

# NATIONAL E-PROCUREMENT PROJECT GUIDANCE NOTES

## OPTIMISING PROCURE TO PAY

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## Contents

1.	Introduction and Definitions	3
2.	Methodology	4
	2.1 Introduction	4
	2.2 Role of Process Optimisation	4
	2.3 Undertaking a Process Review	5
	2.4 Benefit Areas	6
3.	Issues and Risks	12
4.	Conclusions	13
5.	Links to Other Documents	14

## 1. Introduction and Definitions

This document describes the issues around defining business processes for e-Procurement, specifically:

- The role of process review and optimisation, often described as 'Business Process Re-engineering' (BPR), in an e-Procurement project
- Why it is important to review the Procure to Pay (sometimes known as P2P) process, prior to implementation
- Carrying out a review, including when to do it, where it should be applied in Procure to Pay and typical issues arising which need to be addressed by the project team

Looking at the business processes in the Procure to Pay process before and during an e-Procurement project will benefit an organisation by:

- Ensuring that any solution implemented has better coverage, particularly of the different procurement routes open to a user, and is more likely to be accepted by them when fully live
- Removing redundant processes and steps in a process which either add no value or which can be removed by the deployment of the new solution (e.g. some solutions will do automatic invoice matching, removing the need for manual checks and certification)
- Allowing technology to automate procurement routes which are low value / high volume or where there are contracts already in place, so that time can be freed up to tackle higher value, strategic or more problematic areas
- Identifying where existing weaknesses and bottlenecks occur
- Supporting the deployment of appropriate workflow

For the purposes of this document Procure to Pay is defined as all those processes that exist from the identification of **source** to the analysis of data. The main steps in the e-Procurement Toolkit published by the *Delivering e-Procurement National Project* in October 2002 (Office of the Deputy Prime Minister) are:

Source → Requisition → Approve → Order → Receipt → Pay → Analyse

Excluded from this document is an analysis of the various tools and techniques used for process review and optimisation (or BPR).

## 2. Methodology

### 2.1 Introduction

For many, Business Process Re-engineering (BPR) is a buzzword that has many definitions and which is often associated with intensive studies and mapping of processes. It is not the purpose of this document to examine this issue in any detail, as this is well covered by other organisations in both the public and private sectors. The important message is that e-Procurement in its broadest definition is new, and brings technologies, tools and opportunities into a business discipline (Procurement) that has traditionally been poorly supported by systems. Most have been either paper-based or at best fragmented or stand-alone. The underlying processes can arguably be traced back to the industrial revolution, when 'ledgers' and accounting first became established.

This document seeks to focus on the key areas of Procure to Pay, identifying where organisations should look and highlighting some of the issues to be addressed and potential benefits that could be accrued.

This is not an exhaustive list and use of this document is not a shortcut for delivering a business process optimisation study.

### 2.2 Role of Process Optimisation

In its basic form business process optimisation is about making the processes within the scope of the defined system (in this case Procurement) as simple, logical, clear and relevant as possible. In the Procure to Pay context we mean:

- **Simple** – so that people can easily learn them and not have to read manuals and attend training programmes
- **Logical** – in the sense that they flow from start to finish without the need to refer back if someone is missing, thus creating delays
- **Clear** – they are not ambiguous, with every possible Procurement route being defined and understood
- **Relevant** – simple and quick with little or no human intervention for low value products and services or where authorised contracts are used. In essence they provide a sensible balance of risk versus reward, letting go with the routine and tactical and controlling the complex and strategic

The scope of Procure to Pay offers plenty of opportunities to look at the underlying business processes. The fact that in many organisations over 70% of transactions in Procure to Pay account for less than 5% of the total expenditure points to the fact that resources are not being used to best effect. For example, if the business process for a £50 order is virtually the same as one for £50,000 then an optimisation study is long overdue.

If an e-Procurement project is delivered on top of unchanged business processes, then the likelihood of failure and cost overruns is very high. To use a well-known saying, "automating a mess provides an automated mess".

## 2.3 Undertaking a Process Review

### 2.3.1 Balancing Cost and Returns

One of the first issues to be resolved is how big should the process optimisation study be, as it could easily vary from a few days to a huge exercise. There is clearly a need to balance cost against the return and contribution to the project and the organisation as a whole. Some of the factors that will influence the size of any study are:

- **Complexity of the organisation's procurement activity** - this can be determined by looking at the spread of products and services – see *Procurement Spend Analysis* guidance notes
- **Content of the Procurement Strategy** - is Procure to Pay seen as a fundamental business activity or as a solution to the management of low value / high volume transactions?
- **Scope of the project** - is it intended that all Procurement activities are to be included, or will some of the phases such as high value and/or complex contracting be part of a different solution?
- **Envisaged solution** – is the solution expected to be delivered through an ERP or financial system or through a more specialised solution such as some of the marketplaces with Procure to Pay facilities?
- **Interface with other processes in the organisation** - the more complex and diverse the organisation, the greater the need to decide appropriate boundaries

The areas of return of a process optimisation study are set out in the *Introduction and Definitions* section. There is a need for all organisations looking at e-Procurement to have some form of Procure to Pay study to optimise processes - the only variable factor is its size and duration.

### 2.3.2 Timing the Study

Any process optimisation study should be launched at the earliest possible opportunity in the project. Ideally, the new processes should be shared with short-listed bidders for your e-Procurement solution so that they can identify issues and make their own assessments of your requirements. If you do share the new processes, always listen to any feedback or suggestions that suppliers may have to improve processes still further.

### 2.3.3 Who Needs to be Involved

Procurement is a multi-disciplinary activity with numerous stakeholders, so a team approach is recommended. A process optimisation study can be resourced in the following ways:

1. Exclusive in-house
2. Mixture of in-house and external resource
3. Exclusive external resource

The second option is usually the best way to proceed, as it brings together people who know your organisation and people with impartiality and expertise who understand best practice in the Procure to Pay business process.

As to the study itself, the following internal stakeholders need to be invited to contribute to and sign off the new revised processes:

- **Procurement** – checking that they meet existing and future business requirements, including the need to analyse
- **Audit, Legal and Finance** – for separation of duties and probity, as well as value for money issues
- **ICT Department** – in many organisations ICT involvement is important as they can often provide useful guidance on tools and techniques as well as often being a stakeholder in their own right
- **Operational managers in service areas/departments** – this is particularly important for specialist and complex services and products, which may be routed through the Procure to Pay solution
- **Council Members / Central Management Team** – either or both groups may wish to provide the ultimate sign off. This is critical because there is a need for them to accept ownership of the project and the desired outcomes

### 2.3.4 Common Principles

Regardless of the size of your optimisation study and who undertakes it for you, always remember the following principles:

- If you know that your existing Procure to Pay processes are bad, do not spend time and money ascertaining just how bad they are
- Always ask other organisations if they have undertaken a similar exercise and whether you could have access to their work (always be prepared to make a financial contribution, and respect any circulation or copyright conditions they may require)
- If you decide to buy in external expertise, always have tight terms of reference and look at teaming up with neighbouring organisations to share any costs
- Try not to let what you do now determine what you will do in the future. Always refer back to the objectives and business case for e-Procurement. As an example, if you are basing your business case on automating transactions under £100, then processes need to be devised to ensure that this is implemented
- Do not accept the argument that your procurement processes are unique. While there are different internal procurement routes (e.g. buying office furniture versus buying care packages for the elderly), the way that these products and services are commissioned should show little variation between organisations
- Always fix the scope and budget if you are using external contractors and consultants, and insist on fixed price bids

## 2.4 Benefit Areas

Best practice suggests that the following areas (2.4.1 to 2.4.7) could provide opportunities for

## National e-Procurement Project – Guidance Notes

improvement and/or benefit realisation when a process optimisation study is carried out. Again, this is not a definitive list and the nature and potential for benefits realisation will vary between organisations.

Before undertaking the Procure to Pay optimisation study, the following ideally need to be in place:

- Procurement Strategy
- Business Case for e-Procurement (including measures of how benefits will be delivered)
- Supplier Spend Analysis results (together with details of people/posts engaged in procurement activity in its broadest context)
- Low Value / High Volume Strategy (*optional*)

### 2.4.1 Source

Process	Issue	Potential Benefits
<b>Supplier Status</b>	Most organisations have preferred and/or contracted suppliers. Procurement routes using these options should be simple and involve fewer steps	Potential reduction of “off contract” spend Reduced risks from using known suppliers Reduced sourcing time and costs plus opportunity cost benefit
<b>Supplier Creation</b>	Who owns the supplier file. How are new suppliers registered. What type of supplier are they	Classification of suppliers to support analysis and management Reduction in opportunity for fraudulent registration Ensuring that both Finance and Procurement needs are met
<b>Threshold Levels</b>	Threshold levels for determining procurement routes  Quotation versus Tender	Ensuring compliance with organisational procurement policy
<b>Local Suppliers / SMEs</b>	System-based classification of suppliers, particularly local and small businesses	Implementing corporate policy Impact on local economy

### 2.4.2 Requisition

Process	Issue	Potential Benefits
<b>Need for Requisition</b>	Purpose of requisition Alternatives such as direct ordering  Requisitions based on value or product/service (Selective)	Cutting out non value-add tasks, saving money and time  Ability to define correct procurement route Better system implementation  Perceived choice and empowerment, resulting in increased stakeholder acceptance and compliance  Improves potential for aggregation

## National e-Procurement Project – Guidance Notes

Process	Issue	Potential Benefits
<b>Supporting Information</b>	What information needs to be produced with the requisition (e.g. specification, potential suppliers list)	Reduced cycle time and improved service levels
<b>Relationship with Contracts or Projects</b>	Does the requisition need to relate to anything such as a contract or project	Ability to link expenditure to contracts and projects, leading to more accurate reporting and automated funds checking

### 2.4.3 Approve

Process	Issue	Potential Benefits
<b>Financial and Procurement Authority</b>	Financial and Procurement authorities are different and need to be reflected in process design	Better compliance from a financial and procurement perspective
<b>Authority Levels</b>	Both procurement and financial authorities (and possibly technical authorities) may need to vary by department, individual and procurement category	Enforcement of policy and procedures to minimise financial loss (and reduce total cost of ownership)
<b>Separation of Duties</b>	Although clear separation of duties is required, does it need to be enforced everywhere, particularly for low value or service-related activities. Issue is risk versus reward	Delivery of time and cost savings
<b>Audit Trails</b>	An audit history is an excellent feature of most e-Procurement solutions, but where are the key checkpoints and areas that require the most investigation	Minimisation of financial loss and transparency of activities

### 2.4.4 Order

Process	Issue	Potential Benefits
<b>Order Routes and Types</b>	There are many different routes that an order can take, depending on factors such as value, commodity, contract availability, price type, urgency	It is important that these routes are mapped out to ensure that the e-Procurement system enforces best practice and achieves the right balance between letting go and control
<b>Relation to Contracts</b>	Some orders will relate to contracts (e.g. framework, call-off, spot)	Analysing spend against contract vs. off-contract spend is essential for managing leakage and quality issues
<b>Additional Information</b>	Lots of orders, particularly for social care, housing and highways, will require the inclusion of non procurement-related information	Support and buy-in from main expenditure departments
<b>Use of Preferred and Contracted Suppliers</b>	Wherever possible it is best to use preferred or contracted suppliers	Value for money gains and risk reduction
<b>Escalation</b>	How are issues escalated, who needs to be involved	Reduction in delays and maintenance of prescribed authorities
<b>Acknowledgement</b>	How is the order to be acknowledged and confirmed	Eliminates misunderstandings and potential extra costs

## National e-Procurement Project – Guidance Notes

Process	Issue	Potential Benefits
<b>Variations (Amendments, Cancellations, Revisions, etc.)</b>	Very few orders remain unchanged. The processes covering issues such as amendments, variations, additions and cancellations need to be mapped and understood	Keeping the process moving, reduction in the risk of financial loss and stopping people needing to do off-contract expenditure
<b>Terms and Conditions</b>	For low value or contracted spend, these should be standardised. How are these included in the transaction and how are variations addressed	Needed for control purposes and avoiding the so-called "battle of the forms" where there is doubt as to which Terms and Conditions apply
<b>Off System Orders</b>	Need to ascertain scope and extent of these. Often occur in specialist operational areas	Ability to collect data to give a complete picture of procurement activity
<b>Emergency Orders</b>	When do these occur. Examples include: systems down, no access, out of hours working, need to carry out emergency activities (common in social care, environment). What are the audit requirements	Distinguishes between genuine emergency and people avoiding the system. Defining emergency orders and who can place them also helps overcome barriers from operational personnel
<b>Service Orders – Unpriced/Estimated Orders</b>	Some orders, particularly service-related, are un-priced and contain estimates only (e.g. repairs and maintenance). Needs to be understood to prevent confusion with data and system metrics	Recognition of this type of order improves the likely accuracy of the data

### 2.4.5 Receipt

Process	Issue	Potential Benefits
<b>Need for Receipting</b>	Why is receipting needed. Does everything need receipting. What is the value to the organisation of doing this	Savings can be made by using the invoice as a receipt for many low value and low risk products and services. It is better to receive by exception for low value orders
<b>Information Capture</b>	This is a potential start point for supplier performance measurement such as delivery, quality, and reliability	Effective documentation of processes can help ensure that the e-Procurement system is set up to support supplier performance with the minimum of additional data entry  Easier to determine technical compliance /configuration
<b>Auto Receipting</b>	Many systems allow for 'auto-receipting' to reduce process costs and help tackle the delays caused by remote users not receipting on time, if at all	Speedier processes (with an impact on payment) and elimination of non value-add activity
<b>Compliance</b>	Some staff do not perform receipting at present, as it is time-consuming or they deal with services that are difficult to process	This is a key area where risk versus reward is seen. Compliance is important as it can prevent financial loss, but it needs to be balanced with the overhead of enforcing
<b>Receipting and Acceptance (2 stage)</b>	For many items a two-stage receipting process is needed to indicate receipt and acceptance (e.g. for inspection or quality assurance) as separate activities. There can often be a delay between the two activities	Management of quality issues such as defects and rejects. Essential part of supplier performance management

## National e-Procurement Project – Guidance Notes

Process	Issue	Potential Benefits
<b>Information Availability</b>	Availability of order information to people receipting. Need to consider optimum route, particularly with services	Compliance benefits  Ensures that the organisation receives only what it has ordered, reducing management of queries/issues later on and ensuring that the organisation does not pay for things it did not want
<b>Process in Stores and 'Goods In' Receiving</b>	While many people receipting will be individuals, others may be in a dedicated 'goods in' or stores area. These processes need to be mapped for completeness and possible rationalisation	
<b>Returns / Rejects</b>	How to manage returns and rejects	Support for supplier performance measurement  Ensures organisation pays only for things it should  Reduced query and issue management later on
<b>Part Receipting</b>	Some orders may require part receipting. This has implications on delivery management and raises the question of part payment procedures and the 'closing' of orders against over-receipt	Impact on payment and support for supplier performance measurement

### 2.4.6 Pay

Process	Issue	Potential Benefits
<b>Invoice Registration</b>	When is an invoice registered on the system, at time it is received or when it becomes due for payment  Benefits of centralised vs. decentralised invoice receipt and payment  Number of people involved in the registration and approval process  Value of transactions vs. cost of process	Savings contribute towards the business case  Ability to meet payments targets  Removal of unnecessary delays and staff intervention  Reduction in loss of paper documents  Reduction in payment and management of duplicate invoices
<b>Creditor Types</b>	Suppliers are usually registered as trade or non-trade. The system should be able to distinguish between different types of suppliers and exclude all non-trade creditors (e.g. grant payments, expenses, statutory payments such as rates and rent)  The latter transactions do generate invoices so could be included in the process review – scoping issue	Support for supplier performance measurement  More accurate and accessible data
<b>Invoice Processing</b>	Different processes and checks depending on issues such as product/ service types, value, risk authority levels	Savings contribute towards the business case

## National e-Procurement Project – Guidance Notes

Process	Issue	Potential Benefits
<b>Remittance Advice</b>	Most organisations send a remittance advice. However, why not make this electronic too. There is no point in paying people by BACS and then sending them a paper remittance. Check the processes involved here to ensure that no labour-intensive activities remain	Savings contribute towards the business case
<b>Non Order-Related Invoices</b>	Some invoices will always be produced without an order, particularly for utilities and some services. A process needs to be in place for managing these invoices	Compliance benefits
<b>Mismatches</b>	Many invoices do not match their orders. The causes for this need to be ascertained and a process put in place to remove them	Removal of unnecessary staff time through intervention Better quality of information Supplier performance issues can be identified
<b>Part Payments</b>	Issues for dealing with part payments to suppliers where there is a phased delivery programme	Meeting payment targets Good relations with suppliers
<b>Payment Methods</b>	Why isn't BACS a standard for all <u>trade</u> payments. Make a condition of business.  Also, why wait for the traditional paper document. Purchasing Cards remove the invoice altogether, as do innovative and valid techniques such as self-billing and automatic payment on receipt	Savings contributing towards the business case  Removal of unnecessary staff time through intervention

### 2.4.7 Analyse

Process	Issue	Potential Benefits
<b>Data Quality and Ownership</b>	Data quality is critical if people are to use the system. Otherwise it becomes 'your' data rather than 'their' data	Ability to support accurate reporting and management Greater acceptance of the system
<b>Self Service</b>	Allowing people to enquire on-line rather than providing periodic reports (self service)  Differentiation between trend reporting at a macro level and exception reporting for low value transactions	Greater acceptance of the system Savings contributing towards the business case
<b>Business Intelligence Strategy</b>	What information do stakeholders need to access to undertake their work  Where does the Procure to Pay reporting fit in with the needs of the wider Procurement business	Ability to support accurate reporting and management Informs future procurement decisions

### 3. Issues and Risks

There are a number of issues and considerations to take into account when dealing with process optimisation for Procure to Pay:

- It is important that process optimisation is not regarded as an attack on the current working procedures and the people undertaking them. Do involve people currently undertaking Procure to Pay activities to get their ideas for improvement, and remember that you may already have best practices in place for some elements of Procure to Pay, either for some categories of spend or in some areas of the organisation
- Process optimisation is normally best done when a Low Value Strategy is in place (i.e. a document setting out how the organisation intends to eliminate and automate low value transactions)
- Getting early agreement to more creative payment methods – self-billing, e-invoicing, pay on receipt, Purchasing Cards
- There is a need to balance the recognition of different procurement routes with the tendency to make processes over complicated
- Process optimisation can easily become an end in itself. Any such study needs to be scoped and a clear list of exclusions set out (e.g. tendering processes, contract management, specification review)
- There is a general lack of experience and/or skills, particularly in Procurement and IT, to deal with process optimisation. The reasons for this are many and varied, and the important issue is to work out how to overcome them
- Use of third parties is always a risk. Keep this in your risk register and ensure that regular changes of third party personnel (except for genuine reasons) become a part of the evaluation process and contract negotiation
- Look at the capabilities of the likely Procure to Pay solution(s) to see how it deals with the different types of process that you are reviewing. In particular look at how they handle service orders, as these are often an area of weakness

### 4. Conclusions

- The procurement cycle is universal – do not start with a blank sheet of paper in an optimisation study
- Always ask neighbouring public sector organisations whether they have undertaken a similar Procure to Pay study, and share information and knowledge at all times
- Keep it simple – but address variances in procurement categories and departments. Some Procure to Pay solution providers struggle with the greater complexity of public sector Procurement and try to shoe-horn processes to fit their solutions
- Find out the capabilities of the technology before designing new processes (avoid mis-setting expectations)
- Prepare to let go – understand the risk/reward balance
- Do not spend a fortune analysing what is wrong with your current processes if you suspect that they are deficient – use the effort to design the way forward
- Be wary of scope creep when using third party consultants. Also, ensure that they are totally technically independent and do not have partnerships with potential Procure to Pay vendors or implementation practices supporting them. This could compromise the outcome of the optimisation study
- Listen to IT solution providers, user groups and reference sites. They can be a good source of information. Always seek the views of other clients, not necessarily the views of the recommended “reference sites”
- With every pair of hands comes a free brain. Use ideas from your own people, as they often have some excellent insights into how processes can be improved
- Do not expect technology to provide a solution for everything – accept that some manual steps will remain (balance cost and reward)
- Manage by exception and by trend (post-checking) as the norm, otherwise most of your benefits are likely to evaporate

### 5. Links to Other Documents

The following web sites and documents provide useful additional information on this subject:

- e-Procurement “Cutting through the Hype” ([www.ogc.gov.uk](http://www.ogc.gov.uk) )
- CIPS e-commerce (Jan 03) ([www.CIPS.org](http://www.CIPS.org), access restricted to CIPS members only)
- CIPS e-sourcing (Jul 03) ([www.CIPS.org](http://www.CIPS.org), access restricted to CIPS members only)
- Maximising Returns from Purchasing Data - Informed Business Decisions from Coding and Classification ([www.CIPS.org](http://www.CIPS.org))

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