A guide to building a Purchase-to-Pay (P2P) business case

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A guide to building a Purchase-to-Pay (P2P) business case

Spend Management is a journey, and for many organisations, one of the first, most important legs of the trip is deployment of a Purchase-to-Pay (P2P) solution.

In recent times, companies and their Finance departments all over the world have been forced to adapt and be agile. Project teams have had to deal with a new world of remote work, IT resource shortages (which have been pulled into moving the entire company to a remote setup for instance) and business models that seemed perfectly legit a few weeks ago are now obsolete.

Time doesn't stand still in times of crisis, financial obligations still need to be respected, and business needs to keep going. The continuity, and adaptation, of Purchase-to-Pay and accounts payable operations has been crucial.

And it is clear that some businesses are better equipped to maintain operations than others. For many, it has highlighted a number of issues in the P2P process:

- Unstructured invoices – dealing with all types of invoices (which have no common format) across the supply chain.
- Paper and PDF invoices lead to extensive manual keying and associated keying errors, as well as misplaced paper documents.
- These manually intensive, error-prone processes lead to non-conforming invoices, excess costs, inaccurate payments and the risk of fraud.
- Unreliable supplier base and unfulfilled orders.
- A constant stream of cashflow issues due to lack of efficiency and missed opportunities for early payments.

These are just a sample of the issues caused by an inefficient Purchase-to-Pay process.

This guide is intended to give you a simple, straightforward way to develop a P2P business case. But first a little summary of how Purchase-to-Pay (P2P) works and the benefits it provides...

How effective, agile Purchase-to-Pay (P2P) works

A good P2P solution will provide an electronic system that allows employees throughout the company to browse supplier sources such as catalogues and websites online to find, then purchase or request, the item or service they need from an approved supplier. The purchase request will be compared to corporate rules based on who is making the request, the cost, the spend category, and other criteria. If the requested purchase needs explicit manager approval, it will electronically route the request to the right manager, provide that manager with budget and cost pipeline visibility so he can make a good decision, and allow him to either approve or deny the request. POs will automatically be placed for approved requests. When the invoice arrives, it will be electronically matched against what was ordered and received, and against any applicable contract terms.

A good P2P system will process the great majority of invoices "straight-through", while automatically initiating workflow-based resolution of any exceptions. Once authorised, invoices will be passed to your Accounts Payable system for payment.

Other capabilities may be part of the system, such as electronic invoices, a supplier portal, contract management, and maybe even integrated supplier management and sourcing capabilities.

Operational benefits of P2P

The direct operational benefits of your P2P system will be to:

- Make it easy for your organisation to get the goods and services it needs.
- Prevent unauthorised, unnecessary or fraudulent purchases.
- Help department managers effectively manage budgets.
- Guide purchasers to fulfill their need from approved suppliers with a negotiated contract pricing.
- Dramatically streamline the processing of invoices while ensuring only valid invoices are paid.
- Streamline the entire purchase-to-pay process to reduce both time and cost.

The impact on your bottom-line

The result should be an overall reduction in the amount of money your organisation spends to obtain necessary goods and services. This reduction goes directly to your organisation's bottom line to improve your financial performance. This is why P2P systems are fast becoming a major solution investment area across a wide range of organisation types.

The bottom-line benefits of P2P systems are well proven in case after case. Proactis has a number of case studies you might want to read. But the business case that's important to you is your organisation business case. How much can your organisation's expect to save by implementing a modern P2P system?

Digitise end-to-end buying and payables

Regain visibility of purchasing within your business while maximising preferred supplier spend, reducing the risk of fraud and keeping budgets under control.

Transform from cost-centre to revenue-centre

Clear visibility of spend across your organisation to help you identify areas for consolidation. AP automation will enable 100% digital invoicing and the opportunity for early payments.

Optimise business productivity

Enable employees to concentrate on value-add work by reducing the amount of time needed to chase or wait for approvals, dealing with enquiries or waiting for the purchases.

An easy step-by-step process to build your business case

The step-by-step process to build your organisation's business case for deployment of P2P is simple:

Step 1: Identify key information and metrics from your current environment

An example of the information you will want to collect is shown in the Current Volumes and Costs section along with a blank worksheet for your organisation's actual and estimated information. If there is some information you cannot get from your current processes, you can supplement that with industry benchmarks.

Step 2: Identify target improvements to key metrics when using P2P

An example worksheet with savings areas, current metrics, and estimated improvements using P2P is shown in the Calculated Savings section along with a blank worksheet for your organisation.

Step 3: Calculate the 'hard' and 'soft' savings you can reasonably expect

Using the worksheet in the Calculated Savings section, you can quickly calculate the results you can reasonably expect to achieve through deployment of P2P.

The worksheet divides savings into two areas: 'hard' savings where costs will actually be reduced, and 'soft' savings where process costs will be reduced, though the resources used in those processes may be re-allocated to other, more value-added, activities.

Using this approach, you can quickly determine the results you can expect from deployment of a P2P solution. As you will see, those savings can be significant.

Once you have your savings target in hand, you can combine that with the cost of technology investments associated with P2P to determine your ROI period.

Also note the **Additional benefits of a Purchase-to-Pay (P2P) system**. Although you may not include these in your formal business case, they can be just as important as the bottom-line savings.

Some notes before you begin

1. Don't use general industry benchmarks blindly

Keep in mind that average performance metrics can vary widely from one industry to another, and that there are a lot of benchmark studies out there. If you have access to studies that are specific to your industry, we invite you to use them where you do not have metrics of your own.

If you are unclear on what benchmarks or target metrics are reasonable for your organisation, just contact Proactis. We will be happy to help you work through building a business case you can confidently use to promote implementation of a P2P system within your organisation.

2. This business case is only for Purchase-to-Pay (P2P) – even more savings are available

Although the savings you calculate in this guide are likely to be substantial, they do not represent all of the savings potential of a full Spend Management environment. Each of the following solution areas has great savings potential as well:

- Electronic invoices, including a variety of methods.
- Contract Management.
- Supplier Management.
- eSourcing, including eAuctions.
- Marketplaces.

Each of these Spend Management solutions complements and enhances your P2P solution to create the opportunity for more savings through helping to find more high-quality suppliers, create favorable supplier agreements covering more purchase categories, reduce process costs, eliminate automatic extensions of unnecessary or non-renegotiated contracts, etc. Each has a solid business case in its own right.

However, it's important to understand that a modern P2P solution is, in many ways, the foundation of a full Spend Management environment. It provides the day-to-day framework to drive compliance with corporate approval policies and usage of approved suppliers and agreements. So P2P is a great place to start.

3. The average savings of 12% figure is a conservative average savings percentage for on-contract purchases based on results of many studies.

4. On-contract spend is considered all spend against approved vendors using negotiated, contracted prices. All other spend is considered 'off-contract'.

Current Volumes and Costs

This section includes a worksheet where you can accumulate the information you will want to use regarding your current environment.

Your worksheet is just after the example below.

Example

	Volume or metric
Total addressable spend	£250,000,000
Current on-contract spend	40%
Targeted savings for on-contract spend vs. maverick spend	10% (a conservative amount as average is 12%)
Annual PO volume	25,000
Annual invoice volume	30,000
Average per PO cost	£27
Average per invoice cost	£15.61
Request-to-order cycle time	3 days
Invoice processing cycle time	10 days
Annual late payment fees	£10,000 (from General Ledger)
Annual early payment discount lost	£50,000 (Estimated 2% on 1% of spend)
Annual payment of duplicate/invalid invoices	£25,000 (Estimated 0.01% of spend)

Your worksheet

	Yours	Total
Total addressable spend (non-payroll Ops + G&A)		
Current on-contract spend		
Targeted average savings for on-contract spend vs. maverick spend		
Annual PO volume		
Annual invoice volume		
Average per PO cost		
Average per invoice cost		
Average request-to-order time (days)		
Average invoice processing time (days)		
Annual late payment fees		
Annual early payment discount lost		
Annual payment of duplicate/invalid invoices		

Calculated Savings

This section includes a worksheet where you can accumulate the information you will want to use regarding your current environment.

Your worksheet is just after the example below.

Category	Savings area	Current	Estimated with P2P	Improvement	Estimated savings
Hard savings	Avoidance of unauthorised purchases	15% of spend	5% of spend	10% of spend	**£25,000**
	Increased contract compliance	40%	75%	35%	**£8,750,000**
	Late payment fees	£10,000	0	£10,000	**£10,000**
	Lost early payment discounts	£50,000	0	£50,000	**£50,000**
	Payment of duplicate/invalid invoices	£25,000	0	£25,000	**£25,000**
	Other				
	Other				
	Total hard savings				**£8,860,000**
Process (soft) savings	PO processing cost	£27/PO	£23/PO	£4/PO	**£100,000**
	Invoice processing cost	£16/invoice	£3/invoice	£13/Invoice	**£390,000**
	Other				
	Other				
	Total process cost savings				**£490,000**
	Total hard and process savings				**£9,350,000**
Process (soft) savings	Request-to-order (days)	2.5	1	1.5	**60% reduction**
	Invoice processing (days)	9.7	3.8	5.9	**61% reduction**

Your worksheet

Category	Savings area	Current	Estimated with P2P	Improvement	Estimated savings
Hard savings	Avoidance of unauthorised purchases				
	Increased contract compliance				
	Late payment fees				
	Lost early payment discounts				
	Payment of duplicate/invalid invoices				
	Other				
	Other				
	Total hard savings				
Process (soft) savings	PO processing cost				
	Invoice processing cost				
	Other				
	Other				
	Total process cost savings				
	Total hard and process savings				
Process (soft) savings	Request-to-order (days)				
	Invoice processing (days)				

Additional benefits of a Purchase-to-Pay (P2P) solution

There are many other benefits you may also consider important, even if you do not include them in your financial business case. Some of those include:

Savings from mitigated risk

- Reduced costs of problems caused by supplier non-performance.
- Reduced cost of liabilities caused by supplier non-compliance.

Strategic benefits

- Increased financial control.
- Increased spend visibility.
- Increased contract commitment visibility.
- Increased transparency of the procurement process.
- Increased organisational agility.
- Increased workforce morale and productivity.

Additional benefits for multi-unit organisations

- Ability to effectively take a centre-led approach to procurement.
- Ability to leverage full buying power.
- Ability to share and consistently leverage best practices.

This guide has hopefully given you a simple, straight forward way to develop your P2P business case. If you have any further questions, please don't hesitate to contact us:

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