Maximizing Spend Visibility

The Role of Outsourcing Accounts Payable (AP) in Driving Procure-to-Pay (P2P) Value

Executive Summary

Amidst the growing complexity of procurement processes, many organizations are grappling with inefficient spend visibility, hindering their ability to identify cost-saving opportunities and keep overspending under control. Addressing this challenge requires streamlining procurement processes and implementing robust visibility mechanisms to track and analyze expenditures accurately and on time. All this calls for integrating and collaborating the AP process with the procurement and finance teams to optimize procurement strategies, negotiate better terms with suppliers, and implement cost-saving initiatives effectively. This has always been difficult to achieve in-house because of inherent departmental focuses and divergent priorities.

When viewed from an isolated perspective, this challenge presents a compelling opportunity to leverage outsourcing as a solution. Outsourcing AP for procurement or the transactional side of procurement fosters a culture of collaboration, breaking down departmental barriers and promoting

transparency and shared objectives across the organization. It bridges the gap between processes to eliminate duplicate efforts, inefficiencies, and missed opportunities. Much, however, hinges on selecting the AP partner and the partnership dynamics. Effective collaboration necessitates a precise match between organizational requirements and vendor capabilities. Such alignment is vital for establishing seamless integration, crucial to optimizing the procurement lifecycle, managing AP, identifying cost-saving opportunities, and enhancing overall spend visibility.

This white paper discusses outsourcing as the best strategy to streamline procurement processes and optimize each stage, from requisition to payment to updating accounts receivable. Explore the full white paper to gain in-depth perspectives, actionable recommendations, and practical insights to empower your organization to thrive in today's competitive landscape.

How a Robust P2P Strategy Brings Clarity to Spend Visibility

A robust P2P strategy is the linchpin for ensuring comprehensive spend visibility across organizational operations. Businesses can effectively track and analyze expenditures by meticulously orchestrating each phase of the procurement process – from requisition to payment. This helps standardize purchasing procedures and enforce compliance with internal policies and regulatory requirements. Further, businesses can achieve real-time insights into spending patterns when such an orchestration occurs. This transparency empowers stakeholders to identify cost-saving opportunities and optimize resource allocation.

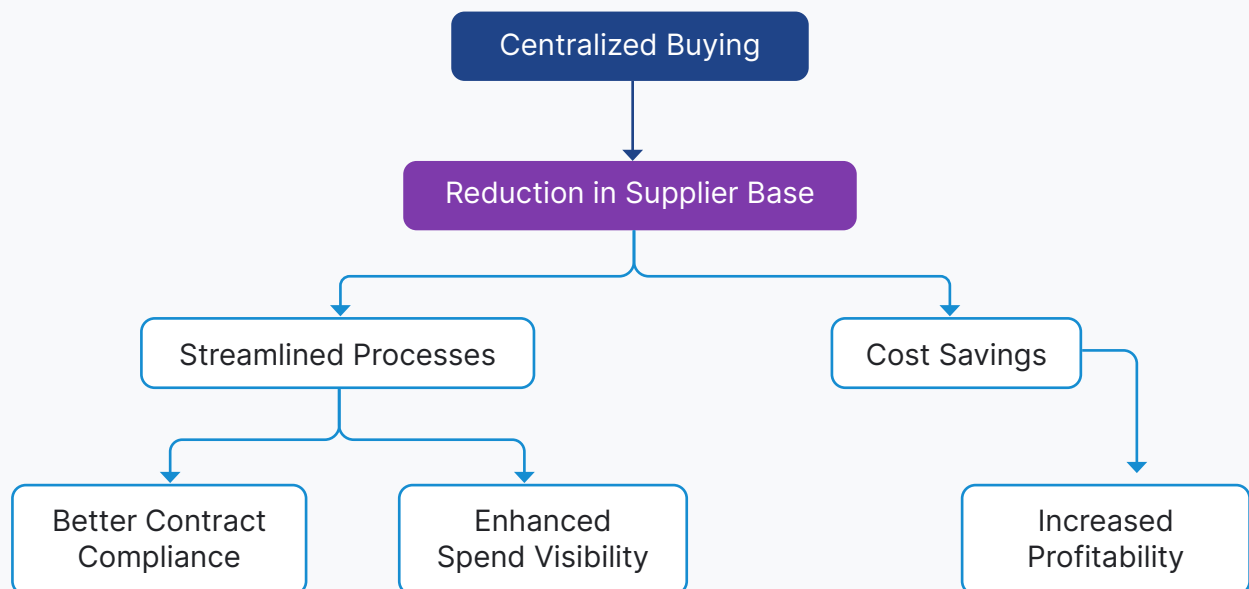| Procurement Challenges	Accounts Payable Challenges
• Timely Payment Of Invoices • Mismatched Purchase Orders • Inefficient Invoice Routing • Untimely Resolution Of Issues • Slow Response To Queries	• Invoice Resolution Delays • Short Payment Term POs • Vendor Issues - mismatches, multiple PO numbers, etc. • Misrouted Invoices • Non-PO Payment Instructions

A study by Ardent Partners found that **organizations that have a high level of collaboration between accounts payable and procurement have a 95% straight-through processing rate for invoices, as compared to just 60% for those with low collaboration.**

Example:

Centralized Buying, AP, and Spend Visibility

Comprehending this through the perspective of a centralized buying process can be more useful. Centralizing AP consolidates purchasing activities, offering businesses a holistic view of spending within one platform. This centralized approach allows for the integration of diverse invoices, purchase orders, and contracts, streamlining the AP process. By centralizing procurement, organizations can standardize purchasing procedures, negotiate more favorable terms with suppliers, and monitor expenditures efficiently. This optimization of AP processes enables businesses to make informed purchasing decisions. For instance, by analyzing spending patterns, they can identify opportunities for vendor consolidation or renegotiation, resulting in substantial cost savings and operational enhancements.

The Power of Centralized Buying in P2P

```
                      Centralized Buying
                              |
                    Reduction in Supplier Base
                      /                  \
          Streamlined Processes        Cost Savings
            /         \                        \
Better Contract   Enhanced              Increased
 Compliance     Spend Visibility       Profitability
```

Example:

Strategic Sourcing, AP and Spend Visibility

Likewise, strategic sourcing plays an important role in enhancing spend visibility. Strategic sourcing is a systematic approach to procurement that focuses on optimizing supplier relationships, streamlining purchasing processes, and achieving cost savings. It involves strategic planning, negotiation, and collaboration with suppliers to secure the best value for goods and services while mitigating risks and ensuring quality and reliability.

A research by The Hackett Group shows that **organizations with high spend visibility are 50% more likely to make informed strategic decisions based on real-time data analytics.**

Strategic sourcing simplifies AP and significantly impacts spend visibility. By aligning procurement strategies with AP procedures, organizations streamline purchasing activities and enhance control over expenditures. This gives businesses a clear picture to negotiate favorable terms with suppliers, standardize contracts, and consolidate purchasing, thus optimizing the AP process. Further, when strategic contracts are managed within the AP framework, it is possible to get better insights into expenditure patterns and cost management.

How Strategic Sourcing Enhances Spend Visibility?

- ✓ Clear insights into suppliers & spend patterns
- ✓ Ways to consolidate suppliers & reduce spendings
- ✓ Real-time view of supplier pricing
- ✓ Strategic decision-making in real time
- ✓ Improved cycle time and supplier management
- ✓ Consolidated view of secondary spendings

Strategic P2P Elements: Challenges in Having Them In Place and How it Impacts AP and Spends Visibility
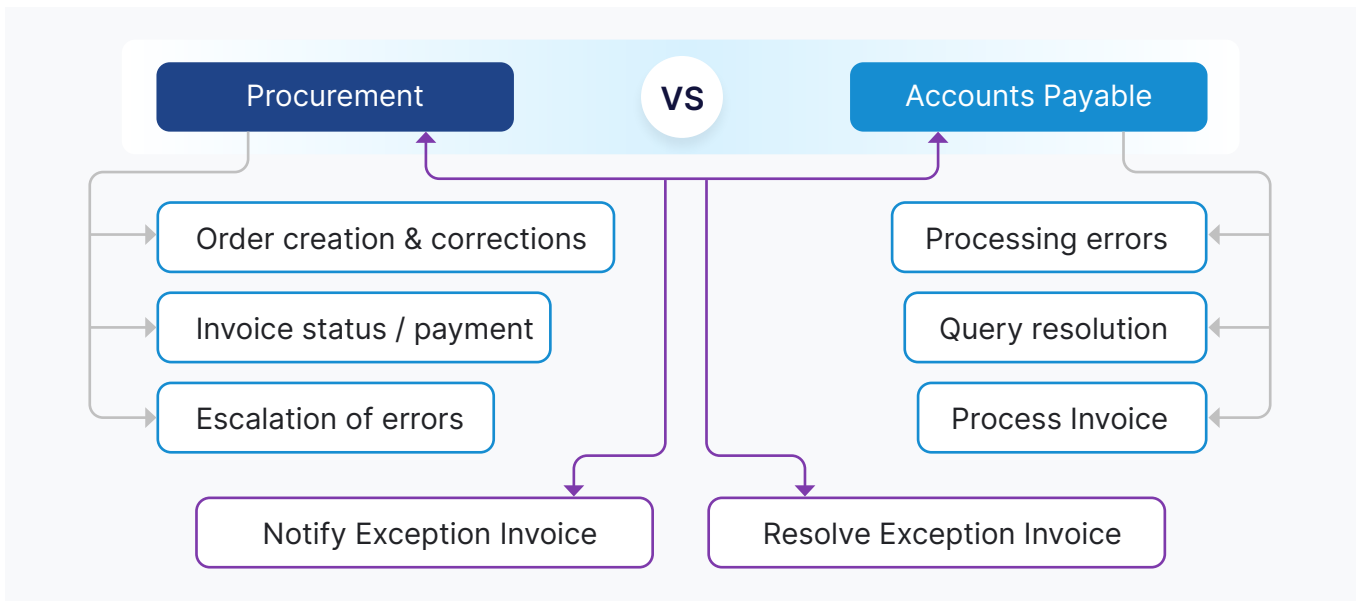
Well-defined and an All-encompassing Procurement Framework
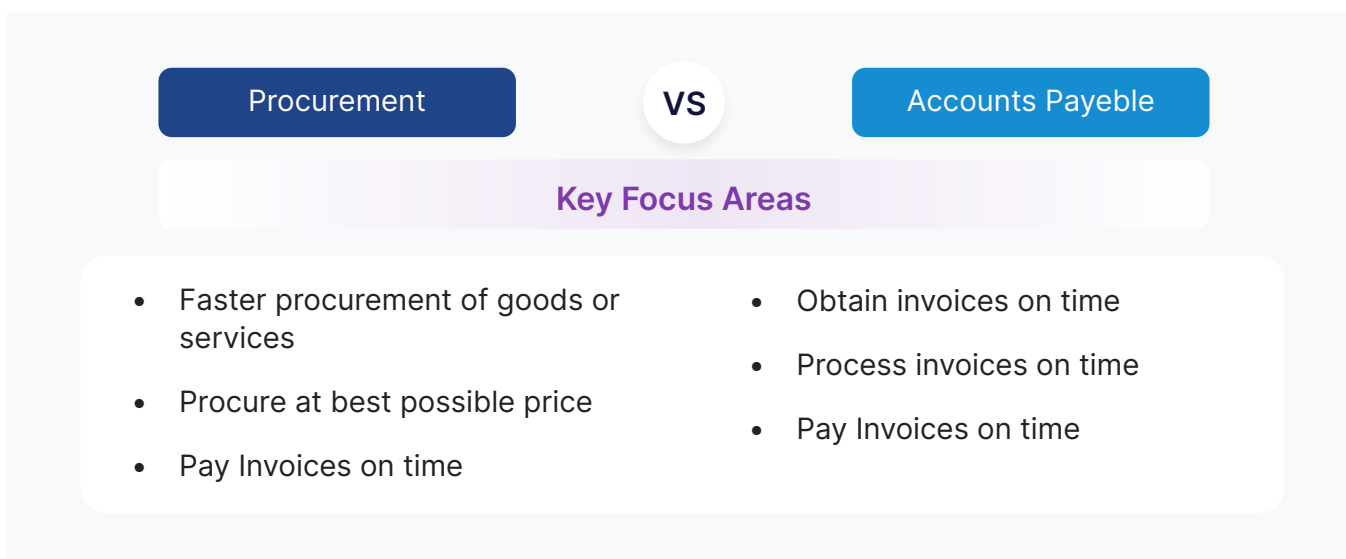
Firstly, having an established framework is key to governing the overall P2P process. It offers a structured approach to assessing funding requests, process modifications, and resolving issues within the P2P cycle. It commonly incorporates an advisory panel offering recommendations to optimize the effectiveness of personnel, procedures, and technological solutions. Further, it consists of clearly defined roles and responsibilities and neatly charted procedures.

Underlying Challenges

The challenge in establishing robust frameworks lies in the crucial need for alignment between the two primary stakeholders - the advisory panel and those responsible for executing the procedures. Unless there is a proper alignment between these functional groups, the P2P process can come to a standstill. This lack of alignment not only results in a lack of visibility into spending but also leads to lengthy approval cycles, discrepancies in orders and invoices,high transaction costs, delayed payments to vendors, and low compliance with procurement policies. This emphasizes the importance of cooperation and coordination in the P2P process.

How AP Takes a Hit

The absence of a well-defined P2P framework presents formidable obstacles to streamlining AP functions, thereby obstructing spend visibility. Firstly, it isn't easy to track expenses and manage budgets without clear guidelines. This lack of transparency leads to overspending or unauthorized purchases. Secondly, the absence of standardized processes results in lengthy approval cycles. Without predefined workflows and approval hierarchies, invoices and purchase orders may languish in limbo, delaying vendor payments and impacting cash flow. This increases the likelihood of discrepancies in orders and invoices, leading to costly AP mistakes.

Procurement	VS	Accounts Payeble
Key Focus Areas		
• Faster procurement of goods or services • Procure at best possible price • Pay Invoices on time		• Obtain invoices on time • Process invoices on time • Pay Invoices on time

Precise Performance Metrics to Measure Efficiency

Performance measures in P2P assess the efficiency and effectiveness of the entire procurement process. The primary performance measures include cycle time for purchase requisitions, purchase order processing, invoice approval, accuracy in invoice matching rates, supplier performance evaluations, etc. Likewise, secondary measures include cost savings achieved through negotiated contracts, vendor discounts, process automation, compliance with procurement policies, supplier relationship management, etc.

Leading companies require performance measures to strengthen their P2P strategy and pass on information across the end-to-end process. However, the challenge lies in analyzing and interpreting performance measures that cut across finance and supply chain functions. It calls for continuous tightrope walking and finding the right harmony to tap into opportunities jointly.

Example:

Days Payable Outstanding (DPO)

Let's understand this from the angle of DPO, a measure of the average number of days an organization takes to pay its suppliers. While the supply chain team strives to reduce DPO to win discounts or favorable credit terms with suppliers, the AP team strives to prolong the DPO to project its ability to defer payments, earn interest, and improve its working capital position. Therefore, optimizing the P2P with metrics like DPO serves as a means to balancing department objectives.

How Spend Visibility Takes a Hit

The absence of well-established performance measures in P2P processes hinders AP functions and obstructs spend visibility in several ways. Firstly, without clear performance metrics, it becomes challenging to assess the efficiency and effectiveness of AP processes. This lack of measurement makes it difficult to identify areas for improvement and optimize performance, resulting in inefficiencies and delays in invoice processing and payment approvals. Secondly, the absence of performance measures diminishes accountability within the AP function.

Without defined benchmarks and targets, it becomes harder to hold individuals or teams accountable for their performance. This can lead to complacency and a lack of motivation to improve processes or meet organizational objectives. Furthermore, the lack of performance measures contributes to a lack of transparency in spending visibility. Without clear metrics to track spending patterns, trends, and variances, organizations struggle to gain insights into their expenditure and identify opportunities for cost optimization or risk mitigation. This limited visibility hampers strategic decision-making and inhibits the organization's ability to proactively manage its finances and procurement activities.

Adequate Capabilities to Continuously Improve Efficiency

Organizations aiming to improve the spend visibility of their P2P process need to invest in employee AP and P2P training to adapt to shifting and growing priorities, besides identifying significant opportunities for automation (e-invoicing) and analytics (spend analysis) to increase efficiency further. For example, market research and analytical skills are required for key spend categories to classify data and provide insightful analysis across multiple vendors/contracts/ sourcing categories. All these call for strategic planning to limit disruption and reduce hiring costs.

Challenges to Acquiring the Right Capabilities

Internally, companies encounter several challenges when training employees for P2P analytics and adapting to shifting AP requirements. These include a lack of specialized expertise within the organization, necessitating external training or hiring, continuous learning to stay updated with evolving analytics tools, resistance to change among employees used to legacy processes, etc. Lastly, the dynamic nature of AP needs, influenced by market trends, regulations, and organizational shifts, demands agility and flexibility in training programs to address emerging requirements effectively.

Because of these reasons, employees running the P2P and AP processes within an organization remain untrained or inadequately trained. This hampers the organization's ability to identify cost-saving opportunities, mitigate risks, and optimize procurement strategies on the one hand and delayed payments, errors, and inconsistencies in data on the other. Together, these obstruct clear visibility into procurement spend.

The Institute of Supply Management (ISM) reports that **companies with integrated procurement and AP systems experience up to 30% reduction in maverick spending due to improved control and compliance.**

A Time-Tested Solution to P2P Spend Visibility - Outsource Transactional P2P Activities

The solution to the challenges lie in establishing a P2P system integrated with the organization's AP framework. Yet another available option is to create a cross-functional team of specialists to monitor shared metrics. However, integration may require organization restructuring and pose a significant obstacle in large organizations, particularly ones that operate globally. Likewise, a cross-functional team may not meet expectations because of differing priorities or conflicting objectives. Given the difficulties in achieving this within an organization, outsourcing the transactional side of P2P is the only viable option.

Transactional Activities in Procurement Outsourcing

Operational Purchasing

- Process Requisition
- Expedite Purchase Order
- Record Materials & Services Receipts

Accounts Payable Purchasing

- Supplier Master File Maintenance
- Invoice Processing & Payment
- Bill Auditing
- Time & Expense Auditing

Procurement Admin

- Monitor Performance
- Monitor Compliance
- Reporting

Outsourcing AP processes guarantees success by aligning the outsourcing partner with the client company's objectives. With the partner assuming a supportive role, their sole focus becomes resolving discrepancies. This alignment ensures consistent delivery, as the partner is motivated to address issues and maintain seamless operations promptly. Establishing key spend visibility metrics, including first-pass match percentage, exception invoices, unresolved transactions, on-time payment percentage, and payment discount availed percentage, becomes effortless.

By collaborating on these metrics, both parties can track progress, spot areas for improvement, and optimize processes to enhance performance. For example, a high first-pass match percentage indicates efficient invoice processing, while a high on-time payment percentage reflects prompt payment practices, potentially unlocking discounts and strengthening vendor relationships. Resolving exception invoices and transactions minimizes delays and discrepancies, improving overall procurement efficiency.

Overall, this shared performance metrics model fosters transparency, accountability, and continuous improvement, leading to simplified procurement and payment functions and enhanced spend visibility for the client company.

Common Metrics to Be Tracked by a Cross-Functional Team

Expense reports audited **01**

02 Expense reports in the process

Expense reports sent back for correction % **03**

04 Pending corporate card submissions (weekly)

Pending expense submissions (weekly) **05**

06 Invoices in process

Match exceptions (weekly) **07**

08 Upload template status

Customer service volume **09**

10 Daily ERP - bank payments reconciliation

An Example of How Outsourced AP Process Enhances P2P Spend Visibility

In a three-way match process (a commonly deployed validation process by accounts), procurement invoices may fail to reconcile due to discrepancies among three key documents: the purchase order, the receiving report, and the supplier invoice. For instance, a company orders 100 units of computer parts (as per the purchase order). However, the department only confirms receipt of 80 units (per the receiving report); the supplier may still invoice the full 100 units. This discrepancy between the received and invoiced quantity would cause the procurement invoice to fail the three-way match process. Resolving this internally between departments may take time due to different priorities or disagreements.

Organizations collaborating with an outsourced AP partner can avoid such scenarios altogether. Including a self-resolution clause in the common metrics empowers the partner to reject invoices with multiple process orders or prompt suppliers to amend invoices directly through direct communication. This can also be the approach for issues such as unit of measure mismatch, item description mismatch, etc. These proactive measures eliminate the necessity for discussions with the procurement team, saving time on updating payment statuses and enhancing spend visibility. Further, organizations can benefit from the outsourcing partner's established relationships and negotiation expertise, attributes often lacking in internal teams. Leveraging these strengths allows for swiftly resolving issues with suppliers, minimizing disruptions. This directly enhances spending visibility, leading to more accurate and timely tracking of expenses.

Outsourced AP Management - Best Practices

While outsourcing the AP process can be vastly beneficial, following the best outsourcing practices facilitates transparent tracking of expenditures from procurement to payment. Some of the best practices to support the optimization of spending include:

Pre- Outsourcing Level

- Choose a partner with experience in the AP process, a global customer base, certifications, and automation expertise.

- Dedicate adequate time for knowledge transfer (particularly, for large-scale requirements) - it should be at least one month for on-site and 15 days for off-site knowledge transfer.

- Identify and place experts on the processes around touchpoints between the AP and procurement functions.

- Dedicate an escalation team with cross-function specialists to resolve issues as soon as they arise.

Post-Outsourcing Level

- Dedicate one full month of Subject Matter Experts to support the partner, preferably through month-end or quarter-end close.

- Insist on daily update meetings during the initial hand-holding stage and have weekly or monthly governance meetings.

- Verify the Statement of Procedures and note all detailed steps for every transaction at a micro level.

- Hold regular ideation meetings between cross-functional specialists to address potential issues and continuously identify process improvements.

Conclusion

In the future, organizations will increasingly lean towards outsourcing AP to enhance spend visibility in their P2P processes. The move would be driven by the need to leverage specialized expertise and technologies and the pressing need to free up internal resources and turn to leaner operations. On the other hand, AP service providers will go the whole hog to raise the bar of service and reinvent their processes to improve their performance on key operating metrics that contribute to transparent, complete, and error-free spend visibility.

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About Invensis

Invensis is an ISO 9001 & 27001 certified IT, Business Consulting, and Outsourcing Services headquartered in Bangalore. The company was set up in 2000 to build and sustain business relationships with competence, integrity, and dependability. During this span of 24 years, we have served over 1000 global clients supporting them across diverse domains, including custom brokerage, finance, accounting, factoring, RCM, insurance claims processing, risk reinsurance management, data analytics, etc. In 2015. Gartner recognized us as a Global Vendor for Freight Payment Solutions. Today, we are driven by over 5000 skilled professionals ably supported by modern-day infrastructure and highly advanced & secure VPN technology.

Invensis Snapshot

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