Procure to Pay Process

and its importance to the retail industry

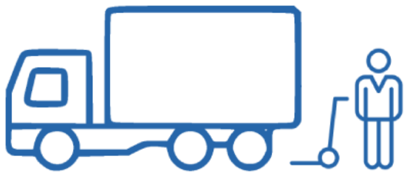
White paper

Retail industry and supply chain management:

The industry environment in retail is fast paced and highly competitive, with dependencies on multiple factors in the value chain to ensure optimal profitability and growth. Globally, the industry is predicted to grow at CAGR of 5.3% in the period 2018 – 2023.

Managing the supply chain is one of the critical success factors in the industry. With growth and expansion plans retail companies typically face challenges in managing their large supplier base and maintaining strong relationships with suppliers. These include ensuring timely and accurate payments and prompt attention to supplier queries. The seasonal nature of the business only makes these matters complicated. In this backdrop Supplier Relationship Management and in particular, management of the procure to pay (P2P) process is of vital importance.

Proper management of P2P process impacts the efficiency of the supply, availability of items in shelves, ability to negotiate contractual prices and ultimately impacts profitability of the organization.



"Managing the **Supply Chain** is one of the critical Success Factors in the **industry**"

Typical Challenges in P2P Process for retailers:

1 Collection of Supplier invoices

A leading retailer in Australia, with over 200 regional offices spread across Australia, identified problems in delivery of invoices and collection, as one of the most significant challenges. Supplier invoices were delivered through a variety of channels, sometimes to the head office and sometimes to the outlets, leading to misplaced and miscarried invoices. This is compounded by a mix of paper and electronic invoices. With the large volumes of supplier invoices common among retailers, tracking and traceability is a significant challenge.

- Delayed supplier payments resulted in frustrated suppliers, deliveries withheld and stock out situations
- The lack of traceability of invoices and payment status resulted in significant management time consumed in handling and resolving supplier complaints

2 Managing exceptions and traceability

Typical exception percentages range from 5-10% and mismatches between Purchase Orders (PO) and Invoices occur for a variety of reasons. These include price variations, quality rejects, short supplies. Handling of these exceptions is often cumbersome, involving offline email communication and calls. Worst of all, those tasks with handling supplier calls have no visibility of these invoices which are in dispute and not updated in the Accounting system. A senior finance professional stated that he had to make up to 5 calls to ascertain the reasons for unsettled invoices from critical suppliers.

3 Handling Supplier inquiries

Most finance divisions are not equipped with dedicated call centres for supplier inquiries and calls are handled by the Accounts Payable team. Finance staff will all identify with how disruptive the constant flow of calls is to the daily routine and how must productive time is lost in responding to agitated and sometimes angry suppliers, frustrated with settlement delays. An average AP department spends 20 percent of its time responding to supplier payment queries (Aberdeen Group, May 2009). Often, the calls are escalated and even CFOs and divisional heads are burdened with calls from key suppliers. The follow ups and resolutions take considerable time.

4 Increasing cost of handling P2P Process

With constant pressure on margins, every aspect of the retail operation is under scrutiny. 10% reduction in costs year on year are familiar targets given to operational management. the P2P process is most often classified as non-core and increasing costs often force difficult compromises, which result in understaffed finance teams and consequent delays and inability to meet deliverables.

These are likely familiar scenarios that many retailers could identify with, particularly during the growth phase with rapid expansion in the number of stores, volumes and supplier base.

5 Processing errors and non-compliances

With large volumes, often under resourced finance teams, pressure from operations and suppliers, processing errors could result leading to costly over payments, failure to set off credit notes and duplications.

Process non compliances are most often maverick buying, where contracted suppliers are not used, and failure to conform to raising of POs. In the case of the latter, supplier invoices are processed as direct invoices without three way matching against PO's and GRNs. These are especially vulnerable to errors and fraudulent manipulation.

5-10%

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10% Reduction

in costs year on year are familiar targets given to operational management

large volume

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20%

Of an average time is spent by an AP department responding to supplier payment queries

P2P Best practices:

1 Harmonise delivery and receipt of invoices

This requires supplier education and usually 3-4 cycles of communication to all suppliers to adhere to a single method of invoice delivery. A single address could also be communicated to suppliers where invoices could be centrally received, scanned and uploaded for processing from one central location. This will greatly reduce instances of lost and missing invoices and will provide clarity

2 Electronic Invoices

Supplier education could be extended to encourage and reward the adoption of electronic invoices over paper. Several European companies are now mandating electronic invoices and B2B communication platforms have evolved which facilitate EDI based invoices which are read seamlessly into accounting systems.

3 Supplier Portal

An analysis of P2P process in companies including Marks & Spencer, Proctor & Gamble, Kimberly Clark reveals the use of online supplier portals to streamline supplier collaboration, submitting of supplier invoices and payment notification. A supplier portal has multiple advantages and highly recommended. This requires some work to onboard suppliers but the benefits which accrue to suppliers as well as to companies, are well worth the effort.

> "Benefits include visibility of processing status to suppliers as well as to companies, which eliminates a lot of the frustrations and reduces telephone and email inquiries; disputes could be handled online through chat; suppliers are notified immediately on processing their payment; no missing or lost invoices and reporting on pending invoices, age analysis of unprocessed invoices etc could be tracked and monitored."

4 Workflow tools for collaboration

A workflow system is a must for handling exceptions. The AP process will have at least 5% exceptions which require Accounts Payable staff to escalate exceptions to the relevant personnel for approval. Workflow systems are a far more elegant solution to offline methods such as email, as pending queries, age analysis are immediately visible without the use of excel tracking sheets.

5 PO Compliance

The best in class P2P process enforce and monitor compliance and use the “No PO, No payment” policy. This eliminates maverick buying and reduces risks of duplicate and over payments. A good metric to monitor is PO compliance as a percentage, i.e. (Number of PO based supplier invoices / Number of supplier invoices %), with 100% being the goal.

6 P2P Metrics and benchmarking

There are multiple metrices that can be measured and benchmarked against best in class standards. Hackett has defined world class standards for a variety of KPIs. These include cost per transaction, transactions per FTE, invoice processing cycle time, percentage of electronic transactions, ontime payment rate, first pass match rate, average handled time per transaction.

When measures against world class standards, the inevitable gaps provide an opportunity to systematically work towards process improvements.

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7 Analysing exceptions

Exceptions, rejects and escalations are inherent in P2P. Its important that these are measured as a percentage and the root causes identified and systematically worked on to reduce the occurrences. These could often be drilled down to specific vendors and fixed through vendor education.

8 Automation

There are a variety of automation tools including Optical Character Recognition (OCR) and RPA (Robotic process automation) which can dramatically improve processing speed and cycle times.

Conclusion

Whilst retailers tend to prioritise sales, increasing market share and operations, it is unwise to relegate so called “back office” processes such as P2P as gaps in this process could prove very costly. Negative consequences could include stock out situations, reputation damage, over payments, penalties and inability to negotiate better terms with suppliers.

It is wise therefore for retailers to pay attention to their P2P strategy, adoption of best practices and the right investments. Partnering with a specialist back-office services provider, who has the required tools, systems and expertise, is a possible alternative to investing and acquiring expertise in a non-core process. This will enable companies to manage their P2P Process through defined SLA’s and KPIs.

The benefits of optimised P2P process include supplier satisfaction, enhanced company reputation, ability to negotiate preferential terms, freeing up expensive time in non-value adding follow-ups and rework, lower costs and improved accuracy, controls and compliance.

About infomate

Infomate is a specialist provider of accounting and back office services. A subsidiary of Sri Lanka largest listed conglomerate, infomate has 10 years experience serving clients in Australia and serves leading brand names. Service portfolio includes Accounts Payable management, General Ledger management, Accounts receivable, Fixed asset management, data entry, shipping documentation, administrative tasks, master maintenance. Infomate has expertise on a variety of platforms including SAP, AX, Xero, Sage, JD Edwards, Oracle, Nexus, Quickbooks. Infomate is ISO 27001 certified for world class information security practices.Partnering with Infomate is a pathway for the benefits:

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- Catalyst for achieving world class standards in your finance function With measurable KPIs
- Reduce risk
- ERP best practices
- Process streamlining and automation
- Controls and governance
- Leverage arbitrage

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