

OPTIMIZING PURCHASE-TO-PAY WORKFLOWS BY SPEND CATEGORY

METRIC DEFINITION

The percentage of organizations that have defined and implemented optimal purchase-to-pay (P2P) process flows by expenditure category.

WHY IT'S IMPORTANT

Many organizations define sourcing and supplier management processes by spend category as the basis for understanding how to best source and manage their suppliers. However, they often do not specify how to buy from and pay those suppliers based on the nature of the spend category and the needs of stakeholders (spend owners, requisitioners, suppliers, etc.). While companies usually have some type of “n-step” sourcing methodology, they may have tens if not hundreds of different ways to buy and pay for goods and services. This can reduce efficiency and customer satisfaction and lead to higher noncompliance rates and greater risk.

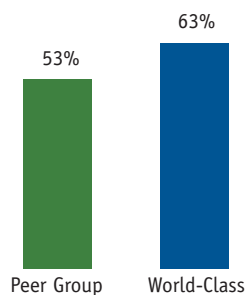
The Hackett Group's latest research data indicates that 63% of world-class organizations studied have addressed this problem by defining the P2P transactional channels which they feel are optimal, compared to just over half of the peer group (**Fig. 1**).

These percentages may seem low, especially those of world-class organization. But, based on our experience helping companies optimize their channel strategy, these values would probably drop to below 10% if procurement organizations were to formally define and implement a truly optimized transactional strategy.

Different companies have different P2P channel requirements. Manufacturers may be biased toward a three-way match process or evaluated receipts settlement for managing direct materials procurement. Services organizations might have a higher mix of P-cards, assumed receipts, invoice-only transactions, etc. Regardless, if procurement organizations want to improve their overall source-to-settle performance, they must:

1. Possess a unified spend category taxonomy.
2. Define a rationalized set of transactional purchasing and payment processes (less than five is a good target) that are then explicitly mapped to spend categories and/or associated suppliers.
3. Ensure that individual P2P transactional channels balance cash, cost and stakeholder satisfaction.
4. Integrate a channel strategy selection and implementation plan into the category management process.

FIG. 1 Percent of companies that have defined and implemented optimal P2P workflows by spend category, 2010



Source: The Hackett Group, 2010

To date, only a very small percentage of organizations have implemented truly optimal “P2P transaction flow lines” in their P2P transaction factories across the majority of their spend and transactions.

STRATEGIC IMPLICATIONS

Many procurement organizations are looking for ways to free up funds for investing in higher-impact activities. Being successful requires that they first define the optimal Service Delivery Model for their various transactional processes. This is especially true within P2P, because not only are P2P effectiveness metrics important (**impacting 1-3% of supplier spend**), but also because the highest cost in procurement is the opportunity cost of not investing the maximum possible in strategic processes like sourcing, supplier management, innovation support and **working capital support**. This is why the need to define and implement truly optimal P2P processes has never been greater.

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett’s empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe, Australia and India and is publicly traded on the NASDAQ as HCKT.

THE HACKETT GROUP

Email: info@thehackettgroup.com • Atlanta +1 770 225 3600 • London +44 20 7398 9100 • www.thehackettgroup.com

Atlanta • London • Frankfurt • Paris • Amsterdam • Hyderabad • Sydney