ZYCUS
PROCURE PERFORMANCE

"Touchless" Long Tail Spend:
The New Benchmark for World-Class P2P Process Efficiency

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From the beginning, the promise of P2P (Procure-to-Pay) solutions was that they would automate lower value, high volume transactional and tactical procurement tasks for requisitioning and ordering indirect goods and services – the "long tail" of corporate spending - freeing up time to reallocate procurement resources to more strategic high value activities such as strategic sourcing or supplier management. Of course, achieving greater compliance with preferred vendor contracts by eliminating or reducing maverick spending was and continues to be a key hard dollar, ROI driver for P2P, but the implicit promise of greater transactional process efficiency has always been central to the P2P Business Case.

Fifteen years or so into the e-Procurement era, top performing organizations are distancing themselves from the rest of the market across a number of key performance metrics, especially in terms of more efficient requisition-to-order processes. Nevertheless, when even world-class performers are still required to correct one of every ten POs issued in the P2P process, and one in five invoices are initial mismatches for the overall market, current performance remains a far cry from the theoretical goal of a completely "touchless" P2P process. Where PO and invoice volumes number in the tens or hundreds of thousands, much higher levels of P2P process efficiency must still be achieved to fully realize the original value proposition, prompting an evaluation of the current and future state of P2P process efficiency as follows:

- What are the key measures of P2P process efficiency?

- What steps can lagging performers take to close the P2P efficiency gap?

- What strategies are top performers adopting to find enhanced P2P efficiencies?

- What innovations have the potential to drive the next wave of P2P efficiencies?

What are the Key Measures of P2P Process Efficiency?

Consistent with the original value proposition of e-Procurement to divert more resources from tactical to more strategic activities, perhaps the best way to measure progress toward that objective would be to simply examine how a procurement organization's resources are allocated.

% Spend on purchase to pay processes

According to benchmark data from *The Hackett Group's 2011 "Book of Numbers" Research Series, "Optimizing Procurement's Service Delivery,"* world-class procurement organizations devote just above a third (34%) of total procurement costs to transactional purchase-to-pay processes, while the peer group consumes 43% of total procurement costs on tactical buying.

34% for world class
—VS—
43% for others
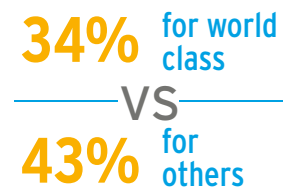
No. of FTEs per billion dollar of indirect spend

Moreover, world-class performers allocate only 21.6 transactional FTEs per billion dollars of indirect spend, while the peer group applies 41% more resource with 30.5 transactional FTEs.

21.6 for world class
—VS—
30.5 for others
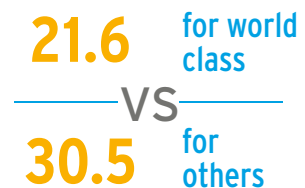
Reduced requisition-to-order cycle time & lower transaction costs

Early adopters of first generation e-Procurement tools, which focused primarily on the requisition-to-order processes, have reaped efficiency benefits in the front-end of the P2P process – with reduced cycle times and lower per transaction costs. Consider for example the 3x productivity advantage for top performers in the Hackett benchmarks, where PO processing employees are able to process **11,667 POs per FTE** as compared to **4,267 for their counterparts.** Likewise order costs are lower by a factor of 3, with requisition to PO processing costs of only **$6.81 per order** as compared to **$18.17 for the peer group**. Allowing for the fact that world-class performers could also have implemented better underlying processes, only the introduction of process automation could produce such divergent productivity measures.

What Steps Can Lagging Performers Take to Close the P2P Efficiency Gap?

For those organizations that find themselves lagging behind the most efficient P2P performers, it might be tempting to simply re-direct purchasing staff away from tactical buying and towards more strategic pursuits, but nothing is quite that easy. In fact, the tactical buying activity, mundane as it may be, still needs to be get done – by someone. For world-class organizations, that someone is just much more likely not to be a procurement resource. They have wholeheartedly embraced P2P automation as a way to promote self-service – and not just for end-users, but for suppliers as well.

For world-class organizations, 75% say that their P2P process enables users to efficiently find and order goods and services from preferred suppliers on their own, following a highly efficient or well-designed process, while only 25% of the peer group would make the same assertion - two-thirds would instead cite compliance and ease-of-use as ongoing challenges.

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Moreover, world-class performers have been much more aggressive – almost 3 to 1 as compared to the peer group – in provisioning technologies to enable supplier self-service as well, shifting catalog loading and management and order status tracking from internal catalog managers or transactional buyers to the suppliers themselves, through supplier portal interfaces. While 58% of world-class performers have made an up-front investment in supplier self-service technologies as compared to just 21% of all others, they have reaped the efficiency benefit of allocating far fewer resources to transactional buying.

So what is the action plan for first closing the current P2P efficiency gap?

1 **Automate Core Requisition-to-Order Processes** – just tackling the front end of the P2P process, or the first "P" of P2P, can yield significant efficiency gains and much higher end-user satisfaction where standard catalog order cycles take only 3 business hours to go from requisition creation through approval and PO transmission to suppliers for the top performers, and just 16 hours for ad-hoc/or non-catalog requests

2 **Rationalize the Supply Base to Reduce Overhead** – it just stands to reason that the more indirect suppliers the procurement organization has to account for, the more resources required to manage them. Consider that world-class performers have one-third fewer suppliers per one billion dollars of indirect spend (4,786 Vs. 7,160) than all others and set your supplier reduction targets accordingly

3 **Implement Self-Service Tools for Buyers and Suppliers** – reallocating procurement resources from tactical buying tasks to more strategic activities, means enabling self-service adoption of easier-to-use tools that empower the end-user and supplier to complete compliant and "touchless" transactions that do not require buyer intervention, unless on an exception basis

What Strategies are Top Performers Adopting to Find Enhanced P2P Efficiencies?

Focus on process quality & accuracy

Early adopters of e-Procurement that have realized world-class efficiencies in requisition-to-order processes have essentially moved on to the second "P" of P2P, or are at least focusing more on the downstream transactional process, after initial order placement. For instance, a greater focus on process quality has begun to produce at least marginally better results, where 10% of POs require post-issuance correction for the best performers as compared to 14% that

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require re-work for all others. Nevertheless, the relatively small gap between world-class and the peer group and the still disturbingly high defect rate – 10% re-work being a far cry from anything resembling Six Sigma – indicates overall process quality and order accuracy represents significant improvement opportunity across the board.

Another measure of process quality – the first pass invoice match rate, or the rate at which invoice terms automatically agree with the PO and goods receipt in the case of a 3-way match, reflects a much wider performance disparity – a 94% hit rate for world-class and only 80% for others, where 1 in 5 invoices are initially mismatched. Apply the ratio to tens or hundreds of thousands of high volume/low dollar indirect invoices processed by the typical Accounts Payable organization, and it is easy to see why invoice processing costs and cycle times are so high, leading to missed opportunities for early payment discounts and higher invoice processing costs and cycle times.

Transactional process efficiency

Another strategy adopted by world-class organizations to improve overall transaction process efficiency is not just to make the 3-way match process more efficient, but adapt the transactional strategy most appropriate to the category, which may mean not requiring a 3 way invoice match, or even an invoice at all. For instance, whereas both groups are about equally likely to require a 3 way match – roughly 40% of the time, world-class organizations are much more likely to use ERS (Evaluated Receipt Settlement), 27% as compared to just 5% for all others, and pay based on a PO and goods receipt for certain frequently purchased and easy to track items such as inventoried MRO. With a more compliant process in place, they also have less incidence of non-PO spend invoices – 21% as compared to 38%.

Aside from the obvious control issues – since a non-PO order that doesn't go through the standard procurement process is also almost certainly a "maverick" purchase with a non-preferred vendor or at other than contracted prices – the re-work required to retroactively raise a purchase order after the supplier has already delivered goods, is perhaps the ultimate definition of a process defect.

And nearly all organizations are underwhelming a clear opportunity for transactional process efficiency to remove the invoice altogether by implementing the P-Card as the settlement method, while capturing higher rebates to boot. Only 7% of P2P transactions are settled via P-Card for the peer group and even fewer, just 5% for world-class performers.

What Innovations Have the Potential to Drive the Next Wave of P2P Efficiencies?

The underlying driver for P2P adoption is compliance, both Compliant Buying – from approved vendors at negotiated prices – and a Compliant Process – correctly categorized, coded and approved purchases that flow through as "touchless", paperless orders.

The first goal – Compliant Buying – is only partially achieved by enabling users to search from approved vendor catalogs at negotiated prices. But many P2P systems have a compliance "blind spot" when users need to buy something that is not on the catalog – either a non-"catalogable" service such as contingent labor, print, maintenance, or professional services, or an unplanned spot buy that is not on the catalog. In most cases, these non-catalog items result in free-form requisitions that are prone to be misclassified and therefore routed through the wrong category workflow approval process and coded to the wrong General Ledger Account, and because they do not automatically suggest an approved vendor, could result in off-contract or Maverick Buying.

Zycus has introduced "Guided Buying" as a P2P innovation that closes the compliance blind spot for off-catalog requisitions, which account for 1/3 or more of all requisitions in a typical P2P deployment and as much as 50% or more of total spending, enabling both higher levels of Buying and Process Compliance. Think of it as a GPS for P2P – a "Guided Procurement System," that is. Guided Buying has the potential to drive towards a new benchmark for P2P process efficiency – enabling a more structured yet easy-to-use self-service process that comes closer to the theoretical standard of a true "touchless" P2P process on all transactions, catalog and non-catalog – by increasing order accuracy up-front, to reduce the need for time consuming and costly re-work on the back-end. Here's how Guided Buying works to enable a new benchmark for self-service, P2P process efficiency:

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Step 1: Auto-Categorize User Self-Service Request

Blade	Search

Pick a category or search "blade" in all items

Electrical Pligs

Jigsaws

Injection and aspiration needles and accessories

Power tools

Network management or monitoring device

Tools attachments and accessories

Hydraulic machinery and equipment

Pen or flash drive

roller skates or roller blades

Scraper replacement blades

Doctor blades

Guided Buying:
Auto-classifies search terms and suggests relevant category to ensure proper categorization and relevant search results

Step 2: Present User Menu of Guider Forms for Non-Catalog Requisitions

All eForms   X

Search an eForm

eForms Found: 105

Recruitment Services	Security Systems	Traffic Management Service
Construction Services	Notebook computers	Business Card Printing
Publicity Printing	Temporary Labour	Software Developer
Forklift trucks	Workstations	Event Management service
Market Researchs	Logistic (freight)	Telecommunication Service

Guided Buying:
Menu of guided e-forms for off-catalog requisitions instead of blank, free-form requisitions

Step 3: Prompt User to Specify Attributes for Off-Catalog Purchase

Specifications

What type of Equipment do you want to rent?*:	Select ▼
	Select
	Production
	Construction
Briefly describe the equipment you want to rent*:	Material Handling
	Transport
	Instruments
Enter name of the preferred manufacturer for the required equipment:	Office Equipments
	IT, Communication
	Security
Enter any additional details*:	

Select the type of Lease*:	Select ▼
What is the rental period (in months)*:	
Additional services:	☐ Insurance
	☐ Maintenance
	☐ Operator
Enter the required quantity:	

Guided Buying:
Guided form, wizard interface to prompt for required attributes and specifications if "off-catalog" service or configurable product

Step 4: Default Correct Category, GL and other Coding from Auto-Classification

☐ D13S432115038723	Acer Aspire One AOD255E-13444 Netbook-Computer, In STAPLES	66 days	USD 280.00	1 EA	USD 280.00

Delivery		✂ Edit	**Cost Booking**		✂ Edit	**Accounting**		✂ Edit
Alex Sidney	New York (New York)	1 EA	(ZYCM-004) Marketing	USD 280.00		IT Purchases		USD 280.00

Guided Buying:
Auto-classify to correct category code, invoke category-specific workflow, map to GL account and default ship to/bill to from profile

About Zycus
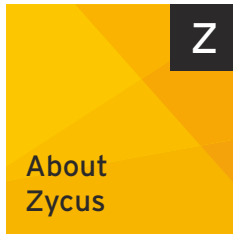
At Zycus we are 100% dedicated to positioning procurement at the heart of business performance. For more than a decade we have been the world's most trusted leader in Spend Analysis. With our spirit of innovation and a passion to help procurement create even greater business advantages, we have evolved our portfolio to a full suite of Procurement Performance Solutions – Spend Analysis, e-Sourcing, Contract Management, Supplier Management, and Financial Savings Management.

Behind every Zycus solution stands an organization that possesses deep, detailed procurement expertise and a sharp focus on being responsive to customers. We are a large – 600+ and growing – company with a physical presence in virtually every major region of the globe. We see each customer as a partner in innovation and no client is too small to deserve our attention.

With more than 200 solution deployments among Global 1000 clients, we search the world continually for procurement practices proven to drive competitive business performance. We incorporate these practices into easy-to-use solutions that give procurement teams the power to get moving quickly – from any point of departure – and to continue innovating and pushing business and procurement performance to new heights.