

White Paper

Automation of the Purchase to Pay Cycle and Spend Control

Return on Investment Quantification

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1. Explanation and Quantification:

The basis for “Return on Investment” is the demonstrable saving made by the company as a direct result of the investment of a given product or service. The quantifiable saving will be reflected by increased cash in the bank and the increased profitability of the business.

This document provides a detailed explanation of the potential return on investment by implementing Purchase to Pay (P2P) Spend Control software. A supporting spreadsheet to aid calculations and verify assumptions for each business is available either by attending a workshop or from discussions with a Compleat reselling partner.

P2P software fully automates the process of raising requisitions, automating purchase order approvals, receipting goods and services and the purchase invoice approval process.

When tightly integrated into the back office accounting system, P2P software enables full commitment accounting, centralisation and full automation of budget management and automated postings of purchase invoices into the accounts following approval.

Fully automated workflow (with email notification) moves each document seamlessly through the approval process whilst providing a complete history of the lifecycle of each transaction.

Compleat is priced to deliver a fast return on investment to most businesses with a turnover in excess of £3m. This white paper enables the quantification of this statement.

2. Business Benefits, Best Practice and Savings

1. Automated Budget Control

The introduction of full commitment accounting at purchase order creation, optional receipting (with commitment reversals to accruals), and automated asset / expense postings into the accounting software facilitates the centralisation and total automation of budget control. The dynamic “approval” workflow will automatically check the proposed purchase against available budget in the relevant period(s) and where required, escalate approval to the appropriate management prior to making the commitment.

Apart from the obvious productivity gains by the removal of manual budget control methodologies in each department and constant queries on current status, the result is that the company can ensure any over budget expenditure only takes place with appropriate authority – or simply never happens at all.

Quantification of savings: Review the status of over budget expenditure as detailed in your current and historic profit and loss reports. Assuming that this “maverick spend” is likely to continue unless completely controlled, the historic annualised budget overspend can be considered 100% contribution to ROI.

2. Discretionary spend management

The consequence of a strong market and readily available credit for the past 14 years is that organisations / budget holders have become less than stringent in the use and management of the available budgeted funds.

We have witnessed a fundamental change in the domestic market spending which sets an excellent example for companies to both heed and adopt. In the first three months of 2009, the general public started to manage their own discretionary spend and have become far more careful in the way that they spend their money. This is reflected by an increase in savings (decisions not to buy) and the growth of Lidl and Morrison’s sales as the public opt for less expensive alternative products that have little to no impact on “performance”.

The same opportunity exists for every business, provided that the budget holders are re-energised and focused on maximising the effectiveness of corporate cash. Consider the merits of a reduction of available budgeted spend across the board by between 2% and 10%.

The objective is primarily to ensure that budget holders become far more proactive in reviewing the effectiveness of their purchasing, reducing “quality” where it has negligible

impact, prioritising “must haves” over “nice to haves” and negotiating better terms in both price and payment terms.

Over “revised budget” spend is still possible, but it requires approval from senior management / board: a step that will make everyone think carefully before making the request. A change in budget can be achieved at any time, simply by amending the budgets within the general ledger. Once the changes are made, they instantly impact every requisition within the business.

P2P provides the ability to lock down corporate budgets in moments whilst providing the ability to review, approve or reject over budget expenditure on a case by case basis. Budget holders can significantly impact the effectiveness of their spend and every £ saved goes directly to the bottom line (and the bank account).

Quantification of savings: The outcome of a material reduction in budget will be an actual reduction in spend. Your estimated savings of this value should be based on the net effect, taking over budget purchases into account.

A conservative estimate is that this should be between 0.5% and 5% of current budgeted spend.

3. Consolidation of suppliers for improved terms

Most budget holders and their staff have built trading relationships with multiple suppliers over the years, buying from habit and rarely renegotiating pricing and payment terms. The result is a substantial number of creditors, many of whom may be offering similar goods and services.

The opportunity to consolidate suppliers and standardise on optimum value goods and services will deliver better prices on purchases and potentially improved credit terms.

P2P enables the lock down of available suppliers (and their products) at requisition generation; consolidating purchasing, standardising goods and services and enabling the negotiation of optimum pricing and payment terms. Just as important, the company has the ability to change suppliers on demand.

Identify top 20 suppliers

A quick review of the turnover by supplier will identify the major areas of spend within the business. It is obvious to start with the major areas of spend as a significant proportion of spend is often made with a relatively small number of suppliers.

It is worth undertaking a quick review to see how many smaller suppliers are being used to supply similar goods and services. By consolidating this spend, you are in a position to offer increased business to one supplier in return for better terms – then control the purchasing process within your company to ensure the nominated supplier is used every time.

Once the largest suppliers have been addressed, the strategy can then be applied systematically to every supplier over time.

Quantification of savings:

Common areas of focus include marketing, printing, IT equipment (hardware and software), stationery and contracted services. It is reasonable to assume that savings between 0.5% and 5% of current budgeted spend could be achieved without a significant amount of effort.

4. Critical suppliers management:

Slow purchase order approval processes often result in the delay of the provision of goods and services to meet immediate business needs, impacting business performance and customer relationships through late delivery.

A manual purchase invoice approval process is very slow and provides no visibility of invoice queries. The result is critical suppliers become frustrated with continual late payments and late notification of queries and their increasing exposure to potential bad debts can eventually lead to your account being put on stop. Delayed delivery of goods and services will impact the company's ability to meet its own commitments to customers, resulting in delayed revenues and potentially lost customers. The short term solution is often to purchase from alternative suppliers, usually on less favourable terms and often on a "cash with order" basis.

P2P ensures that every purchasing transaction is completely visible to everyone who needs to have sight of it, whether to confirm the order has been approved and placed, the goods have been received, the invoice is correct on units and values, or in case there are queries on specific purchase invoices and their current status.

Quantification of savings:

A review and identification of critical suppliers, plus a discussion with the sales department will usually highlight a number of instances where a failure to order or receive goods or services in a timely manner has impacted on customer relationships, delayed sales invoicing or potentially lead to the loss of a customer. At a time when customer retention is key, failure of basic administration systems to perform in a timely manner represents a significant risk.

The ROI contribution from the successful retention of a single customer would be significant.

5. Accuracy of the purchasing process

A moment's thought will confirm that the failure to raise a documented order (quantifying the goods / services, units and values) or to verify supply (goods received notes) and the reliance on the memory of the budget holder to approve the invoice is wide open to errors, abuse and even fraud.

Yet most organisations use the manual purchase invoice approval process of relying on diligence, memory and honesty for a considerable proportion of corporate spend. Apart from the obvious problems of the speed of approvals, management of disputes etc, there is no means to audit whether the pricing of the goods / services was competitive or appropriate, whether the goods / services were received and of appropriate quality and if the invoice reflects either of the above.

P2P automates the raising of a requisition and automated workflow approval for purchase order generation and ensures that the relevant information is electronically recorded and available to all that require it. The availability of suppliers, the control of goods / services available and the agreed pricing can all be automated and enforced. Available delivery addresses can be locked down where appropriate to ensure the company is the beneficiary (and not a home address).

Confirming receipt of goods and services takes moments and purchase invoice approval (if the three part set all matches) is automatic, resulting in the immediate and automated posting of the purchase invoice as no further approval process is required. This addresses over 90% of most purchase invoices, creating the time to focus on the exceptions.

More time is available to spend quickly resolving the disputes, ensuring that all discrepancies lead to the appropriate credit note in a timely and transparent manner.

Quantification of savings:

What proportion of your suppliers is aware that you have no record of what was agreed at the order stage and no documentation on what was delivered? How many of them could take advantage of the fact by adding a small incremental cost to the invoice, or just adding delivery charges?

How much time is being spent by senior managers in wading through the backlog of purchase invoices, plus the time of the finance department in chasing up for information and approvals?

How many small differences are simply ignored because of the time and effort required to correct them?

The ROI contribution from the clear demonstration to your suppliers of tight financial control is potentially significant, if difficult to quantify (as there is usually no record of what is currently taking place).

Suppliers recognise the value of a customer that is highly disciplined in their purchase to pay cycle, as it also saves them time and money.

6. Accurate cashflow reporting and management accounts

A manual purchasing system means that a very significant proportion (up to 40%) of purchase invoice value has not been approved by the time the monthly management accounts need to be run. The common method used to address this is to manually accrue costs to budget for the nominated period, a time consuming exercise that is inherently inaccurate.

This estimate is then used to project future cashflow requirements and support management decisions by the business, based on financial management information that is often not delivered until a half a month after the period end.

This approach may have been acceptable in the “good times”, but when revenues become unpredictable, debtors’ days increase and bad debt can happen at any time, basing decisions on fundamentally inaccurate information can and will become fatal for some organisations.

P2P creates a “commitment” transaction on order generation, reflecting both the time the cost will be incurred and when the cash to pay the creditor is required. By including all corporate expenditure such as rent, rates, maintenance contracts, direct debit mandates etc, finance management can deliver a cashflow forecast that reflects the daily cash requirement in the future for every commitment as it is made.

As the transaction passes through the delivery and invoicing process, the commitment and accrual transactions are fully automated (with reversals) and the purchase invoice is posted to the accounts.

Compleat fully automates the management of commitment accounting as a bi-product of improving the purchasing process. The majority of “month end routines” become redundant, as the actual information is complete and already in the accounts, enabling management reporting to become more timely and be based on accurate information.

The ability to lock down corporate spend at a moment’s notice provides the most effective tool to address an unexpected cashflow issue, whilst controlling what can be spent and the suppliers with which to weather a short term challenge.

Quantification of savings:

Apart from the productivity benefits (dealt with later in this document), how can you quantify the value of moment by moment cashflow forecasting based on fact and the confidence that the management information is complete?

Peace of mind does not have a cash value, but knowing that you can identify a business or cash crisis at the earliest possible moment and then have the tools to manage your way through it, could save your business.

The same knowledge works equally well for businesses looking to expand, as accurate cashflow projections are often more critical.

3. Explanation and quantification of Productivity Savings

The following section looks at the productivity gains provided by Compleat. Quantifiable return on investment based on productivity assumes that the time saved is well spent in doing other more productive activities that improve the overall performance of the business.

A primary focus of the additional time should be to increase diligence, focus on consolidation of suppliers and the identification and utilisation of more cost effective products and services, as this will significantly improve ongoing cost savings and return on investment.

In more extreme circumstances the productivity gains may enable a reduction in headcount, either through not replacing a leaver or redundancy. Headcount reduction is not included within this document, however for many businesses; a single headcount reduction would deliver a 100% ROI in less than one year by itself.

Expanding organisations also benefit as the productivity gains provide additional capacity from existing resources to incur more growth without the need to employ additional staff. This will become relevant to an increasing number of businesses as the business environment improves.

1. Requisition generation and purchase order approval

The automation of the generation of purchasing requests based on standard products from nominated suppliers at the best terms takes a matter of moments, inclusive of budget checks. Once submitted for approval, it can either then be self approved or automatically sent to the next required approver.

The approver has all the information to make the decision including available budget, attachments etc. They can make additional comments, reject the requisition for amendment, or just amend themselves and approve. Further approval requirements are also fully automated for larger values, out of budget requests etc.

Notification of the approval request is delivered by email with a one click link to the relevant document. A two click approval process will generate a detailed order (XML / .pdf format) including all relevant terms and conditions, payment terms, the delivery address etc totally automatically and tell the requisitioner it is done.

The purchase order can be automatically sent direct to the supplier instantly on approval.

Compare that to a common manual process that requires locating an order pad, writing out the details by hand then finding the approver. Consider the time spent finding that approver for urgent orders, chasing up on the status of whether or not it is approved, checking budget availability, generating a formal set of terms and conditions, whilst ensuring that the best price on the best terms has been taken into account.

Once approved, the purchase order has to be posted to the supplier, the original order filed and the third copy sent to accounts (who also have to collate and file the orders). It would be reasonable to assume that automated requisitions will save at least 10 minutes of time (in total) for every order raised.

Quantification of saving:

(Number of purchase orders per annum x 10 minutes) x the relevant fully loaded cost of an average member of staff.

2. Centralisation and full automation of all aspects of budget management

The common methodology of budget management is the delegation of the responsibility to nominated budget holders to maintain records and control spending within the budgets available. This leads to multiple, disparate methods of tracking spend, often leading to errors that only become apparent some considerable period later when the relevant invoices have all been posted to the accounts.

To maintain accurate budget control, every purchase has to be recorded, every short delivery and credit note captured and every recurring cost accurately tracked. In short, the effective delegation of budgets requires each budget holder to create and maintain a manual system to capture all commitments, accruals, invoices and credit notes in order to be financially accurate. It is not surprising that errors are made, as this level of discipline and financial acumen is a skill – one that normally only resides in the finance department.

P2P budget control removes the requirement for ANY intervention or effort from any individual in the company – it is 100% fully automated, as a simple by-product for automating the purchase to pay cycle.

Every single requisition, purchase order, receipt, purchase invoice and credit note is tracked automatically. Available budget, less commitments, accruals and posted asset / expense information is tracked in real time, taking relevant periods and budget availability (period only, period and year to date, year to date only, entire period of a project etc) into consideration.

Every requisitioner and approver (with permission) can check budget availability with a single click – and out of budget requests are automatically highlighted in red.

Any change to the budget information within the accounting system impacts every single requisition within the system the moment it is changed – enabling companies to lock down spend at a moment's notice.

P2P removes all the time and resources required to manage and record budget information across the entire organisation. It is reasonable to assume that each budget holder and associated staff will invest at least 15 hours per month in this activity.

Quantification of saving:

((Number of budget holders X 15 hours) x 12 months) x the average fully loaded hourly cost of budget holders.

PLUS:

The total value of historic over budget expenditure from the profit and loss report for the preceding 12 months, assuming the vast majority of this real cost was made through error. Any future budget overspend will be a senior level decision.

3. Opportunity to introduce receipting of goods and services:

The real value of receipting is the impact it has on purchase order approval productivity. If the order matches the receipt, and the purchase invoice matches the order value (the three way match), then it removes the requirement for any further purchase invoice authorisation. This means that in excess of 90% of all purchase invoices would be automatically approved and posted without further work. (See Automation of purchase invoice approval process below).

This section assumes that all purchases are now being created electronically and the relevant information is held within the P2P system.

The capture and posting of goods received notes and verification of the provision of services is rarely monitored formally in most organisations. The lack of formal orders makes the process impractical, and even where there are orders, manual reconciliation is very time consuming for little perceived benefit.

However, within P2P, receipting is very fast. If everything is correct, it is a “one click” acceptance. If the delivery note / services confirmation is inaccurate, then capturing the discrepancy is critical to ensure the value of the purchase invoice reflects what has been received. Again, this is a very quick process within P2P.

The introduction of receipting ensures that the business only pays for what it has actually received, rather than relying on the memory of the purchase invoice approver.

Quantification of saving:

For most organisations that do not currently undertake receipting, there is not a direct

saving and probably an additional resource requirement to introduce this procedure. The significant productivity savings gained by other aspects of P2P automation will more than cover this function.

If receipting is currently undertaken manually, then the saving is substantial as it will reduce the time taken for each receipting process by up to 80%.

Fast input for purchase invoice capture

All purchase invoices are posted into P2P on receipt. The relevant purchase order / receipting document is located simply by entering the purchase order number. remove carriage returns. The only information required is the invoice date, invoice number and the net, VAT and gross value, as all the nominal coding was completed on creation of the requisition.

If document imaging is used, the electronic copy of the purchase invoice is also attached to the record. The capture of the purchase invoice, including the attachment of an image takes around 20 to 30 seconds per transaction.

On completion of data entry, the P2P dynamic automated workflow determines the appropriate next step, for example:

- If the three way match is correct – the purchase invoice is posted into the finance system immediately – job done (see below for more information)
- A difference in invoice value – if the difference is within a preset tolerance, it is immediately posted, if outside the tolerance, it is electronically forwarded for additional approval.
- All queries, disputes and or credit note requests are automatically managed and accessible by supplier / transaction to the finance department.

Quantification of saving:

The current process of capturing each purchase invoice, coding it for general ledger analysis, creating batches & batch totals and posting takes most organisations about two to three minutes per invoice. This represents a saving of at least one minutes per invoice.

(Number of purchase invoices x 1 minutes)

Automation of circa 90% of purchase invoices approvals (three way match)

If receipting is being used, then a very high proportion of purchase invoices will accurately reflect the original order. If the three way match is accurate – the invoice is posted. This removes the requirement to create a register of purchase invoices, manually sort them into batches and post them out to management to review and approve. It also removes the requirement for the management's time in the approval process, and all of the time wasted in tracking the status of each transaction, finding replacements for the ones that get lost (duplicate requests) and trying to track those that are disputed and awaiting credit notes, but invisible to the accounts department.

The labour saving is very significant, as 90% plus of the work simply disappears completely.

Quantification of saving:

It is reasonable to assume that each purchase invoice requires at least one minute to identify, collate, document and physically send to an approver.

Accounting staff: (number of purchase invoices x 90%) x 1 minute

It is reasonable to assume that a diligent approver will spend at least one minute (on average) per invoice review and approval.

Management: (number of purchase invoices x 90%) x 1 minute

4. Automation of purchase invoice approval process (no receipting)

If receipting is not being used, or the purchase invoice is out of tolerance with the purchase order value, then further approval will be required.

The P2P purchase invoice approval workflow process is totally automated. The nominated approvers are already electronically stored (on the transaction profile of the purchase order). On completion of the purchase invoice capture, the P2P software automatically reviews the transaction and electronically delivers it (and its electronic image) to the approver for review.

The approver has the entire transaction record available and either approves it (two clicks) and the purchase invoice is posted to the accounting systems, or declines it, awaiting credit note.

The finance department can see the status of every transaction, simplifying discussions with suppliers on outstanding accounts and removing the probability of being put on stop.

Quantification of saving:

The productivity savings are significant as is the increased speed and efficiency of the approval process. The moment the purchase invoice has been captured (item 5), it is simultaneously delivered electronically to the approver without any additional work.

The approver has all the information available in a single document to aid the approval process and the ability to manage invoice queries and disputes effectively, with complete transparency and reporting by the finance department.

5. Automation of month end accrual calculation and posting

The level of diligence (and accuracy) in the production of monthly management accounts varies considerably across companies. A manual purchase invoice approval and posting

process cannot deliver a significant proportion of the approved purchase invoices for that period until well after the management reports are required.

The most diligent organisations undertake a manual (spreadsheet) process to code and record purchase invoices at summary level and utilise this information to make the accruals into the general ledger, then reconcile and reverse the accruals as the approved purchase invoices are received. Whilst this provides accurate (hopefully) management accounts and cashflow forecasting, it is very time consuming.

A much more common practice is to close off the ledgers (usually within five days of the period end) and then accrue to budget, based on the assumption that most departments will spend to budget on most months. It is common for up to 40% of all monthly expenditure to be accrued at month end.

Both the above methods become redundant with P2P. A commitment is generated on purchase order approval; this is reversed to accruals on receipting and reversed back again for asset / expense posting on invoice approval. The management accounts reflect the correct and complete picture from the moment a purchase order is approved. P2P also enables all “non ordered” costs to be addressed (rent, rates, heat, light, etc) in a similar manner, with auto reversals on receipt of the purchase invoices. The management accounts can be produced within a matter of days of the month end, completely and accurately.

The removal of most if not all of the creation and management of accruals represents a significant saving, whilst providing obvious benefits in terms of speed of delivery and accuracy of management information.

Quantification of saving:

The saving is dependent on the amount of time and resource each organisation requires to undertake the month end accrual process. (Time taken x cost of resource)

6. Accuracy of cashflow requirements on moment by moment basis

The importance of cashflow reporting increases within a recession, as revenues become less predictable, debtors take longer to pay and the risk of bad debts increases.

Whilst P2P cannot influence the revenue side of the cashflow, it can and does quantify the exact cash required to meet all commitments made, tracked on a day by day cash requirements basis as far into the future as commitments have been made.

Given that most organisations accrue for a significant proportion of spend at month end, there is never a time where the “full picture” is available.

Quantification of saving:

The availability of a moment by moment cashflow requirement based on purchasing commitments is simply not practical by manual methods.

The saving calculation is based on the time taken to generate the spend component of existing cashflow reports.

(Hours x full loaded resource costs)

3. Conclusion

It would be extremely difficult to argue that the current manual systems used by most organisations represent an effective, accurate and secure method of spending and accounting of the corporate hard earned cash. It is equally clear that the automation of the purchase to pay cycle offers a great deal more than simple productivity gains.

The greatest value is the ability of the management to refocus the business to take control of corporate spend, buying what is required at the best prices and payment terms possible, whilst remaining within budget at all time.

Compleat also delivers the ability to instantly lock down corporate spending on demand, should the complete and accurate cashflow reports warrant this action. Compleat Spend Control is easy to use, fast to deploy and will deliver a fast return on investment.

Compleat and our Partners are running a number of Workshops across the UK to enable businesses to evaluate the Compleat Spend Control software in an interactive environment.

For further information: www.compleatsoftware.com/workshops