

How to improve efficiency in the procure-to-pay process

Connecting and automating the full procure-to-pay process has been the end-game scenario for procure-to-pay thought leadership for the past decade. Yet, solutions that realize the scenarios potential have been rare at best; and more often than not the ROI of implemented solutions have been less than flattering.

The reasons for the lack of success are numerous and share characteristics but due to common organizational process hurdles, attempts to cut the Georgian knot often fall short.

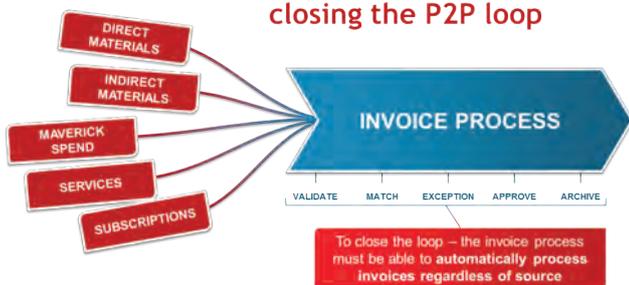
Increasing automation in the full procure-to-pay process can improve automation upstream and downstream, generating sustainable and tangible value as well as improving control and visibility into corporate spending.

Since the procure-to-pay (*P2P*) process is shared by Procurement and Accounts Payables process ownership is often unclear. Finance often claims ownership, but for tactical procurement the ownership is often distributed with strong stakeholders.

This has led to a situation where procurement ignores the opportunities of automating the low spend volumes from tactical spending as the returns do not match the efforts. Downstream, Accounts Payables are swamped, manually processing a high volume of low value invoices, leading to increasing process costs due to lack of invoice matching data.

By taking a full grip on the end-to-end process, procurement can improve control over tactical spend, in turn providing matching data that automates the invoice process downstream, improving both process efficiency and transparency.

Automation is key to closing the P2P loop



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ONE PROCESS – DIFFERENT TARGETS

One reason for the lack of success in automating the full P2P-process can be traced back to the discrepancies in targets for procurement and accounts payables in the shared process.

For procurement targets often include:

- Identifying and capturing savings
- Managing categories and suppliers
- Minimizing supply risks
- Setting and enforcing procurement policy
- Supporting the organization by providing frame agreements that meet company needs

For accounts payables, the targets are similar, yet can differ in both scope and ambition. Accounts payables targets often include:

- Improving process efficiency to accelerate invoice management
- Minimize fraud as well as errors leading to late- and over-payments
- Providing transparent reporting on accounts payables
- Ensuring and maintaining a balance between treasury targets and negotiated contract terms

Understanding the difference in goals in the shared process is the first step to truly connect the procurement and accounts payables processes.

Aligning targets can ensure that cash flow strategies are taken into consideration when strategically assessing the supply pool, for instance to identify

if early payment discount strategies could be introduced to support cash flow management.

HARMONIZING SPEND DEFINITIONS

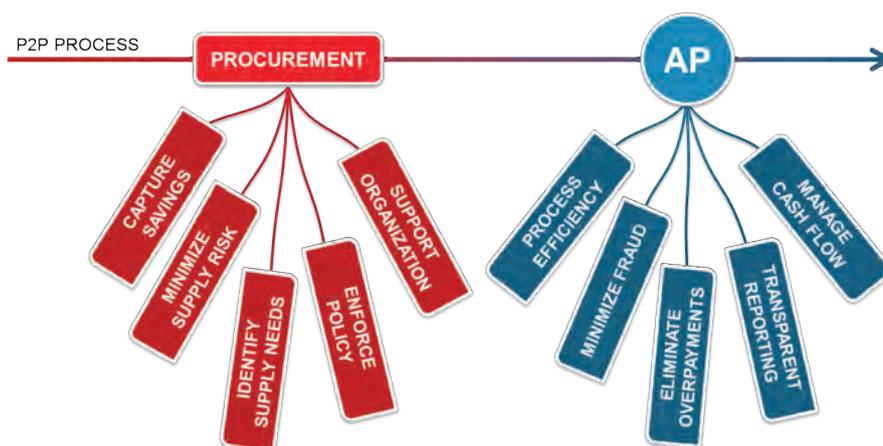
The second key to process connectivity lies in harmonizing the understanding of spend definition.

Procurement often refer to different spend as being either strategic or tactical. Strategic spend is often managed in the ERP-solutions (*such as in the case of direct materials*), or in category specific tools (*such as lease-planning or utilities management solutions*) or through spot sourcing activities directly involving category expertise in the procurement function. Significant for most of these channels is that they provide data that can be used for invoice matching increasing the no-touch rate in the accounts payables process.

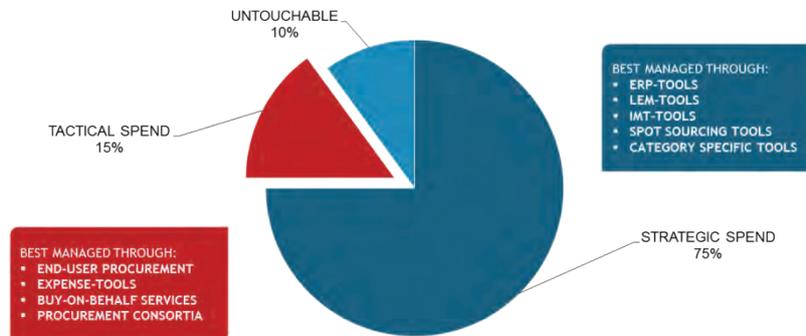
Tactical spend often refers to spend in indirect materials and services categories and is often managed by procurement leveraging e-procurement solutions, supplemented by services procurement solutions. In some cases these categories are even outsourced to managed service providers or buying consortia as both spend volumes and strategic value is low.

From the procurement perspective, tactical spend is at times seen as irrelevant and un-strategic. But while spend value may be low, the transaction – and subsequently invoice – volume is usually high. This strains both the procurement organization who strive to control the spending and drive spend towards contracted suppliers as well as accounts payables who need to manage a high volume of invoices manually.

One process - multiple targets



Typical spend distribution from the procurement perspective



1. The Hackett Group, 2010

Typically nearly 75% of the spend volume can be defined as strategic, 15% is tactical and roughly 10% are untouchable from the procurement perspective. Intriguingly, if the procure-to-pay process is connected and an invoice automation solution is in place, the handling of invoices stemming from all of these areas can potentially be automated and a high degree of no-touch processing can be achieved.

From the accounts payables perspective, automating the procurement process to provide matching data is crucial. Without available data in the ERP- or procurement solutions, there is no matching potential as there is no data to match invoices against.

Accounts Payables are caught in a limbo, manually processing invoices that could potentially be automated. Unfortunately, many organizations lack the capabilities to provide matching data for the numerous transactions that stem from the often tactical spending with the indirect materials and services categories.

So how does an organization move towards automation of the full spend volume?

ONE CHANNEL FOR ALL INVOICES

The first step an organization needs to take is provide a singular input channel for all invoices – regardless of source, format or order process.

By channeling all invoices through one channel, a common invoice management process can be established and maintained. Invoice data from all invoices can be captured and the invoice data can be leveraged to automate the invoice process even for invoices that lack purchase order, contract or goods receipt data to match against. By leveraging busi-

ness rules that take supplier, buyer, geography, et.al, as input values, semi-automation can be achieved in the invoice approval process providing the end-users with pre-populated fields and accounting information lessening the need for interaction with Accounts Payables.

Leveraging contract information and invoice plans, even services and subscription invoices can be automated to a high degree.

P2P AUTOMATION OF STRATEGIC SPEND

Automated matching and approval of direct materials invoices with readily available purchase order and goods receipt data has been the foundation for the matching capabilities in most invoice automation solutions. But even in this process there are vital aspects to be taken into account to ensure as high a degree of no-touch processing as possible.

First and foremost, data harmonization between buyer and suppliers need to be in place. Data quality in the ERP solution is essential to ensure that as few exceptions as possible trickle through the validation and matching process.

Second, by providing capabilities that allow for dynamic tolerance levels, common deviations such as additional freight or packaging costs can be taken into account and automatically processed without manual intervention.

Third, by allowing the tolerance levels to reflect procurement's view on supplier management (*for instance, supporting procurement's view regarding higher tolerance for strategic or bottleneck suppliers*), the invoice process can be streamlined further.

For strategic spending in areas such as leasing, subscription fees, facilities or utilities, matching against contract terms and an invoice plan is often the most suitable option. But in order for this to be implemented, 4-way matching capabilities (*matching invoices against POs, GRNs or Contracts*) must be provided by the invoice management solution.

AUTOMATION OF TACTICAL SPEND – INDIRECT MATERIALS AND SERVICES

To automate tactical or non-strategic spend volumes, organizations must have the capabilities to provide matching data for these invoices. Most often this can be achieved by implanting a self-service e-procurement solution that not only manages the traditional catalog items, but also supports free text and services orders.

E-procurement allows procurement organizations to better control indirect spending by steering end-users towards contracted suppliers. In addition, approval of the purchase is done before the purchase order is submitted to the supplier enabling better cost and policy management.

Providing matching capabilities against contract terms and invoice plans allows for automation of subscription and packaged services/goods spend that fall into the tactical spend spectra.

WHY ACCOUNTS PAYABLES IS THE KEY TO GENERATING TANGIBLE VALUE IN THE P2P PROCESS

Whilst many argue that superior management of the strategic procurement process is the key to generating value in the P2P process downstream, modern organizations are realizing that albeit the upstream process is of high strategic importance the execution of the strategic decisions more directly impact the bottom line results. Not only is this evident in procurements increased focus on category management and contract lifecycle costs.

Regardless of procurement maturity and capabilities, all organizations experience savings leakage. The amount of identified savings (*as reported by strategic procurement*) is higher than the realized savings (*implemented savings calculated based on invoice data*) that is jointly reported by procurement and finance. The experienced leakage is often calculated to nearly 40% of the identified savings. Further upstream, booked savings are usually even lower depending on how finance chooses to implement these savings.

Regardless, harmonizing procurement and accounts payables in both terms of spend/savings definitions, technology and targets will greatly impact both the procurement as well as the accounts payables process.

Organizations with a harmonized P2P process are generally able to:

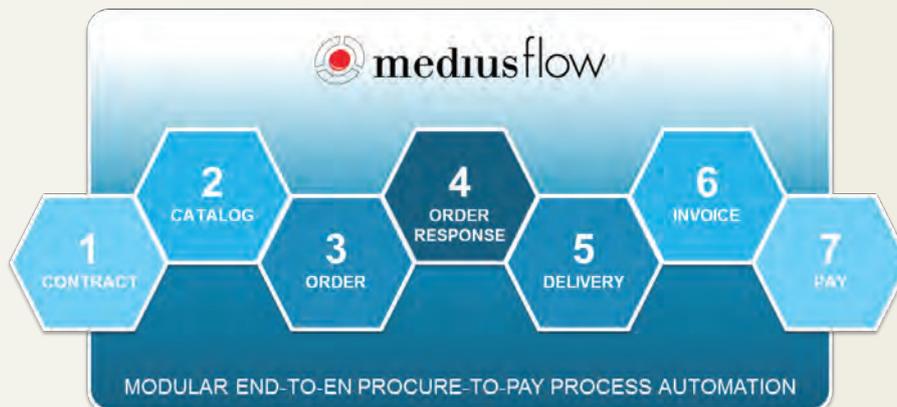
- Capture more early payment discounts as the speed of the P2P-process is accelerated
- Capture volume discounts as the accounts payables process is harmonized and connected to the contracts (*this discount is in the contract, the truth is on the invoice*)
- Increase contract compliance by driving automation for tactical spend such as indirect materials and services
- Share common targets by ensuring that treasury goals are in line with procurement and AP-process, this will harmonize payment terms across the organization to open up for proactive cash management strategies such as dynamic discounting

By harmonizing and automating the P2P-process, organizations can better manage their spend, while ensuring that value is captured (*and in some cases even generated*) downstream in the process.



- Increased automation enables **matching of invoices in all channels**
- 4-way match including **PO, GRN and contract**

Increasing P2P automation with Mediusflow Procurement and Contracts



With Mediusflow Procurement and Contracts, Medius can now offer end-to-end procure-to-pay process automation. Mediusflow Procurement and Contracts are built on the same cloud platform as Mediusflow Authorize and Match and provides organizations with capabilities to manage both tactical spend such as indirect materials and services (IM&S) as well as procurement contracts. This enables organizations to capture the benefits of invoice automation in all spend areas.

MEDIUSFLOW PROCUREMENT

Mediusflow Procurement is an e-procurement solution with a twist. It is developed with input from the AP perspective to increase automation capabilities downstream and enable more efficient invoice matching. With Mediusflow Procurement, organizations can increase their control over IM&S spend, minimizing maverick spending and improving contract compliance.

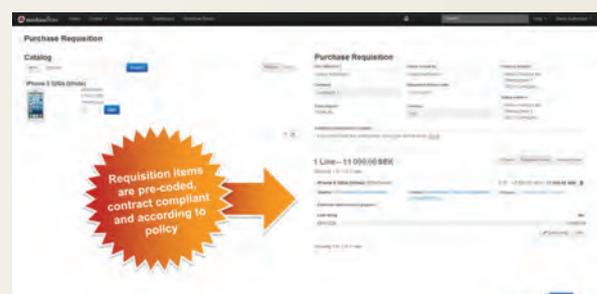
Mediusflow Procurement features the same responsive and easy-to-use interface as all Mediusflow applications. Users are able to quickly create purchase requisitions that pull product data from supplier catalogs and amend correct GL-account data, contract information and purchasing policy (*if available*) on line item level.

With correct coding, cost center, contract and policy information already on the purchase requisition, as well as price, quantity and supplier data, approving the Purchase Order (*PO*) is simplified.

When the invoice is received, the invoice data is captured and validated and all fields on the invoice can be matched against the PO as well as GRN or

Contract ensuring that not only is the process automated, but discount opportunities in the contract can also be captured. By leveraging Mediusflow's sophisticated Waterfall Principle, tolerance levels can be set to harmonize with the procurement functions supplier management strategy. The Waterfall Principle can also be used to automatically handle common deviations such as additional freight and packaging costs that were not calculated on the PO.

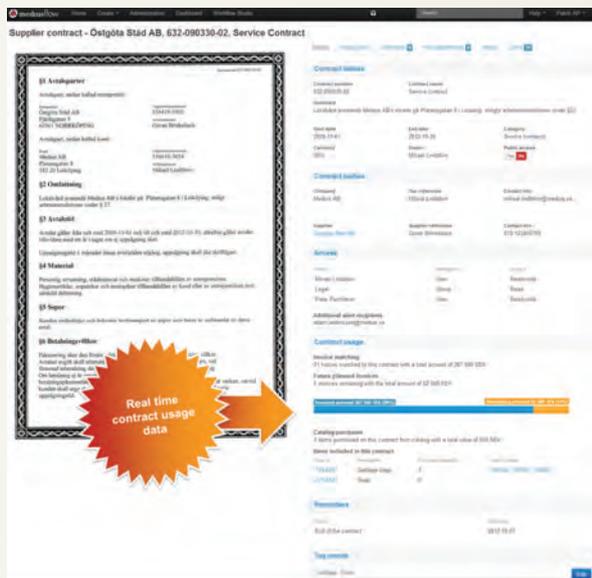
By leveraging Mediusflow Procurement organizations can automate processing of IM&S spend – a highly manual process for most organizations as it often lacks matching data.



MEDIUSFLOW CONTRACTS

Mediusflow Contracts is a contract management solution that goes beyond the focus of common contract management activities such as contract creation, renewal and cancellation.

Integrating seamlessly with both Mediusflow Procurement as well as Mediusflow Authorize and Match, Mediusflow Contracts provides both contract data that increases matching capabilities, as well as captures contract usage offering real-time contract visibility as well as ensuring that any discount opportunity on the contract can be captured. Mediusflow Contracts collects all spend on the contract, and presents this in an easy to grasp format.



The contract usage functionality sets Mediusflow Contracts apart from its peers. It provides organizations with real-time insight into contracted spending as well as enables contracted suppliers to amend materials to the contract – for instance, the facilities management contract can be based on time and materials, with materials being called off on a need-to-use basis. With Mediusflow Contracts, all spend on the contract is readily available.

In addition, Mediusflow Contracts provides invoice plan functionality, enabling organizations to match invoices against planned spending on the contract. The invoice plan functionality also provides direct access to invoices, allowing users quick access to invoice details.

INCREASING AUTOMATION IN THE INVOICE PROCESS WITH MEDIUSFLOW

By leveraging Mediusflow Procurement and Contracts, organizations can increase the level of automation in their invoice process as well as streamlining the procurement process and increasing the visibility of contract usage.

Mediusflow Procurement empowers organizations with capabilities such as:

- Increased automation for IM&S spend
- Easy-to-use requisition and order management
- Pre-coded and contract compliant catalog and free-text requisitions
- Approval of purchases before they are made to increase control of IM&S spending
- Minimize off-contract spending by steering the organization towards frame agreements

Mediusflow Contracts enables organizations to:

- Increase visibility into contracted spend
- Increase matching capabilities leveraging invoice plan
- Capture early payment or volume discounts on the fly
- Manage procurement contracts over time, including accessibility and reminders

With Mediusflow Procurement and Contracts, organizations can increase automation in their P2P process by providing matching data for hard-to-reach IM&S spend including subscriptions and services. With one solution as a back-bone for P2P automation organizations have a framework for harmonizing definitions and targets, opening up for improved process efficiency end-to-end.

Automating the P2P process with Mediusflow enables Accounts Payables to:

- Increase control across the end-to-end process
- Improve transparency in the P2P process offering real-time contract usage information for tactical spend
- Increase automation to process invoices from all channels more efficiently
- Improve cash management by capture of early payment and volume discounts

About Medius

Medius serves more than 1 300 customers across the globe, with high density in the Retail, Manufacturing and Services sectors.

Medius offers a dynamic invoice automation solution called **Mediusflow** - the first ever financial workflow solution with out-of-the-box best practice applications for **Invoice Management**, **Procurement**, and **Contract Management**.

Key customers include Nordic retail powerhouses: Ica, Intersport, The New Wave Group and Mekonomen; manufacturing leaders such as: Stiga, Smurfit Kappa, Trelleborg, Brio and Lammhults; as well as services organizations such as: IDG, Hydros cand, Van Lanschot Chabot and Visit Sweden.

Founded in 2001 in Linköping, Sweden, Medius has grown steadily since the start and generated strong figures year over year. Twelve years down the line, Medius continues to grow, both in its home market as well as internationally. Today, Medius has more than 200 employees working out of offices in Sweden, Norway, Denmark, UK, France, Netherlands, Poland, USA and Australia. Medius also prides itself in a strong global partner network that delivers and optimizes Mediusflow solutions on local markets.

For more information visit www.medius-group.com



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