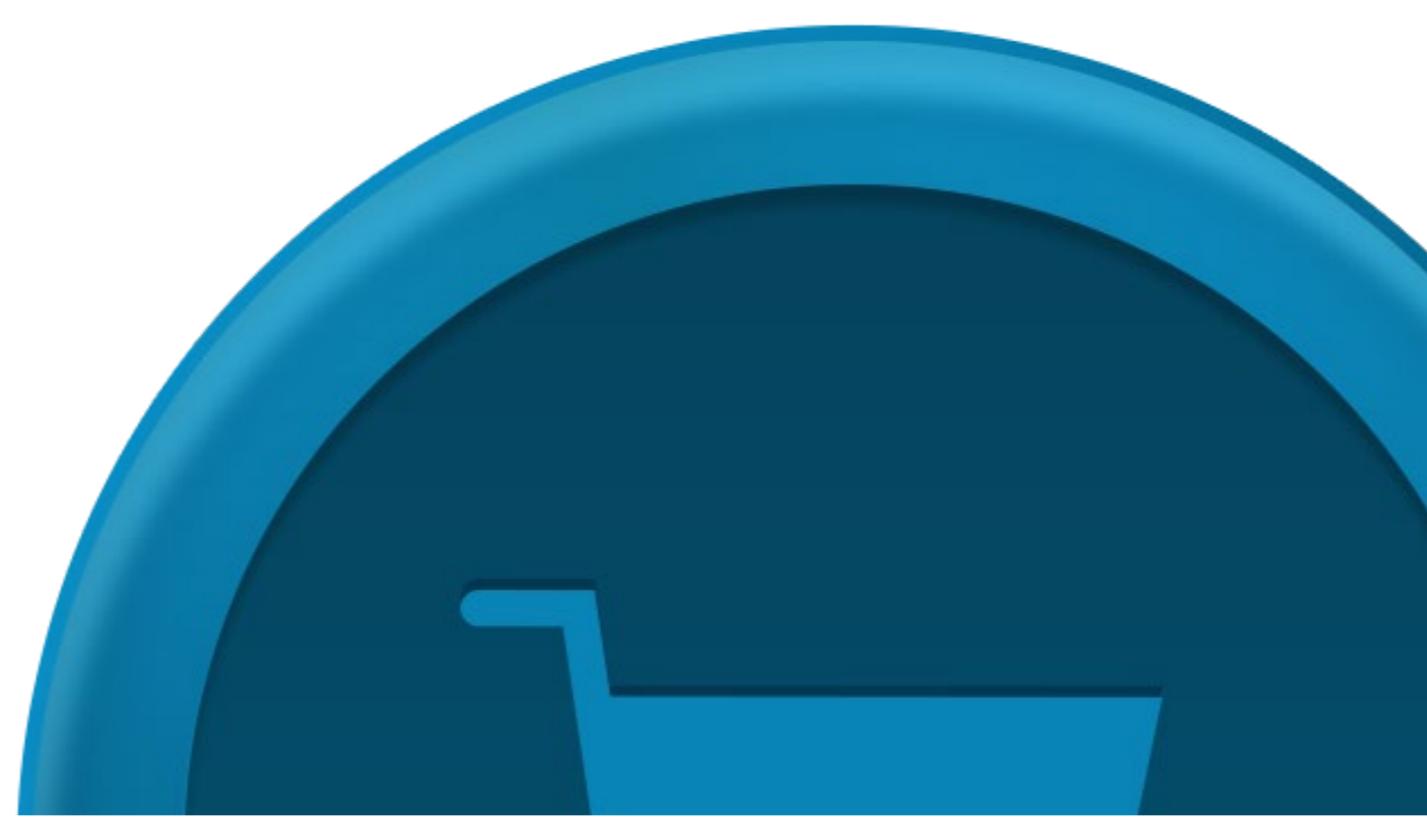
Prior to implementing its modern procurement solution, **Land O’Lakes** had very limited visibility into its indirect spend. Recalls CFO Dan Knutson: “We did hire some consultants to come in and give us their view of the potential that existed. And given the size of our organization, we had US\$1 billion worth of indirect spend to go after to take on the task of moving to a centralized indirect procurement system.”

“We’ve used tons of analytics and data quality and data cleansing to group vendors together, to group like purchases together, to ensure that the spend categories are all falling together,” Knutson notes.

“Our procurement solution has given us a whole other level of visibility that we never knew we had. Where we may think we spend US\$10,000 a year on cleaning solution, once you really do the analysis, you realize you’re spending US\$2 million a year on a cleaning solution in all these plants, when you add it up. You can now negotiate a countrywide contract and drive some real cost savings out of that.”

—Dan Knutson, EVP and CFO,
Land O’Lakes

¹² Ardent Partners, CPO Rising Report, 2014.



#2 BEST PRACTICE

Streamline purchasing with digital technologies to gain visibility and control over spend

At Geneva, Switzerland-based **SITA**, CFO Colm O'Higgins sees the P2P process as very strategic, because it provides insights into how the business is evolving and supporting the 450 airlines, freight carriers and distribution providers which are both SITA members and customers. "We have to support some 500,000 individual pieces of equipment which are located at 323 international airports around the globe, so the P2P process for us is very strategic," explains O'Higgins. "When a piece of equipment fails, how do we make sure that we have the replacement parts on site? How do we manage our assets and the supply chain to ensure that we have the latest anti-virus software loaded on to airport equipment worldwide? It's having that information and knowing where the business is going that really is an enabler."

As part of SITA's Strategic Finance Systems (SFS) transformation initiative, O'Higgins centralized the P2P process into a single global finance center (GFC) in Prague, and automated it using SITA's ERP platform in combination with other industry-specific, state-of-the-art solutions. "We now have visibility and control of 100 percent of our spend, while we've maintained the self-service capabilities out in the field. If you want to open a new supplier, that supplier opening is performed in our Prague GFC, after it has been vetted by the purchasing organization. The integrity of the data around the supplier credentials goes through the GFC as well. And that works today in 195 countries."

O'Higgins has ambitious plans to use the spend analytics module in his procurement solution to make the P2P process even more strategic to the business. "We're just now starting to use the spend analytics application to analyze our spend around the globe," notes O'Higgins. "My expectation is that we will not only reduce the number of suppliers we're dealing with, we will also achieve a bigger concentration of spend with our key suppliers."

“And that will enable us to do multiple things in terms of improving our supply chain because our supply chain today is extremely complex. Purchasing will be involved a lot more in terms of strategic spend; when they sit and talk with suppliers, they won’t just use historical spend analysis but can bring future spend expectations to the table.”

Land O’Lakes is also using spend analytics to make P2P process more strategic. “Our primary functionality that we implemented was purchase order (PO) requisitions, PO approvals, and work flow,” notes CFO Knutson. “We use spend classification and spend analytics to a significant extent. Our goal has been to gain a lot of visibility into our indirect spend. We now group the purchases together and drive costs by leveraging that global spend.”

#3 BEST PRACTICE

Automate payables with digital technologies to deliver touchless transactions

Digital technologies such as e-invoicing and supplier portals further streamline the P2P process by enabling purchasers and suppliers to collaborate more effectively without the manual intervention that can lead to errors. Suppliers receive purchase orders electronically and upon filling the order, they can rapidly send an electronic invoice to the purchaser by transforming the PO into an invoice in a process known as “flipping”. This also provides a significant benefit to the purchasing company in that the electronic invoice gets routed directly to the accounts payable department and contains all the necessary data—such as PO number, product description, and price—to enable the AP system to perform automatic invoice validation and approval.

For CFOs who need to modernize the P2P process, the cloud can often help address a specific pain point, whether that is around purchase invoice automation or providing a centralized point of control on indirect spend. “Part of the journey we are undertaking with our cloud implementation is how do

we end up with that cohesive end-to-end process with the right controls, regardless of what you’re purchasing?” notes **Ovation** CFO Keith Kravcik. “We see our ERP and procurement cloud solutions as really being that point of control.” “With our procurement cloud solution and its integration with our financials cloud solution, it’s going to be end-to-end,” Kravcik continues.

“Nobody is going to touch the process; it is going to match and it’s going to get paid because we already have the contract in place for our food. And we’re going to scan the inventory coming in and verify it at the store, so it’s even going to simplify what’s done at the store level.”

—Keith Kravcik, CFO, Ovation



Conclusion: Mastering Digital Transformation

To succeed in the Digital Age, CFOs and the organizations they lead must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration.

Today's modern CFOs also recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and thus are embracing new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation not just in finance but across the enterprise are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to ultimately assume a greater leadership role in their organizations.



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