Purchasing and Accounts Payable assessment tool

proactis

A practical first step to assessing your process for Purchasing and Accounts Payable

Whether your organization is experiencing growth or any type of business change, you might be thinking it might be a good time to improve your purchasing and accounts payable process.

The first step in making a shift to your procurement and accounts payable processes is to assess where you are.

Do you sense that those processes may be wasting precious resources (time, money, talent) because they are not as effective or efficient as they should be?

If you have, in fact, come to the conclusion that it's time to transform what many call the Purchase-to-Pay (P2P) process, you may be wondering how to start your journey.

As you know, before you can improve any business process you need to have a clear picture of:

1. The goals of the process.

2. How it works today.

3. How it is currently performing against the goals.

4. What sub-optimal performance is costing your organization.

5. How automation improves your process and impact your bottom-line.

This is a basic guide that will cover what you need to improve, in what areas, and how it'll impact the bottom-line.

Using this guide, you can probably do your assessment in one hour if you are already pretty familiar with how your current process works.

If you are not that familiar with how things work today, you can use the tables in Step 2 to walk around and ask questions. That may take an afternoon, or maybe a day, or maybe a few hours spread over a week. In any case, it will be well worth it.

So...lets get this done!

Step 1: Setting your goals

This section is for listing out goals. Use the notes area to jot down any additional points you want to remember about each goal – like why it's so important in your particular situation.

Process goals	Notes
Enable every function throughout the organization to quickly and easily get the goods or services they need to perform their job.	
Ensure unnecessary or inappropriate purchases are not made.	
Enable managers to effectively manage budgets by impacting the timing of purchases as needed.	
Steer purchases to the source that provides the best overall value (price, quality, delivery, risk).	
Ensure only valid invoices are paid (authorized, received, proper quality, proper pricing, not duplicated).	
Make payment at the optimal time (not late; possibly early if a discount is available and sufficient to warrant early payment).	
Do everything along the way as **quickly and efficiently as possible** by eliminating unnecessary steps and the time.	

Step 2:
How it works today

This is a very important step, but it will be easy and kind of fun.

Use the two 'maturity level' tables in this section – one for purchasing and one for invoice processing - and in each table, take a highlighter and simply highlight all of the statements that come closest to describing the way things currently work.

Checkpoint:
Step back and look at your marked-up tables:

◎ Everything that **IS HIGHLIGHTED** in columns 1 and 2 represents a problem that should be addressed - things that are currently having a negative impact in terms of performance against your goals.

◎ Everything that is **NOT HIGHLIGHTED** in columns 2 and 3 represents an opportunity to do things better - things that will have a positive impact on performance against your goals.

Purchasing – current process maturity

Characteristics	Level 1 – Ad-hoc	Level 2 – Basic	Level 3 – Structured	Level 4 – Integrated
Process ownership	Departments, individuals and/or finance.	Finance.	Joint: finance and procurement.	Joint: finance and procurement (center-led).
Management focus	Documentation for invoice payment.	Purchase pre-authorization, budget management and invoice matching.	Purchase pre-authorization, budget management, invoice matching AND on-contract buying ('spend under management').	
System framework	Paper or email (no workflow; not an actual system).	P2P system with workflow and the majority of the features utilized.		
Content sources	Manual: suppliers, items and contracts must all be found or looked up personally; all purchase details must be manually recorded.	eCatalog of largely generic items (e.g. account codes or categories); all supplier, item and price details to be entered for each purchase.	eCatalog of generic items plus a few supplier catalogs and/or website punch-outs; some with link to contract terms.	Extensive supplier eCatalogs, punch-outs and links to external marketplaces; links to contract terms; most details auto populated into purchase.
Self-purchase process	Supplier and item determined offline; may not be best choice. Authorization may take long time or get lost, so people often place purchase without prior authorization.	Supplier and item determined offline; may not be best choice. Authorization is faster, so more people request pre-authorization if mandated. Still too many retrospective POs.	Items from preferred suppliers can be selected in P2P using multi-source search, so people do. Authorization is fast and tied to item selection, so more people use the system.	Wide range of items easily selected from preferred suppliers in P2P using multi-source search; system may also check inventory. People prefer using the system as the fastest and easiest way to get what they need.
Buyer-assisted process	People only request buyer assistance if mandated (e.g. strict requisition process) and/or for special categories. Buyers are not always category experts . Little tracking or visibility of status.		Buyer assistance is automatically determined based on category (e.g. IT equipment, office furniture, etc.) Request is automatically routed to category expert for collaborative requirements definition and RFx or 'quick quote'. Status is fully visible throughout process.	

Purchasing - current process maturity Continued

Characteristics	Level 1 - Ad-hoc	Level 2 - Basic	Level 3 - Structured	Level 4 - Integrated
Authorization	Policies in paper form only; often not followed. Managers receive requests randomly with little information. Requests often sit in 'inbox' and get lost or forgotten. If normal approver is out, requests wait until they return.	Policies are automated via workflow and business rules. Many purchases can be automatically approved by system to speed process. Managers control when/how they receive requests (e.g. at certain time of day). Requests have more information; supplier likely to be preferred so easier to approve. Requests can be approved from mobile devices. If normal approver is out; request is automatically routed to another appropriate person.		
Budget management	Managers have no visibility of expense until posted to GL – all in-process purchases are invisible.	Managers have some visibility of in-process purchases.	Managers have clear visibility of the full cost pipeline, including purchases in all stages. Automatic budget checking with alerts.	
Receipting	Not captured electronically.	Automatic or explicit; easy online process to acknowledge receipt of both goods and services. Integration with other systems possible for goods that go through receiving department.		
Spend history capture	None.	Limited supplier and item/category detail due to non-standardized PO information.		Considerable supplier, category and item detail.

Step 2

Invoice processing – current process maturity

Characteristics	Level 1 – Ad-hoc	Level 2 – Basic	Level 3 – Structured	Level 4 – Integrated
Process ownership	Local Finance.	Divisional Finance. Standardized; possibly centralized.		Enterprise-level Finance. Possibly a shared service.
System framework	Manual PO and invoice handling.	Electronic Purchase-to-Pay (P2P) system with majority features utilized.		
Invoice capture	Receive and file paper invoices. Delays due to inter-office mail. Large storage requirements.	Receive paper invoices. Manually enter into P2P. Possibly scan for electronic document storage.	Electronic invoice files from large suppliers OCR scanning to reduce data entry and storage for paper invoices.	Electronic invoices from many suppliers using various methods (XML, email attach, online entry, PO-flip, P-cards). OCR scanning for remaining paper invoices.
Account coding	Manual with considerable experience and effort required.	Automated for simple invoices; much information comes from PO.	Automated for most invoices, including complex cost allocation (e.g. utilities and telecom). Intelligent process 'learns' over time.	
Matching	Manual and inconsistent. Invoice and PO matched at best. Many POs done retrospectively if at all.	Largely automated and consistent. Invoice and PO; sometimes receipt acknowledgment. Still high rate of exceptions and retrospective POs.	Automated and consistent. Invoice, PO, contract, receipt acknowledgement. Increasing rate of 'straight through' invoice processing (fully automated with no human intervention required). Good use of tolerances to reduce unimportant exceptions.	
Problem resolution	Find purchaser. Provide and/or request info by phone or email. Often long delay.	Issue-specific workflow, often initiated automatically by P2P system. All info visible online to both purchaser and AP. Most issues resolved quickly.		
Payment authorization	Manual – direct input to check – writing process or AP system. Few controls.	Automated – integration electronically passes authorized payments to cheque-writing or AP system. Systematic controls built into matching rules.		
Visibility of invoices/liability	None prior to payment.	Once invoices registered (none prior to data entry).	As soon invoices processed or registered – much sooner for invoices received electronically.	

Step 2

Step 3: Understanding how you are performing

Now that you have a better picture of what you are doing – and not doing – today, you can roughly rate your performance in key areas.

Use the two 'current performance' tables in this section – one for purchasing and one for invoice processing - and just use your highlighter again to mark your organization's current level of performance in each area from high to low.

Checkpoint:
Step back again and look at the marked tables. Basically speaking, if there is more highlighted on the left than on the right, you have a good opportunity to make a positive bottom-line impact by improving your Purchase-to-Pay process.

Purchasing - current process performance

Performance area	Level 1 - Ad-hoc	Level 2 - Basic	Level 3 - Structured	Level 4 - Integrated
P2P user adoption (i.e. % of purchases through process)	Not applicable.	Low.	Moderate.	High.
Authorization policy compliance	Low.	Moderate.	High.	High.
Maverick buying	Very high.	Moderate to high.	Low.	Low.
Spending over budget	High.	Moderate to high.	Low.	Low.
Off-contract spend	Very high.	High.	Moderate.	Low.
Exposure to supplier risk	Very high. Most issues resolved quickly.	High.	Moderate.	Low.
Total spend under management	Very low.	Low.	Moderate.	High.
Spend visibility (i.e. ability to do effective spend analysis)	Very low.	Low.	Moderate.	High.

Step 3

Invoice processing – current process performance

Performance area	Level 1 – Ad-hoc	Level 2 – Basic	Level 3 – Structured	Level 4 – Integrated
Average cost per invoice (e.g. low invoice/FTE ratio)	Very high.	High.	Moderate.	Low.
Average days to process an invoice	Very high.	High.	Moderate.	Low.
Incorrect payment (wrong price, not received, duplicate)	High.	Moderate.	Low.	Low.
Late payment Fees	High.	Moderate.	Low.	Low.
Payment terms discounts taken	Very low.	Low.	Moderate.	High.
Opportunity for human error	Very high.	High.	Moderate.	Low.
Rate of supplier inquiries	Very high.	High.	Moderate.	Low.
Cash management capability	Low.	Moderate.	High.	High.

Step 3

Step 4: Understanding the cost

Now think about what your current process is costing your organization. The two lists of questions in this section – one for purchasing and one for invoice processing - will help you understand your costs.

Take at least five minutes with each question to think about each one. You won't be able to come up with a number for each question in just five minutes, but you may be able to roughly estimate the magnitude of the cost. At a minimum, you will start to get a sense of what the potential bottom-line impact would be if you really do improve your Purchase-to-Pay process. If other areas of cost in terms of time, money or talent come to mind, write them in at the end of the table.

Checkpoint:
Just briefly note your thoughts in the space to the right of each question so you can easily recall them later when you are talking with others.

Step 4

Purchasing - unnecessary costs of current process

Cost area	Estimated magnitude			Notes (e.g. estimated % of spend or time)
	Low	Medium	High	
Unnecessary purchases?				
Paying prices higher than necessary (e.g. off-contract)?				
Lost productivity of employees?				
Lost productivity of managers?				
Poor budget management due to lack of visibility of full 'cost pipeline'?				
Poor responsiveness to customers due to slow purchase process?				
Disruptions, delays and other problems caused by non-performance or non-compliance of suppliers that were not properly qualified before they were used?				

Invoice processing – unnecessary costs of current process

Cost area	Estimated magnitude			Notes (e.g. estimated % of spend or time)
	Low	**Medium**	**High**	
Excessive AP staff costs? (e.g. manual invoice handling and processing, responding to supplier inquiries)				
Payment of incorrect invoices? (e.g. wrong price, not received, duplicate)				
Late payment fees?				
Missed opportunities for early payment discounts?				
Poor supplier relationships due to consistent late payment?				
Cash reserves needed to make up for lack of visibility?				
Missed opportunities to leverage working capital to gain additional supplier discounts?				
Excessive audit fees due to lack of electronic authorization tracking?				

Step 4

You're finished!

Now that you are more aware of the strengths and weaknesses of your current process, you are well prepared to talk with someone about how to improve things. Consider Proactis as your partner in automating your Purchase-to-Pay process.

That's what we do – we help organizations all over the world positively impact their bottom-line by making their Spend Management processes more effective and efficient.

With the materials you've just produced in hand, we can together have a very meaningful and productive conversation about how we can help.

We can help you and your team:

- Develop a more complete business case.

- Help describe to the rest of your organization how important and valuable a good Purchase-to-Pay process is to everyone's success.

- Develop a flexible, phased deployment plan that will deliver results at each stage.

- Take care of virtually all of the IT work so you don't need to.

If you want to achieve great cost savings, full spend control and process efficiency – in ways that gain and sustain the greatest bottom line value, then contact our friendly team.

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