CIPS KNOWLEDGE

Purchase to Pay (P2P) Process

This knowledge paper is supportive of Procurement professionals operating at Professional level of the CIPS Global Standard

01 CPD HOURS

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1. Introduction

The Purchase to Pay (P2P) process underpins many sub-processes from sourcing and negotiating terms, ordering, receipting and payment, through to contract and relationship management (Lysons and Farrington, 2006; Monczka et al., 2009; Pandit and Marmanis, 2008). A well-executed P2P process can increase control and visibility, save costs and generate automation efficiency (Monczka et al., 2009; Pandit and Marmanis, 2008).

There are a number of drivers behind the development of P2P. For example, enterprise resource planning, web-based procurement systems, e-catalogues, and other forms of technological advancement all contributed to the tools available to P&SM; professionals to compile and consolidate information, reduce costs and increase service offerings (BuyIT & CIPS, 2006). In addition, supplier relationships have gradually evolved from 'one-off' or adversarial to strategic alliances and partnerships (Bensaou, 1999; Cox, 1996). By working collaboratively, buyers and suppliers can mutually benefit from the competitive advantage arising from this position. Finally, growth in shared service centres, procurement outsourcing and payables have contributed to P2P evolvement (BuyIT & CIPS, 2006). This can be seen in the consolidation of back office processes and the decentralisation of P2P processes resulting from automation.

The average total cost of the P2P elements prior to affecting improvements is around £20.44 per purchase order, and savings achieved by improving the P2P processes can vary between 12% and 83%. Some key enablers of a successful P2P process include: implementing enabling software, training people and rationalising the supply base. Lack of resources, priority issues, little or no top management commitment, limited interaction across functions and negative perception/lack of awareness are all inhibitors to successful implementation (UWE, CIPS & KPMG, 2002).

2. Definition

Purchase to pay (P2P) is a "seamless process enabled by technology designed to speed up the process from point of order to payment" (CIPS Australia, 2006:20). The P2P cycle includes all the stages "from the initial identification of requirements, to the procurement/purchasing of the item, through the receipt of the goods ... to the payment of the supplier once the goods are received" (Monczka et al., 2009:42).

3. Successful Application

Introducing the appropriate P2P solution can improve the way an organisation operates. It can be difficult to decide on the right functionality, as well as the many other facets involved. Therefore, analysing what has worked for others can be a good way of choosing the right strategy for an organisation (BuyIt, IBM & CIPS, 2002). Online P2P processes can be enabled by e-Procurement (BuyIt, IBM & CIPS, 2002). Therefore, the implementation steps focus on the e-procurement aspect of the P2P system. Once a P2P process has been implemented it should be regularly measured to confirm that the objectives of the system are being met and that true financial benefits are being realised (Monczka et al., 2009; Rudzki et al., 2006).

4. Steps to Successful Application

- Initiate project and build the case for change: focus on the up-front strategy of the system and how it aligns with overall business strategies for IT, finance and HR.
- Very few departments want to own processes but if procurement owns the P2P process they have the opportunity for efficiency and to drive benefit for the business and the suppliers," he said. "If the finance department drives the process it just becomes about transactional performance. If it's procurement driven its benefits driven."

- Key performance indicators will assist in this process, he added, in particular implementing a system in which there is first time invoice match. "When an invoice first comes in it either goes through a two, three or four-way match and if it can be matched the first time, as far as payment is concerned you have pretty efficient process."
- Define key business drivers, decide on what a successful system will look like, identify what problems need to be solved.
- Establish the gap between what the company has and what is needed: assess skill sets, people, the right time to undertake the initiative and current IT/technical infrastructure.
- Establish implementation costs, which may include software costs, staff training, hardware costs, ongoing licence fee costs, the supplier's cost structure and ongoing maintenance and support.
- Craft the business case: ensure commitment from major stakeholders and justify the financial commitment.
- Select the right solution: define functional requirements, perform a supplier evaluation and make the final decision.
- Start up the project: mobilise the core team, agree the implementation approach and plan the roll-out.
- In the early stages of implementation, consider running 'pilots' or 'quick wins' to showcase capability and to build momentum.

BuyIT & CIPS (2006)

5. Hints and Tips

- To benefit from a P2P process, companies should exhibit a commitment to continuous improvement because technology, spending habits and suppliers are ever-changing (CIPS Australia, 2006).
- Security is always a potential risk for e-Payment in the P2P process. Therefore, it is important to ensure that encrypted technologies and certification authorisations are in place (Lysons and Farrington, 2006).
- A purchasing card review or audit should be conducted periodically to check control compliance, appropriateness of purchases, and that all purchasing procedures are being adhered to (Lysons & Farrington, 2006).
- Improving a P2P process requires an integrated programme and strong leadership (CIPS Australia, 2006).
- When a company seeks to improve its P2P process, consolidating spend data can contribute to sourcing strategy (CIPS Australia, 2006).

6. Potential Advantages

- Automated P2P processes can enhance the purchasing and payment process through the elimination of unnecessary manual intervention. This reduces waste in terms of time delays, handling, and delivery (Monczka et al., 2009).
- P2P processes permit better negotiated terms to be controlled through automated processes. This can lead to early payment discounts and enhanced cash flow by reducing premature payments (Monczka et al., 2009).
- Better understanding of P2P processes can allow the use of key management information to provide "clarity and accuracy over costs to expedite the budgetary and forecasting process" (BuyIT & CIPS, 2006:22).

7. Potential Disadvantages

- Only a few companies implement high quality contract modules. Usually contracts are stored manually in filing cabinets or scanned into a database (with some heading information for quick retrieval) (Pandit and Marmanis, 2008)

- Using electronic data interchange (EDI) in the P2P process is an expensive option (Lysons and Farrington, 2006).
- Inadequate P2P systems can potentially divert efforts away from developing progressive procurement policies and practices and can instead lead to transaction-based management approaches (CIPS: Purchasing policy and process design).

8. Performance Monitoring

- Requisition to PO time, if reduced demonstrates the P2P process is leading to a reduction in cycle times (BuyIt, IBM & CIPS, 2002).
- Average time in days to approve purchase order from initial submission to final approval: approval time is a significant cycle time reduction metric and may be indicative of process savings being achieved (BuyIt, IBM & CIPS, 2002).
- Average number of approvers required for each purchase order (from initial submission to final approval): number of approvers is a significant cycle time and cost reduction metric (BuyIt, IBM & CIPS, 2002).
- Invoice to payment time: when reduced it indicates that P2P process is leading to reduction in cycle times (BuyIt, IBM & CIPS, 2002).
- Number of unsupported invoices being raised: when reduced it indicates that P2P is increasing compliance to the correct accounting processes (BuyIt, IBM & CIPS, 2002).

9. Case Studies

- In 2007-2008 the HM Prison Services spent £107.5m on items acquired through P2P. The Prison Service adjusted the upper ceiling for individual P2P spending from £20,000 to £5,000 and rerouted individual item spends over £5,000 to the central purchasing department (National Audit Office, 2008).
- Kennametal, a US metal cutting tools manufacturer, implemented e-catalogues as part of its P2P process to control variability in prices paid across business units. Within a year the company generated a 150% return on investment (ROI) and aimed to achieve 500% ROI in three years. Instances of out-of-system spending were reduced by 90% (Rudzki et al., 2006).
- Manningham Council in Australia introduced new procurement control mechanisms to ensure the orderly and efficient supply and delivery/payment of goods and services. Fundamental to the success of this initiative was the five-tier training scheme established for all employees by the Procurement and Contracts unit. The unit also created an environment promoting structured procurement and an appreciation of the special skill areas involved in the P2P process (Manningham Council, 2011).
- Ford is in the middle of a P2P implementation (2018) that should have finished last year but has been dogged by internal issues, notably that the company was trying to integrate into a system that had been 'customised to death' and had to be scrapped. Now the P2P project is secondary and securing time and resource to make it happen is challenging.

10. CIPS Source Downloads

- UWE, CIPS & KPMG (2002) I-SAVE: Independent savings analysis verification and evaluation
- CIPS: Purchasing policy and process design
- CIPS Australia: Visa business case for P-cards
- BuyIT: Selecting an e-Procurement solution

11. Further Reading/Resources

Web Resources

- Harvard Business Review interview on e-procurement http://hbr.org/2000/05/e-procurement-at-schlumberger/ar/1
- Introductory article on e-payment http://hbr.org/2007/11/break-the-paper-jam-in-b2b-payments/ar/1
- Involving other business departments in P2P http://www.supplymanagement.com/news/2011/departments-outside-procurement-should-be-involved-in-p2p/?locale=en
- Overview of Gartner's e-procurement report http://spendmatters.co.uk/gartner-eprocurement-report-32-firms-spotlight/

Books

- Procurement, Principles and Management (2015) Peter Baily, Prof David Farmer, Barry Crocker, Prof David Jessop & David Jones ISBN-13**:** 978-0273713791
- Procurement and Supply Chain Management (2016) Dr Kenneth Lysons & Dr Brian Farrington ISBN-13**:** 978-0273694380
- The Procurement and Supply Manager's Desk Reference Fred Sollish C.P.M. & John Semanik C.P.M. ISBN-13**:** 978-0471790433
- Strategic Supply Management: Principles, Theories and Practice Dr Paul Cousins, Richard Lamming), Dr Benn Lawson & Dr Brian Squire ISBN-13: 978-0273651000
- E-Procurement: from Strategy to Implementation, Dale Neef, ISBN-13**:** 978-0130914118

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- Pandit, K. and Marmanis, H. (2008) Spend Analysis: The Window into Strategic Sourcing. J. Ross Publishing: Florida.
- Rudzki, R.A., Smock, D.A., Katzorke, M. and Stewart, S. (2006) Straight to the Bottom Line. J Ross Publishing: Florida.

Video

The ABB story: purchase-to-pay automation, goals and challenges in a global enterprise
https://www.youtube.com/watch?feature=player_embedded&v=5xP-c0Zyl5Q

Chartered Institute of Procurement & Supply