Aligning procurement and finance to drive business impact

Organizations are typically structured around individual functions with their own objectives and operations. This is particularly the case for procurement and finance, which often coexist as separate entities with dysfunctional integration points despite playing key roles in the procure to pay process.

Leading enterprises are aligning their procurement and finance activities to deliver business impact that extends far beyond cost reduction. We outline the four levers that can unlock value from a fully integrated procure to pay process.
The integrated approach – where is the value?

Organizations that run procurement and finance as separate entities are leaving themselves open to costly inefficiencies in a number of areas. While procurement can focus on driving more for less from suppliers, finance is concerned about profitability and working capital. Aligning operational processes with business outcomes across sourcing, procurement, and payables creates the potential to deliver savings and generate business value.

A lack of integration, combined with misaligned objectives, impacts the following areas in particular:

- **Spend control**
  When procurement and finance work in silos, organizations have low awareness of their overall spend, which makes spend analysis, management, and control very difficult. This standalone approach also increases the proliferation of suppliers across the business, leads to poor vendor management, and hinders effective sourcing.

- **Tail-end spend**
  Aligning procurement and finance can deliver significant value in tail-end spend management, which can account for 20% of a company’s spend but 80% of all suppliers. This can represent the majority of transactions for a large business, yet it often isn’t categorized or analyzed in detail due to poor and inconsistent master data across the two functions.

- **Compliance and gatekeeping**
  Uncoordinated buying behavior across an organization negatively impacts metrics, such as catalogue or purchase order (PO) penetration. It also hampers effective negotiations with suppliers, while further reducing visibility and spend control.

- **Supplier relations**
  Having each function manage suppliers independently can lead to ambiguity and inconsistencies. Conflicting messages from finance and procurement can negatively impact relationships with suppliers as well as suppliers’ performance.

- **Payment on time**
  To pay suppliers to terms, finance and procurement need to align their PO and invoicing processes, and communications with suppliers. Organizations often pay late because of PO overages, error-prone manual processes, or issues with goods receipts. Late payment can create cash-flow pressure for vendors and impact supplier relations and future contract negotiations. Businesses will also fail to capture early payment discounts if invoice processing takes too long.

- **Centers of excellence**
  Running helpdesks or contact centers separately can duplicate effort and drain resources. Integrating these activities delivers an improved, more structured approach to handling supply chain queries.

Harnessing the value of an integrated approach

The value of integration is significant, but to realize the benefits companies must adopt the right levers (figure 1) through their choice of operating model and technologies, metrics and governance, and data management.

1. **Target operating model**
   Transforming procure to pay end to end requires an advanced operating model with enabling technologies and practices that can lower costs while improving processes, contract compliance, and spend control.

   Designing the right target operating model goes a long way towards forging strong collaboration between procurement and payables. By using advanced organizational structures, such as global business services, outsourcing, or a hybrid, companies can create source to pay centers of excellence that bring
3. Governance and reporting

Typically, procurement and finance have tracked different metrics and KPIs, which has led to separate governance and reviews. While procurement may look to reduce costs, through early payment discounts and supplier leverage, for example, finance focuses on efficiency metrics, such as payment cycle time, operating costs, days payable outstanding (DPO), and working capital. These objectives are often not aligned.

Introducing a joint governance rhythm is critical to aligning objectives. This can be achieved by setting up a governance board with representation from both sides to track and measure the relative merits of discounting and DPO, and by analyzing interprocess links and coordinated metrics, such as DPO.

4. Data management

Having well-managed data in accordance with accounting rules plays a key role in ensuring that procurement and finance are united, and that governance and reporting standards are accurate and not open for interpretation. For example, incorrect allocation of spend in the general ledger or subledgers by procurement can lead to an incorrect calculation of capital and/or operating expenditure. To avoid this situation, procurement must keep finance closely involved while designing product hierarchies and categories to eliminate incorrect allocations.

Another area of contention between these functions is the definition and calculation of savings.Procurement typically reports savings on cost to procure against market and external standards, while finance focuses on budgets and past purchase price, which are internal standards. It is challenging to accurately determine savings without a single source of data. While payment information is typically stored in the ERP and financial ledgers, data elements - such as spend, PO, price, supplier performance and risk information - reside elsewhere. This leads to reconciliation issues and prevents the organization from improving compliance and capturing savings.

Spend analytics is another pivotal activity that relies on a single repository for master data. Investment in enterprise data warehousing platforms makes the integration between finance and procurement easier.
Integration in action – delivering the value

Our experience shows that aligning procurement and finance can deliver savings of up to 25%. About 60% of this value comes from improved sourcing effectiveness from factors such as early payment discounts, more robust compliance and governance, and improvements to working capital from payment-term rationalization. The remaining value can be attributed to greater efficiency through fewer errors and invoice defects, more accurate PO coverage, and increased on-time payments.

A closely integrated procurement and finance function can impact business outcomes that include:

- Optimized corporate spend from reduced cycle times, lower supplier costs, and tighter controls
- Accelerated processing and lower paper costs by electronically capturing invoices in multiple formats, and prioritizing them based on configurable rules and smart analytics
- Faster approvals and payments via automated workflows, which can ensure timely payment by leveraging mobility, built-in reminders, and escalations
- Increased payment and spend visibility by using process analytics to provide finance and procurement teams with configurable reports and dashboards on transactions and KPIs, such as PO accuracy and invoices paid on time
- Improved supplier satisfaction and compliance with a supplier portal that provides real-time access to billing and payment information, and reduces inquiry calls by up to 60%

A global pharmaceutical player with complex and fragmented operations was struggling with low process-throughput rates, high cycle times, and a fragmented procure to pay value chain. The company engaged Genpact to redesign the operating model focusing on procurement and payables.

Genpact identified process inefficiencies across the sourcing and payables life cycle. By using its Smart Enterprise Processes (SEP℠) framework to integrate Systems of Engagement™, core IT, and Data-to-Action Analytics℠, Genpact developed a well-defined transformation roadmap, redesigned the source to pay operating model, and identified the handover points between payables and procurement.

Genpact helped the pharmaceutical company establish a robust information-sharing process, an automated and integrated procure to pay workflow, and an integrated governance framework.

This led to a 50% reduction in invoice-resolution time, a 30% increase in paid-on-time rates, and a 40% improvement in early-payment-discount capture. By integrating procurement and finance, the company also improved supplier satisfaction.

This paper was authored by Raj Bhattacharya, Vice President, Source to Pay, Genpact.

About Genpact

Genpact (NYSE: G) is a global professional services firm focused on delivering digital transformation for our clients, putting digital and data to work to create competitive advantage. We do this by integrating lean principles, design thinking, analytics, and digital technologies with domain and industry expertise to deliver disruptive business outcomes — an approach called Lean Digital℠. We deliver value to our clients through digital-led, domain-enabled solutions that drive innovation, and digital-enabled intelligent operations that design, transform, and run clients’ operations. For two decades we have been generating impact for clients including the Fortune Global 500, employing 77,000+ people in 20+ countries, with key offices in New York City, Palo Alto, London, and Delhi.

For additional information, contact procurement.services@genpact.com and visit, http://www.genpact.com/what-we-do/business-services/procurement

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