LEVVEL RESEARCH

Integrating Purchasing and Payables

Exploring the Value of a Synchronized Back-Office Process

Q3 2017 | Featuring Insights On...

» Current Integration Trends Among North American Procurement and Accounts Payable Departments

» Risks and Benefits of Integrating Purchasing and Payables Processes

» P2P Automation Designed to Support Purchasing and Payables Integration

» Integration Project Best Practices

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Introduction

In most organizations, Procurement and Accounts Payable (AP) departments operate independently from one another for most of their respective process lifecycles. The departments' teams conduct their business under different policies and have separate strategies for functioning efficiently. This siloed environment is partly due to their differing goals: Procurement tends to have more of an operational focus, while AP's focus is financial. However, the two departments have more in common than is often acknowledged, as they both ultimately work to improve the health and strength of their organization's cash flow and bottom line.

In any Procure-to-Pay (P2P) process, there comes a point when the Procurement department must pass on the purchase order (PO) and related documents to Accounts Payable, creating a point of natural synchronization. Although it is not necessarily the status quo, a more efficient way to run the back office is by expanding that synchronization to the entire P2P lifecycle, creating a place for AP in Procurement and a place for Procurement in AP. This can be accomplished by combining the two departments through a holistic and carefully planned integration initiative. By treating the teams as two unique but complementary parts of one whole, organizations can increase their control over spend, lower their costs, and improve their competitive advantage.

One of the best ways to begin this integration process is by implementing a holistic Procure-to-Pay software platform that automates purchasing and AP functions. Automating the two departments helps to ensure a more streamlined, efficient, and controlled integration than a manual initiative alone. P2P software platforms have built-in controls and advanced technical integration capabilities that make it simple for companies with many different internal teams, locations, and strategies to consolidate processes into one digital environment.

In order for organizations to successfully unite purchasing and payables, they should educate themselves on the risks and benefits of an integration project, as well as the support tools available to them to lower risk and increase efficiency. This report includes integration trends among North American purchasing and payables departments, a set of best practices that will help organizations build an integration initiative plan, and a high-level overview of P2P software.

Why Integrate?

There are several incentives for companies to integrate their Procurement and Accounting departments—and there are several reasons not to. The risk-benefit ratio will typically help determine if an organization should or should not integrate. Some of the benefits of integration include lower costs and higher savings. These are mostly associated with workflow—by shortening the time and steps necessary for purchasing, invoice management, and payment lifecycles, organizations reduce their processing costs. Faster cycles can also lead to increased discount capture through early-payment discounts. In some instances, companies can also save on labor costs, as they can consolidate certain roles within one department.

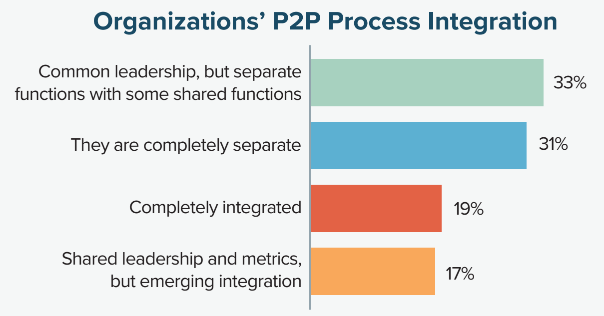
Another benefit of integration is increased visibility into spend and employee activity, which allows organizations to pinpoint maverick spend, fraudulent activity, or inefficient purchasing from noncompetitive or outdated vendor contracts. Bringing spend previously managed by two different teams under one umbrella allows companies much more control over that spend, and enables them to use their resources more strategically.

The risks of integration are mostly built upon the fear of change, and doubts of whether or not change can be implemented without disrupting the status quo and harming the company. Integration can create burdens on different teams and processes, including the IT department. Consolidating internal systems is a complex and time-consuming process, as Procurement and Finance teams are often using several different technologies even within their own departments. Consolidation creates a short-term stretch on IT, as it often warrants hiring additional labor to help with the process, such as IT consultants or integration specialists. Integrating can also be disruptive on Procurement, as many Procurement teams are used to having a certain degree of autonomy when it comes to their purchasing decisions.

Another risk of integration is the time it takes overall, and the effect this can have on supplier relationships and supply chain efficiency. Even a fairly simple and brief integration project can disrupt supplier and payment processes to some degree. The possibility that the project will hit unexpected difficulties that will draw it out is also a concern. A change in roles and activities could also disrupt long-standing routines and equilibriums, as differing management policies and ideologies can create some tension between departments forced to integrate. For example, a Procurement professional could be wary of involving new Finance contacts in an established, but sensitive, supplier relationship; while Accounting professionals could be resistant to giving Procurement members the power to weigh in on finance reports without years' worth of context.

Despite these concerns, many organizations are heading toward a more integrated back-office environment for the cost savings, control over spend, and higher productivity integration brings. According to Levvel Research's research, today's organizations are typically not fully integrated, although the majority of organizations have some degree of integration or are headed in that direction. When asked to describe their current state, 33 percent of companies reported that they have common leadership but most of their functions are separate, while 31 percent reported they are completely separate, see Figure 1.

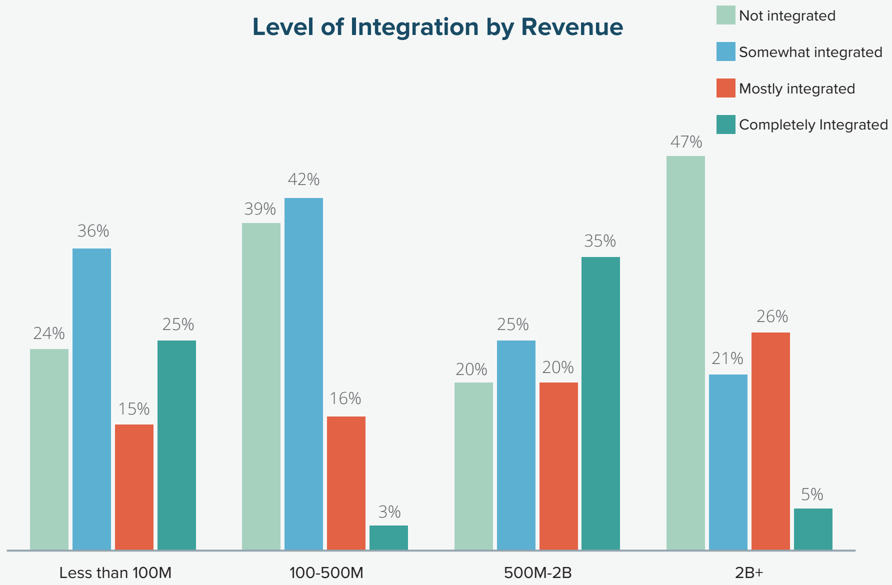
FIGURE 1



Most Organizations' P2P Processes Are Not Fully Integrated
"How would you describe the process flow between Procurement, AP, and Payments?"

Levvel Research has found that the size of a company has a great effect on whether or not their purchasing and payables departments are integrated, see Figure 2. The revenue segment that is most likely to have completely integrated Procurement and Accounting departments includes those in the upper middle market ($500 million-$2 billion), followed by smaller organizations (less than $100 million). Levvel Research believes this is partly because both revenue segments hit something of a sweet spot. Smaller companies tend to operate under more consolidated processes naturally; some only have a handful of employees operating their back-office departments. Therefore, consolidation in simpler and less of a strain on their resources. Organizations in the upper middle market, on the other hand, are just large enough to have the resources for integration projects and just small enough that these projects do not cause great internal disruption. Companies in the upper middle market are also more likely to be using P2P automation software, which helps to streamline

FIGURE 2



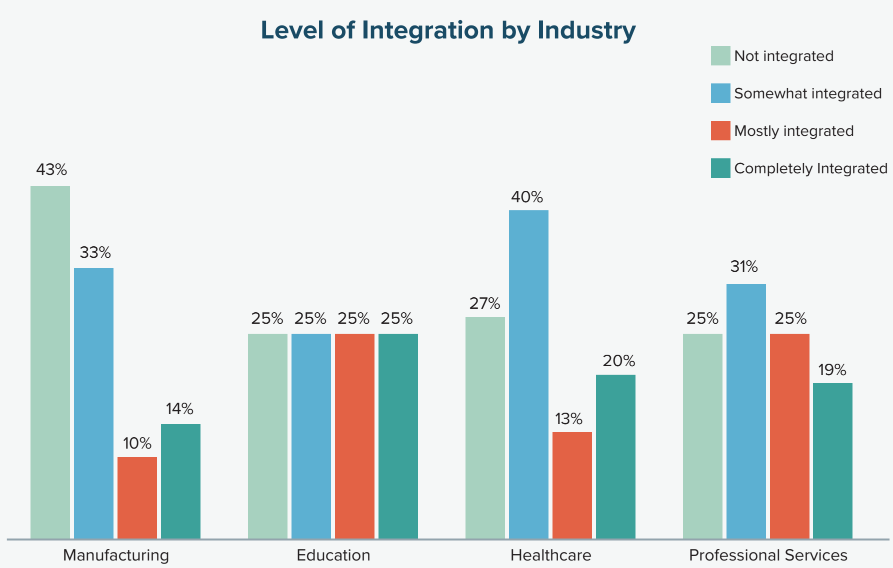
Organizations in the Upper Middle Market Are Most Likely to Have Full Integration

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

&

"What is your organization's annual revenue in the most recent 12-month reporting period?"

FIGURE 3



Organizations in Professional Services Are Most Likely to Have Full Integration

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

&

"Please select the standard industry description that best fits your organization."

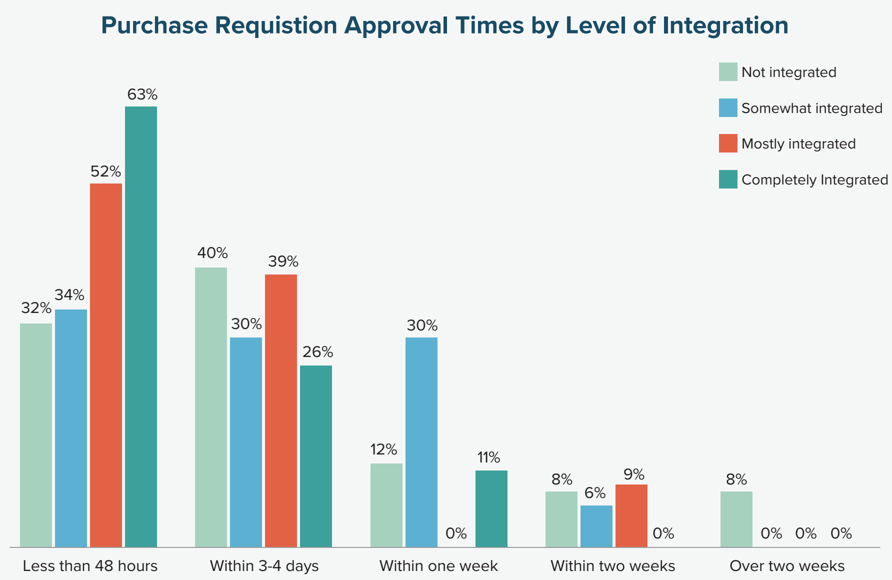
integration.

Organizations with more than $2 billion in revenue are least likely to have integrated departments. This can be attributed to the great deal of effort such projects would require, including restructuring processes across multiple divisions and locations, and consolidating the numerous technical systems on which large organizations typically operate.

Industry also plays a role in an organization's purchasing and payables integration, see Figure 3. Manufacturing and healthcare organizations report the highest rates of completely segregated departments, which can be attributed to the widespread nature of their operations, the complicated supply chain environments in which they operate, and the higher amount of direct spend—particularly for manufacturing. In addition, both industries have been historically slow to adopt finance technology and are more likely to have completely manual back-office departments, which slows integration initiatives. On the other hand, education and professional services are both leading industries when it comes to technology adoption, as they both tend to have more straightforward P2P processes with lower amounts of direct spend.

An additional major benefit of integrating Procurement and AP is the increased

FIGURE 4



Integrated Purchasing and Payables Leads to Shorter Requisition Approval Times

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

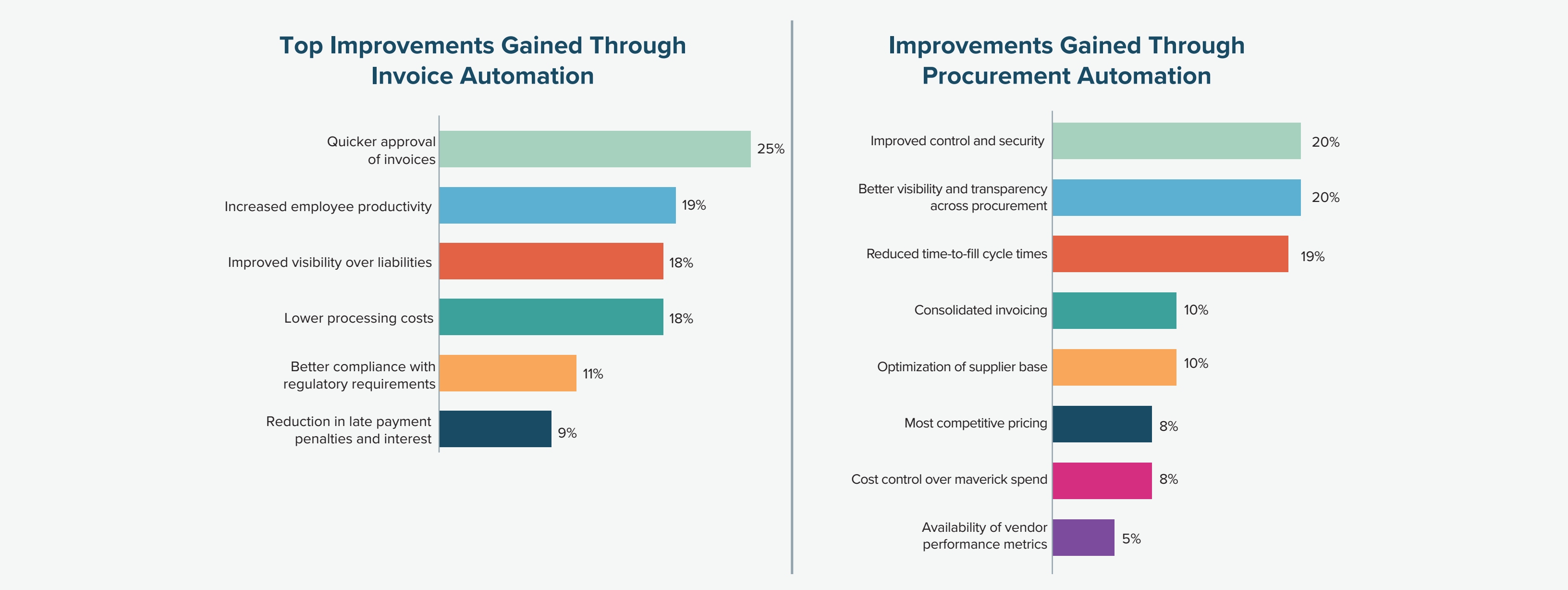
&

"What is your organization's average requisition approval time?"

efficiency it brings. For example, Figure 4 shows that the amount of integration organizations have between their Procurement and Payables departments has a direct effect on how quickly they are able to approve purchase requisitions. In this survey, there were no companies with completely integrated departments that reported requisition approval times as more than one week. These short approval times help to condense the entire invoice-to-payment lifecycle, and can lead to millions of dollars in annual savings in both lower processing costs and early-payment discount capture.

Companies can also improve efficiency by automating their Procurement and AP departments. P2P software creates a wide range of process improvements,

FIGURES 5 & 6



Organizations Achieve Improvements in Control, Visibility, and Efficiency with P2P Automation

"Which of the following improvements have you seen in your procurement process since implementing a solution?"

&

"Which of the following improvements have you seen in your invoice management process since implementing a solution?"

including lower processing costs and increased control and visibility into spend, see Figures 5 and 6.

When companies leverage P2P software and integrate their P2P processes simultaneously, they are better able to achieve scalable, streamlined, and low-risk integration. The following section further explores the role P2P automation plays in Procurement and Payables consolidation.

Integrating with Procure-to-Pay Automation

A P2P software suite typically includes automation for the entire back-office lifecycle of requisitioning, purchasing, receiving, invoice management, and payments. Today's P2P solutions create an open and collaborative environment in back-office departments, allowing Procurement and AP managers to maintain consistent communication with staff, suppliers, and the company's stakeholders in real time. They improve employees' productivity, reduce time spent on non-value-added tasks, and enable executive members of an organization to strategically manage spend. P2P software also unites different teams and visions, giving all parties visibility into spend management activity without sacrificing different members' control. A P2P solution is one of the best ways to build enthusiasm for an integration initiative and ensure its success.

The following items showcase some of the features of P2P solutions, as well as how an organization can use P2P software to help streamline integration. P2P software:

» *Connects multiple systems, teams, and locations.* Integrating purchasing and payables processes across existing processes and systems can be challenging, especially for older and/or larger companies with multiple locations using many different systems. However, today's P2P software is built on cloud-based technology that allows companies to connect to the same platform across many teams and locations. The platform leverages the same data across all instances of the solution and provides real-time access to that data.
The solution's integration tools make it easy to plug the system into even the most complicated IT infrastructure. Many software providers also have teams of integration specialists to help IT configuration during implementation, as well as process reengineering consultants to help structure current operations around more efficient, technology-based processes. In all, P2P software allows companies to combine their departments much more easily across their complex current state.

» *Builds control and safeguards between the two departments.* P2P software has built-in, roles-based controls that enable the departments to collaborate on different P2P documents and activities without risking the integrity of the process—or sensitive customer and financial data. These controls cover a wide range of spend activities and P2P documents. For example, the solution can ensure certain users do not purchase an item above a certain spend threshold, or it can alert users to missing fields before they submit a PO. P2P software can also confirm that invoices have POs and automatically check invoice data against those POs for inaccuracies. Access-based controls ensure that even though multiple parties are using the same system, only those with the proper authority and role will be able to perform certain functions (e.g., only an AP manager can approve invoices). All of these controls reduce maverick spend, document errors, and process delays, as well as the need for AP to remonstrate or report purchasers, or track down the correct information or documents in order to approve a payment.

» *Enables communication.* P2P software includes built-in messaging capabilities that enable the two departments to easily and quickly resolve purchasing, invoice, and payment issues. For example, if an AP manager needs clarification on the initial purchase before approving an invoice, they can immediately reach out to the original requestor and/or procurement manager through a chat box. Sometimes users can gain answers in minutes, without even having to leave their desk. Automation also gives Procurement more visibility into the order lifecycle than they would have under a manual system. They can monitor the order in real time from requisition to receiving, correcting issues as they arise and reducing or eliminating discrepancies that the AP department would have had to sort out afterward.

» *Consolidates overlapping information.* Because P2P software leverages the same spend data across all P2P processes, the solutions give departments an opportunity to consolidate, clean up, and optimize that data. For example, teams can improve their supplier management by streamlining vendor master lists, standardizing onboarding strategies, and consolidating supplier-related documents. They can also merge supplier dispute management into one system under one team via the supplier self-service portal and help desk.
P2P software's consolidation benefits also improve data sharing across different roles. Under a separate system, Procurement and AP professionals must track each other down for certain information housed in separate places, such as an original purchase requisition for an invoice or a history of past supplier payments. With a P2P solution, access to information can be made available to anyone with the proper authority, and a request for information beyond their access is as simple as a direct message.

» *Brings more spend under management.* Integrating purchasing and payables departments with a P2P automation solution helps organizations

not only consolidate spend, but also allows them to get more spend under management than they would with a manual, segregated processes.
This change is especially valuable for CFOs, as it gives them a chance to restructure spend categories and optimize their company's cash flow. It also allows organizations to identify inefficient purchasing strategies or supplier contracts and catch fraudulent spending.

Kicking Off an Integration Initiative

The list below contains a few best practices for professionals pushing for purchasing and payables integration in their organization.

Gather All Stakeholders.

As previously stated, fear of change can create a lot of resistance to an integration initiative and undermine its success. To prevent potential problems, a Procurement and AP department integration should be acknowledged and openly discussed whenever possible. Those pushing for integration should bring all stakeholders to the table, even those in lower positions in the company. While employees in a procurement requestor or AP clerk role may not necessarily have a final say in the decision to integrate, their enthusiasm for an initiative can add strength to a push for integration.

Get Executive Buy-In.

Even though all voices are important, it is still ultimately up to the C-suite to agree to and begin an integration initiative. Those pushing for integration can gain their enthusiasm and support in several ways. The first is to build a business case that includes a current state assessment and an estimate of improvements and savings possible with integration. Practitioners presenting the business case should also highlight the value of integration as it benefits the C-suite directly. One major benefit is the increased visibility into spend data the C-suite will achieve with integrated departments, which will enable them to make more strategic financial decisions. Practitioners should also present improvements possible with P2P software adoption. They can do so with return on investment (ROI) assessment tools, such as those found in Levvel Research's recent Pitching ROI for Accounts Payable report.

Get Ideas from Everyone and at All Levels.

It is important to gather feedback from all parties on how the initiative would affect them; this feedback can be used to build out and adjust the integration plan. It is often the case that the C-suite has little insight into the day-to-day challenges experienced by P2P professionals, and all parties and voices should be considered and valued in order for an integration initiative to be successful. Organizations should also encourage new attitudes among employees in regard to how they perceive and approach integration. They can do this by properly educating their workforce on how integrated processes will make their jobs more enjoyable.

Try to Find Other Problems that Can Be Solved at the Same Time.

This involves readjusting a variety of processes and strategies, including workflows, management approaches, and communication techniques. It also entails adjusting staff behavior by changing current methodologies that are not as efficient as possible and adjusting how employees interact with each other, especially considering the different mindsets typically found across the two departments. Practitioners should try to identify any current state problems early on, during their initial interviews with different parties. This way, they can turn the problems into goals and pitch them along with the initial integration project.

It is especially important to identify current state issues if an organization plans to implement P2P software during their integration project. A P2P solution is only as effective as the processes it integrates; when an organization's Procurement and Payables departments are dysfunctional, they will not be able to get the most out of their solution.

Consider Hiring External Help.

Organizations do not have to begin a complicated integration initiative alone—they can seek help from the experts. Levvel Research offers several consulting services that benefit back-office integration, including current state assessments, recommendations for improvement, process reengineering, and software selection. For more information, visit Levvel Research's consulting webpage.

Consider the P2P Software Provider's Experience.

Organizations hoping to leverage P2P automation in their integration initiative should consider the solution provider's experience. This means finding a provider that has previously worked with companies to integrate their back-office departments and has support options in place to help clients streamline this process. For example, during implementation some providers offer special integration experts dedicated to helping clients reengineer their current P2P process flows. The provider should also be able to help realign existing processes according to the client's unique business requirements, including across different systems and locations.

The following profile highlights the features of a leading Procure-to-Pay provider. This provider has a track record of helping clients create a more integrated and streamlined P2P process in their back office.

Determine

Determine is a global provider of P2P and Source-to-Settle (S2S) solutions with more than 15 years of experience working with organizations of all sizes and industries. Determine offers a suite of Procure-to-Pay applications on the Determine Cloud Platform (DCP) that helps companies optimize, streamline, and automate their Procurement and AP processes. The platform includes the following modular applications: supplier management, procurement, invoice management, and sourcing and contract management. Determine also offers tools for budgeting, projects, inventory, asset, and travel and expense management.

Founded	1996 (as Selectica; renamed Determine in 2015)
Headquarters	Carmel (Indianapolis), Indiana
Other Locations	Atlanta, GA; London, England; Paris, France; Aix-en-Provence, France
Number of Employees	160+
Number of Customers	290
Target Verticals	Finance, Retail, Manufacturing, BioTech / Pharmaceutical
Partners / Resellers	Aeroxchange, A.T. Kearney, Proximity, TPG
Awards / Recognitions	Spend Matters, "Top 50 Providers to Know" 2015, 2016, and 2017; CFO TechOutlook, Top 10 Accounts Payable Solution Providers 2017; CIO Review, 20 Most Promising Enterprise Contract Management Solution Providers 2016

Solution Overview

The Determine Cloud Platform is built on the Determine Core, a technical foundation that provides a baseline for managing key areas such as metadata, master data, and business processes, and enables many business and technical components on the platform. Key among these components is the Decision Rules Engine for operationalizing business event patterns based on workflow, events, or predictive (statistical) models, and combining them with contextual information. Another important feature is the built-in Enterprise Application Integration (EAI) for integrating with popular ERPs and other data sources. The solution currently supports all currencies and is available in more than 20 languages.

Determine's procurement and invoice management modules include multiple options for entering invoices into the system, including eInvoicing, invoice scanning with optical character recognition (OCR) technology, and PO and receipt flip to invoice. All functionality is integrated, leveraging an intuitive user workflow that starts with the requisition and ends with the payment, and includes the PO, goods receipt, and tax accounting. Determine also offers extensive procurement contract compliance support, catalog management capabilities, and budgeting features. Determine's solution is also designed to support project-based procurement efforts, and includes features for different types of project budgets (Capex, Opex), project templates, and extensive project workflow capabilities.

The solution includes a complete audit trail of all process activity between purchasing and payables teams. The solution's integration with existing ERPs, accounting systems, and the rest of the DCP system enables AP departments to manage accruals, entries, and other accounting activities with real-time visibility into correlating PO lifecycles, contracts, and supplier information and performance.

Determine also offers a virtual purchasing contract functionality that allows organizations to set up automatic matching and recurring payments for certain invoices. These matches (between contract, invoice, and receipt) are verified against predefined rules to ensure the invoices are not duplicates and that the payments are valid and accurate. The system will automatically push invoices back to the appropriate purchasing members when matching is not possible, which helps reduce the time AP has to spend on resolving discrepancies.

Determine's self-service supplier portal enables suppliers to engage with their customers through integrated P2P capabilities on the Determine Business Network. Supplier tools include certification management and catalog management. The portal contains dispute management capabilities, which helps clients identify supplier issues and provides the information needed to resolve them. Supplier information for all P2P processes are housed on the same platform, as is access to the supplier dispute management features.

The Reporting Generator offers reporting and analytics across the platform and gives users access to preconfigured key performance indicators (KPIs) and dashboards, allowing them to develop custom reports across all data and meta-data sets (assets, contracts, catalogs, general ledger, organizational data, procurement, receipts, suppliers, travel and expense, etc.). It also allows users to see into and create reports around process workflows (action plans, traceability, and workflows) across the entire Determine Cloud Platform.

Implementation and Pricing

A Determine solution implementation typically takes up to three months to complete. After implementation, application support includes phone- and email-based error resolution and technical troubleshooting; and standard support is available Monday through Friday from 8:00 a.m. to 8:00 p.m. EST (excluding holidays). Determine's pricing structure is based on the complexity of the client's organization (number of countries or companies), the solution modules being implemented, and the number of named users in the application. This pricing can be presented either a la carte or bundled.

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

