

Spend Control Insights



Getting a Handle on How Your Organization Really Buys

Four key questions every CFO should ask in order to drive savings

Best-in-Class vs ERP

Best-in-class procurement systems put ERP in its place

The CFO Perspective

Research into the impact of Accounts Payable automation on financial performance

The Missing Link

The role of Finance in supplier engagement

Enterprise Cost Management

Rolling-out best-in-class spend control internationally



Welcome

This edition of Spend Control Insights from PROACTIS explores the best practices and technologies required to improve enterprise procure-to-pay processes and contribution to the bottom line.



Rod Jones, PROACTIS
Chief Executive Officer

CEO Introduction

In today's economic downturn organizations of all sizes, locations and industries are looking at cost-cutting measures to sustain net income. When revenue is hard to come by, alternative strategies are required to improve earnings per share and ultimately market capitalization. However, many have responded, in part, by short-term tactics such as staff layoffs and product quality reductions that create little in terms of long-term value or sustainable savings.

Organizations must take a broader view of how they manage corporate spend and, in particular, discretionary indirect spend. In other words, those purchases that are a necessary function of keeping your organization "up and running", and the service costs of keeping your workforce executing for you. Mature organizations that create efficiencies across their procure-to-pay cycle are much more able to create a long-term strategy for maintaining shareholder value.

Many are adopting eProcurement solutions to save money by slowing down spend, driving compliance to strategic agreements and speeding up the process of invoice matching. But it is not just about solving a technical problem. It requires a much bolder approach. Only tackling the technical challenges of automating paper-intensive and manual processes is not sufficient; the idea is to continually evolve these processes to improve performance and ultimately the bottom line results.

So, consider how effective your procure-to-pay processes are. Ask yourself these questions:

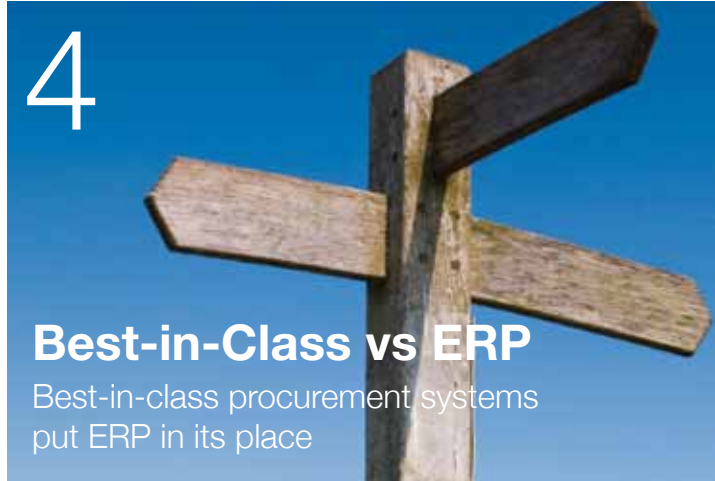
- Do your staff buy items or services in an ad hoc fashion that results in premiums being paid?
- Can managers effectively manage their budgets and keep track of purchase commitments?
- How many suppliers do you purchase like-items from but at different prices?
- How many individuals need to touch the purchase order before it can be sent?
- Do you know how much it costs to collaborate and transact with suppliers?
- Are Accounts Payable chasing an endless trail of paperwork?

The focus must be to get as much discretionary spending as possible under control. But more importantly, to create a new wave of efficiency for your organization.

This edition of Spend Control Insights, from PROACTIS, explores some of the most common questions involving eProcurement adoption and maximizing return on investment.

In this climate, companies that ignore indirect savings opportunities do so at their peril.

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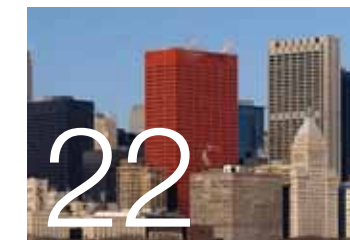
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Best-in-Class vs ERP

Which route to take?

Best-in-class procurement systems put ERP in its place

If your drive to implement a comprehensive spend control strategy is urging you to re-assess the eProcurement module that lurks unexploited in the depths of your existing ERP system, it might be time to think again.

Indirect spend control has the potential to deliver instant business-wide savings to the bottom line – as long as it embraces the complete procure-to-pay cycle. ERP systems will certainly address fragments of the cycle. But rooted in manufacturing and distribution, they lack the nimble, flexible and holistic capabilities required to manage the procurement environment of today's service-oriented business environments.

Pressure to take the ERP route

The pressure is certainly on to take the ERP route. After all, that's where the historic technology investment has been. Different voices will shout about what they consider to be the best options for quick-win solutions. Accounts Payable will demand point-solutions for example, eInvoicing to lower their in-tray. And IT will invariably want to rationalize existing systems suppliers.

But Accounts Payable is just one element of the complete expenditure cycle, and IT is hardly where most uncontrolled spending actually takes place. If you make spend control a slave to your choice of technology rather than a considered process redesign project, you could compromise a major opportunity to take complete control of the procure-to-pay cycle across your organization for the very first time, delivering total financial visibility and meeting the challenge of managing "maverick" spend head-on.

Unexploited opportunities

This is an opportunity that a best-in-class eProcurement platform is designed to exploit in its own right, unlike modular and disparate ERP procurement systems, which might only monitor certain elements of the cycle and probably come late to the party and only then through acquisition to the ERP vendor's portfolio. Check when they last underwent a major technological enhancement and you will probably find that it's been several years.

The scale of this unexplored opportunity is enormous. Up to one third of large enterprises have yet to buy any kind of eProcurement system, and a quarter of them are not using any kind of eProcurement tools. As many as 60%¹ of ERP customers eProcurement licenses have not yet been installed, and there could be a very good reason why the ERP option has lain dormant since the main system was implemented.

ERP: A legacy of dashed expectations

ERP implementations tend to create their own legacy of dashed expectations: longer-than-expected projects that exceed budget, relatively low satisfaction rates (13% according to one report²), a lack of employee buy-in – ERP systems are notoriously Finance-focused, owned and delivered by MIS and tricky for non-IT literate users to adopt, and a low ratio of benefits realized.

And while there is no doubt that ERP systems have extensive operational data gathering capabilities, their technology focus rarely allows them to use that data to enable a transparent and accurate view of the entire procure-to-pay process. If you take this route to spend control and allow technology to drive the project and replicate what you are already doing, you risk missing some of the key benefits you are setting out to deliver.

Compliance, which should be a major goal for any expenditure cycle management project, can only be encouraged and enforced if the eProcurement platform incorporates appropriate enterprise-wide spend controls, authorization rules and budgetary constraints, for example.

And with the pressure on to deliver quick results, the risk of embarking on a potentially lengthy and complex ERP integration project throws the likely benefits of a best-in-class eProcurement system strategy into an exciting new light.

Where ERP systems tend to lack the workflow rules that enable a complete set of business benefits to be realized, purpose-built eProcurement systems use workflow to enforce electronic authorization, regardless of how complex the organization's spend control hierarchy might be. And if they are easy to use, "maverick" spenders will buy in to the strategy more readily. Employee workarounds that you previously never had sight of until the order was received will be no longer.

What's more, as senior decision makers look to Procurement to deliver rapid cost savings, expectations of the chosen underlying system rise accordingly.

Managing working capital carefully

Managing working capital more carefully – and delivering savings to the bottom line – requires flexible payables automation so that spending cuts don't disrupt the business or its services. Spare capital can be put to work, financing early payment to suppliers – but only if the supplier data is properly captured and managed. This is meat and drink for the best-in-class eProcurement platform that has been designed from the ground up to encompass these degrees of complexity.

Many organizations have invested in technology to manage purchases after the event, but they rarely think about taking this to the next level. Take supplier or contract management, for example. There might be thousands of records in the ERP system database but the information they represent is untapped. How many of them are duplicated? What type of relationship do they represent? How could they be used to rationalize an authorized list of suppliers? Answer these questions and a vital link in the expenditure cycle will fall into place. By investing in a best-in-class system, an organization could itself establish best-in-class credentials for the way it manages its suppliers.

Financial controls that prevent the issue of duplicate invoices, automated invoice matching with orders, goods received and payment schedules, comprehensive reports that are delivered via the latest web technology and incorporate key pipeline data – so often missing from disparate and multiple types of ERP systems lurking in the depths of the organization – these are all deliverable by best-in-class platforms from the moment of implementation.

Why compromise with ERP?

When it comes to seizing the chance to take control of the complete expenditure cycle on this scale, why would you compromise? Particularly when it also constitutes a great opportunity to consolidate the way your existing ERP investment underpins the business.

ERP alone can't cure a "maverick" spend epidemic but an integrated best-in-class eProcurement/ERP partnership offers a potentially mighty solution that could bridge the considerable Spend Management gaps in a "pure" ERP system.

Leverage existing ERP investments

Consider using the eProcurement system as a front-end requisition engine, feeding into your established ERP modules. These were never designed as intuitive interfaces and will always be anathema to casual users, who will habitually find ways to work around applications they don't understand and will consequently make themselves invisible to Finance. An eProcurement system will drive compliance and authorization.

Even as an interim solution, without the significant overheads of an ERP implementation, a best-in-class system can deliver immediate and significant cost savings. Once they are established as a mechanism for streamlining the complete expenditure cycle, proving them on the CAPEX front and delivering quick savings to gladden the heart of the most cynical CFO, many organizations decide to continue using them.

Best-in-class: ahead of the curve

Because best-in-class vendors are constantly refining and adding to their technological capability, new modules that enhance the value of the investment and lower the risk of driving through a spend management strategy emerge regularly, giving more choice in terms of scale, implementation and integration.

Let's face it best-in-class vendors, like PROACTIS, eat, sleep and breathe spend control and eProcurement. Can your organization really compromise when it comes to the cost-containment agenda?



Up to one third of organizations have yet to buy any kind of eProcurement system, and a quarter of them are not using any kind of eProcurement tools.



¹ First Wave E-Procurement Solutions, Forrester Research

² 2008 ERP Report, Panorama Consulting Group

Getting a Handle

on How Your Organization Really Buys

Four fundamental questions every CFO should ask about their organization's purchase-to-pay process in order to drive savings



Q1

Do the right people really have control of what you are buying?

Why it's important

- **Budget control:** Without proper authorization controls, employees may buy things that are not budgeted, not a current priority, or not appropriate for their function.
- **Quality and risk control:** For some types of purchases, such as capital equipment, computer hardware and specialized outside services, the involvement of an expert that understands category-specific issues may be needed to ensure the right purchase is made.
- **Fraud prevention:** Though the vast majority of purchases are well-intentioned, there is always the risk of fraudulent buying – something you certainly want to prevent.

What to look for

- **Invoices with no PO#:** A high percentage of invoices arriving in Accounts Payable (AP) without an approved purchase order (PO) on file may indicate insufficient authorization controls.
- **Excessive AP workflow:** A high percentage of invoices being coded in AP and sent to an appropriate department for approval, effectively getting approval on what has already been spent.
- **Frequently surprised managers:** When managers are surprised that purchases have been made within their department, there is clearly a problem with the authorization process.

How to improve

- **Clearly define authorization rules:** Develop clearly defined rules for approval requirements based on monetary value, item category, department, and other criteria.
- **Make everyone aware:** Make everyone in the company aware of these policies and the importance of adhering to them.
- **Track unauthorized purchases:** Ask your AP manager to track invoices with no PO to identify frequent offenders.

Q2

Do managers have enough visibility to properly manage their budgets?

Why it's important

- **Budget control:** Since purchase commitments are made well in advance of when they are paid, trying to manage a budget with just last month's financial statement is very difficult.
- **Cash flow management:** At times, managers are asked to help manage cash flow in addition to their budgets – that's a lot easier when they can see the commitments that are already made when approving requests.
- **Operational productivity:** Productivity and operational results are going to suffer if a manager needs to spend an inordinate amount of time "asking around" about open commitments, or trying to re-do his/her plan because (s)he's suddenly over budget.

What to look for

- **Manager behavior:** Are some managers often surprised to find that they are over budget, or likely to go over budget? Conversely, are some managers overly cautious because they're concerned they could go over budget due to expenditures they're not aware of?
- **Ask managers...** How do you decide if you can approve a request or not? What do you look at to know where you really stand with your budget? Do you often just guess about open commitments?
- **Ask yourself...** How do you know what your organization's overall cost pipeline is? Do you have the visibility you really need to know where the organization stands with respect to budget and upcoming cash requirements?

How to improve

- **Institute good authorization procedures:** This is critical to have any chance of knowing about purchase commitments before the invoice arrives.
- **Capture purchase activity early:** Put in place a way of capturing purchase requests and commitments as early as possible. Try to capture enough detail to enable managers to really know what the request or commitment is, who originated it, what it's for, and why it's needed. Be sure proper account coding is done up front.
- **Make the information accessible:** Make it easy for managers to see summaries and details of open commitments in addition to their financial statements. Enable this at multiple levels of organizational roll-up.

Q3

Are you getting the best value for what you are spending?

Why it's important

- **You don't want to pay more than necessary:** Every time staff buy something from a supplier other than one with whom you have a favorable contract, the price savings you worked hard to negotiate are lost.
- **You want to fully leverage your spend:** If employees around your organization are buying essentially the same product or service from many different suppliers (e.g. stationery), you are losing a lot of buying power.
- **You want to continuously improve:** If you don't have any good way of knowing what is being spent by category, supplier, etc; your procurement people do not have the basic information they need for activities like contract negotiation and supplier consolidation.

What to look for

- **Percentage of spend under management:** This is the measure of how many purchases are with what you consider your preferred suppliers – typically ones with whom you have a contract specifying negotiated prices or discounts.
- **The number of active suppliers in your vendor master file:** If you have many suppliers in the same category with whom you've paid invoices, that may indicate lost opportunities for volume discounts.
- **Reporting ability:** Summarise the money you've spent per supplier for key product or service categories. Talk with your purchasing manager about whether (s)he has the right data for negotiating a new supplier contract.

How to improve

- **Identify and focus on preferred suppliers:** Clearly identify the one or few suppliers you want to use per category. Your procurement professionals may already be well down the road on this. If not, start with those suppliers with whom you have formal agreements.
- **Make them known to employees:** Provide a reasonable way for people to look up the supplier they should use for a given purchase.
- **Capture all purchase history:** Initiate a process by which you capture enough detail about all purchases for later analysis. You probably already have total spend per supplier, but you will want to categorize that at a lower level of detail (category, commodity, etc).

Q4

Are you properly managing the payment process?

Why it's important

- **Potential for overpayment:** You don't want to pay more than the agreed price, or for a greater quantity than ordered, or for goods or services never delivered. And you don't want to mistakenly pay the same invoice twice.
- **Potential for fraud:** Most invoice errors are, of course, unintentional; but there is always the possibility a supplier or someone else will try to submit false invoices if they think controls are lax.
- **Savings from early payment discounts:** When suppliers offer discounts for payment before the standard due date, that can be a valuable way to reduce the effective cost of the things you buy. In some cases, you may even be able to suggest such discounts with companies that don't typically offer them.

What to look for

- **A high percentage of invoices arriving without a PO#:** The more research it takes to verify an invoice, the more likely it is that it will be paid without positive verification.
- **Reliance on manual invoice matching:** Even when the purchase order is properly referenced, the job of matching the details of hundreds of invoices to paper/image copies of the PO can be mind-numbing. Errors often occur.
- **High discounts lost:** If it takes too long to register, validate, and authorize invoices for payment, then discounts are probably being lost unnecessarily.

How to improve

- **Establish matching tolerances:** Very small discrepancies between an invoice and PO may not be worth the time and manpower to investigate. Tolerances will make it practical to pursue all important discrepancies.
- **Rigorously resolve all important discrepancies:** For invoices with a PO#, this means going to the originator to find out which is right based on what they ordered and received. For invoices with no PO#, this will require first figuring out who placed the order – not always an easy task.
- **Minimize the elapsed time for payment authorization:** This is key in order to be in a position to leverage early payment discounts. A long average lead time between invoice receipt and posting is also an indicator of inefficiencies.



Download the executive briefcase guide 'Getting a Handle on How Your Organization Really Buys' at proactis.com

CFO Dilemma:

Reduce cost.
Improve control.
Increase visibility of spend.



PROACTIS: Spend Control & eProcurement

PROACTIS suite of spend control and eProcurement solutions support the entire procure-to-pay cycle. Leveraging a highly modular approach, PROACTIS provides integrated support for all key aspects of the procurement process, both within the Procurement department and across the organization.

Solutions for Procurement

Supplier Management

- Improve supply base intelligence
- Lower supplier risk
- Reduce administration effort

Sourcing

- Select best value goods and services
- Ensure a structured, transparent process
- Reduce administration effort

Contract Management

- Realize the full value of agreements
- Ensure contract compliance
- Reduce administration effort

Catalog Management

- Maintain supplier and in-house catalogs
- Connect users to content sources
- Simplify management and improve control

Solutions for Finance

Purchasing

- Streamline day-to-day purchasing
- Ensure compliance with procedures
- Maintain financial visibility and control

Invoice Receipt & Data Capture

- Automate the registration of invoices
- Obtain visibility of invoice handling
- Exploit accurate reporting and controls

Invoice Matching & Approvals

- High invoice matching rates
- Workflow-based exception handling
- Reduce invoice processing cycle times

Employee Expenses

- Gain control of "after-the-event" claims
- Simple and easy to use
- Minimize the authorization process



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In the
Spotlight



Oldcastle Materials, Inc.

Conducts Nationwide Procurement Transformation

Profile

Oldcastle Materials, Inc. is the leading vertically integrated supplier of aggregates, asphalt, ready mixed concrete, and paving services in the United States. Oldcastle Materials is a federation of individual companies, each of which retains its local identity while leveraging the financial strength, best practices, and purchasing power of a larger organization. Headquartered in Atlanta, Georgia, Oldcastle has over 1,400 locations in more than 40 states.

Challenge

Like all successful companies, Oldcastle Materials recognizes that keeping costs down is key to long-term competitiveness. And key to keeping costs down are best-value sourcing of goods and services, and effective control of the purchasing process. Toward that end, Oldcastle Materials established a formal program for procurement transformation. The goal of that program is to leverage national buying power across all local and regional companies throughout the United States. Early on, the Procurement team recognized the need to establish a solid procure-to-pay (P2P) process as the foundation for its strategic sourcing initiatives.

But with such a diverse range of companies, it would not be easy to put in place a common P2P process on a company-wide basis. Companies vary in size, operations and experience with purchasing systems, but share a company-wide culture. The Oldcastle team knew it needed a P2P solution that was extremely flexible while providing the consistent level of control and visibility the company needed.

Why PROACTIS?

Oldcastle established a procure-to-pay team with members from Procurement, Finance, IT and an outside consulting company. After thoroughly evaluating several leading spend control and eProcurement solution providers, Oldcastle Materials selected PROACTIS because it best matched the team's criteria of: ease of use, implementation support, the ability

to easily integrate with the company's existing business system, compliance control capability, and total cost of ownership.

But beyond functionality and support, the key deciding factor was flexibility. "PROACTIS was clearly the most flexible of all the solutions we evaluated," says Jake Schmoeyer, Oldcastle Materials Northeast Division Director of Procurement and P2P Project Lead. "Most of the others were much too rigid for our organization."

Results

In just the first ten months, Oldcastle Materials developed a national vendor master file and deployed PROACTIS in the first four companies: Tilcon New York, Tilcon New Jersey, Callanan, and Dolomite. Those companies alone represent a wide range of process flows, from organizations with central buyers to those where employees purchase directly. Purchases for goods, supplies, and services for site locations and construction project teams are beginning to go through PROACTIS. 370 people are already using the system.

The first of several planned supplier website punch-outs has been put in place, enabling employees to purchase office supplies directly from their suppliers' websites while maintaining all purchase controls and visibility. A company-wide purchase category structure has been implemented and multiple catalogs are being hosted. "The catalogs and punch-out capabilities are very important to making the purchasing system easy to use. We have users ranging from professional buyers to office workers and plant foremen. The system needs to be both intuitive and productive for everyone," says Schmoeyer.

General company-wide authorization rules have been developed along with a range of workflows to allow for various situations. Many authorizers are using PROACTIS mobile capabilities to approve purchase requests from the field. "The ability to authorize purchase requests from their BlackBerries has gone over especially well with our site and project foremen," adds Schmoeyer.

The Accounts Payable process is already seeing improved productivity, even though procedures have been changed significantly in order to leverage three-way matching and electronic troubleshooting.

PROACTIS has been integrated with Oldcastle Material's Viewpoint business system from Viewpoint Construction Software. The vendor master and chart of accounts are maintained in Viewpoint, with changes automatically passed to PROACTIS. Purchase orders are placed in PROACTIS, invoices are registered and matched in the system and authorized payments are passed to Viewpoint for check writing.



Our procure-to-pay project is very much a work in progress, but we're very enthusiastic about what we're already seeing. PROACTIS is enabling us to tailor the day-to-day purchasing process to the culture, experience, and needs of individual companies while establishing consistent organization-wide controls and supporting our strategic sourcing initiative.

Director of Procurement and P2P Project Lead, Oldcastle Materials, Inc.

The CFO Perspective

Research into the impact of Accounts Payable automation on the financial performance of an enterprise

As part of a CFO Research Series, PROACTIS set out to determine the impact of different levels of maturity in Accounts Payable (AP) processes and departments in supporting the CFO's cost containment agenda, by surveying more than 100 European medium-sized businesses.

Research Insights

Cost containment pressures tighten

The CFO agenda has inverted from headline grabbing initiatives such as M&As and long-term growth strategies, to a sharp focus on containing costs. CFOs are rethinking the Finance function – how it works, what the objectives and measures are, and how skills can be best utilized. For those companies where there is a high volume and value of transactions processed with regard to overall company payments, reshaping and transforming AP operations is regarded as “very important”.

Accounts Payable is coming of age

In recent years many companies have automated specific elements (e.g. invoice matching) but have not created a truly end-to-end enterprise procurement framework. CFO's primary drivers are initially to reduce costs by automating cumbersome, repetitive manual processes (such as processing of invoices, storage and retrieval of physical documents, manual checking in processing payments, etc.) and achieve more accurate budgetary control over expenditure.

“Spend” control not “spent” control

Maverick spend is viewed as a major problem for over 80% of CFOs and AP departments. Without an automated purchase-to-pay process that supports corporate procurement guidelines, employees are free to conduct workarounds in purchasing. They will seek the easiest route to satisfaction which is often outside corporate control. The result is limited visibility of expenditure against budget and AP coping with the management of what is already “spent” versus controlling “spend”.

Stressed Accounts Payable operations

In 62% of organizations interviewed, AP staff spend over 70% of their time trying to reconcile invoices with purchase orders and goods received notes. Often no such paperwork exists, leaving the AP staff to email and call around the organization to investigate whether the goods or services were even ordered, whether they were satisfactorily received, and

whether the invoice details, such as pricing, quantity and payment terms, match up to what was expected.

Running blind: lack of cost visibility

Over two-thirds of purchasing happens before an order is even raised and 38% of companies estimated that in excess of 60% of inbound invoices were “invisible” to their organization prior to receipt by AP. In these companies, there was no electronic record of any liability and management had no collective view of corporate exposure. The impact of this is uncontrolled cash flow, lack of compliance to corporate budgets and a clear risk exposure to the business.

Real-time procurement and system integration

Although 57% of CFOs report they have made progress in automating AP processes, many of the key elements of the procurement process are manual driven and/or managed in separate systems (from the initial demand for goods and services and the approved requisition, supplier selection and negotiation of terms, right through to goods received and payment) which makes it difficult to obtain a clear and accurate view of commitments against budget and authorized spend.



“Excellent” rated companies have gone one step further by fully integrating sourcing, category management and purchase-to-pay processes.



AP “old-school thinking” increases costs

Manual purchasing processes are time consuming, prone to error and open to fraud. Often they lack the transparency and auditability required by world-class organizations. These process inefficiencies and inconsistencies are increasingly under scrutiny to remove delays caused by breakdowns in manual workflow and an inability to track transactions or to understand who currently owns the process. “Old-school thinking” is viewed as a major cause resulting in duplication of effort and increasing the cost of doing business.

Mixed views on AP structure and design

For 23%, reshaping the AP function is of “high priority”. They are looking to change the design or structure upon which they can redesign processes and adopt best practices. The approach varies significantly from centralized operations, fully decentralized or decentralized by activity, to creating a shared service center or even off shoring. Centralized and shared service structures are perceived to deliver tighter controls and provide better performance, however less than 3% have “fully implemented” these structures.

CFO leadership and technology enablers

Most AP leaders have either “ad hoc” or “regular” interaction with the CFO or Financial Controller. Only 23% have “continuous interaction”. There is also strong linkage between the take-up of technology utilization (ePayables, sourcing, contracts, spend analytics, etc) to the level of interaction between AP and the financial stewards of the company. “Excellent” rated companies believed they had 75% or more of spend under management.

TOP 10 RECOMMENDATIONS

- 1 Create an end-to-end vision for corporate spend control including linking Accounts Payable optimization and spend control initiatives to your company financial goals**
- 2 Target the cause of maverick spend with controlled processes, up-front coding and commitment checking, authorized workflow, adhered to supplier agreements, etc**
- 3 Improve cost pipeline visibility: Supply transaction visibility throughout procurement workflow to drive budget holder responsibility and provide timely access to information**
- 4 Streamline the supplier invoice approval process by automating the matching of invoices to orders and receipt information across the request-to-pay process**
- 5 Automate the inward paper process including invoice registration, supplier PO details, scanning physical paper-based invoices, and self-invoices for particular supplier agreements**
- 6 Automate invoice coding that is accurately set early in the purchase cycle e.g. a draft requisition or PO based on who is requesting, what they are buying and department**
- 7 Adopt best-in-class procurement solutions that integrate seamlessly with your other operational systems and provide you with low risk and low cost of ownership**
- 8 Focus on end-user adoption: Allow casual users to easily satisfy their business need with interfaces designed for the user not the transaction including workflows**
- 9 Ensure corporate governance and compliance: Put in place purchasing controls without imposing unnecessary restrictions that will result in employees conducting workarounds**
- 10 Enable close collaboration and trust between Finance and Accounts Payable operations and ensure seamless integration between operational systems for greater control**



Download the research paper 'Accounts Payable Automation: The CFO Perspective' at proactis.com

A Step-by-Step Approach: Invoice Processing Automation

Why CFOs should do it and how to go about it



PROACTIS Chief Technology Officer, Kevin Chidlow discusses the key steps CFOs should take to improve efficiencies.

In many organizations, invoice processing is the single most paper-intensive, “high touch” manual activity remaining today. Even organizations that have largely automated their front office, operational and supply chain functions often still process invoices in a very manual manner.

1. Analyze current processes

Find out how invoices flow through your company today. Where are they received? How do they get to Accounts Payable? How are they validated and coded? What percentage are received electronically vs. in paper form? What is the average time it takes to process an invoice? How many invoices are processed per year per AP FTE? What is the AP cost per transaction (total invoices / AP department cost is at least a rough measure).

2. Centralize invoice management

Consider establishing a centralized or shared service for invoice management. Inform your suppliers that they should send all invoices to your Accounts Payable function and enforce the policy.

Implement a standard approach that captures invoices into some type of electronic form. You may start with a simple document scanning and indexing process. If you need to capture invoices in multiple locations, use a standard approach and centralized electronic filing system that will streamline your manual approval process.

3. Standardize policies and procedures

Define and document standard policies and procedures for processing of PO and non-PO invoices – e.g. duplicity and mathematical integrity checks, matching criteria and tolerances, discrepancy resolution workflow, dispute and approval workflow, etc. Also document your policies for working capital optimization – e.g. when to take and not take early payment discounts.

4. Automate

The most important thing to first put in place is a single “processing engine” that will enable you to automate your policies and procedures for validation and coding, matching, discrepancy resolution, payment authorization, and reporting and analysis. You want a single, consistent invoice automation process regardless of how many ways you initially capture invoices. On the front end, you can leverage any electronic invoicing opportunities you may already have in place while using a combination of scanning, OCR, and keying to capture paper invoices.

5. Enable supplier self-service

With all invoices being processed in a consistent electronic manner, it's an easy step to make status information available to suppliers via a secure self-service Internet portal. Your goal here is to eliminate the time AP personnel currently spend on the phone answering supplier questions about where their invoice stands and when they will get paid.

6. Proactively request early payment discounts

With the ability to process invoices much more quickly, you will be in a position to take advantage of any early payment discount terms your suppliers may offer. In addition to current opportunities, you may want to begin asking for such discount terms as you negotiate new contracts. Once you have a real handle on invoice processing, this may be a source of significant savings over time.

7. Leverage information for better sourcing

Invoice processing automation can help your Procurement department enhance their sourcing activities in a couple of ways. First, with all your payment activity electronically captured, they will have better information for spend analysis for purposes of supplier base consolidation and other activities sourcing. Second, with a reputation for paying on time and making it easy for suppliers to manage their accounts receivables with you, suppliers may be more willing to give your organizational preferential prices and terms.

8. Incrementally automate invoice capture

As soon as you have your back-end invoice processing automated you can turn your attention to finding even more efficient ways to capture invoices on the front end. This can be done on an incremental basis by implementing electronic invoices with your larger customers or through trading networks, and/or by adding capabilities like invoice upload or PO Flip to your supplier portal. All of these methods will act as increasingly efficient means of moving invoices into automated invoice processing.

Each of these steps is manageable and provides incremental benefits. The technology to eliminate the great majority of the paper handling is available, affordable, and easily implemented within the context of your existing financial systems. And the benefits go beyond cost reduction to creating a cost management and information availability advantage that will help your company better compete for years to come.



Download the executive
briefcase guide
'Invoice Processing
Automation: A Practical,
Smart Approach' at
proactis.com



The Medical Protection Society Increases Efficiencies in Accounts Payable

Profile

The Medical Protection Society Limited (MPS) is the leading provider of comprehensive professional indemnity and expert advice to doctors, dentists and health professionals around the world.

MPS was originally formed in 1892 and has over 265,000 members in more than 40 countries. Employing nearly 400 staff, MPS has offices in London, Leeds and Edinburgh. The main jurisdictions where MPS operates besides the UK are Ireland, South Africa, New Zealand, Hong Kong, Singapore, Malaysia, West Indies and Kenya.

Challenge

MPS processes 40,000 invoices every year, 85% of which are for costs relating to managing member cases (e.g. solicitors' fees) and rarely have a purchase order. This means that Accounts Payable have to go through a strict authorization procedure, involving file handlers (e.g. medical advisers), in order to ensure that invoices are properly authorized before payment.

Prior to PROACTIS, invoices would arrive in the Leeds office, or one of their other offices, and be distributed to the file handler for authorization, bypassing the Finance department. This inefficient process meant that Accounts Payable were not even aware of the invoice until after it had been authorized and sent to Finance. This could take a substantial amount of time, which meant they had no visibility of commitments and lacked control over what were often high value invoices.

Suppliers would often call Accounts Payable to enquire about the status of their invoice, but with no visibility that these invoices had even entered the building or when they would be authorized, Accounts Payable were spending valuable time handling these queries and were not easily able to inform suppliers of when they would get paid.

The authorization workflow for approving invoices in MPS is quite complicated and therefore time-consuming when conducted manually. They needed a solution that would move away from

paper-based processes to a more streamlined, electronic approach that would be readily adopted by all staff.

Although the main driver for the project was to streamline invoicing processing in order to reduce time, costs and errors, MPS also wanted better control and visibility of other spending (e.g. admin, marketing costs) which a purchase ordering system would provide.

Why PROACTIS?

MPS looked at a number of spend control solutions on the market and PROACTIS stood out as a solution that would fit with how MPS operates. Christine Chadwick, Processing & Administration Manager at MPS explains: "Our business is quite unique in the way we work and we have to undertake a number of complex coding and authorization processes before an invoice is paid. PROACTIS enables us to automate this, easily and efficiently."

MPS receives a disc from a supplier (e.g. law firm) with up to 20,000 individual lines of costs. In addition to the standard item fields (description, date, etc.) there is a unique identifier which when imported into PROACTIS, maps the item to the relevant MPS case and automatically codes the invoices.

Built-in authorization workflows within PROACTIS use the unique case number to assign the invoice to the relevant file handler/s for authorization. The system sends out an automatic email alert to the relevant handler which directs them straight into the system. With a few clicks, the invoice is authorized or rejected.

"Having a system that was easy to use was a key factor for us," explains Christine. "It was essential that the system had a good user interface. The kind of people that would be using the system – lawyers, doctors, dentists, etc. – are very busy people, so the last thing we wanted to do was provide a solution that would be complicated for them to use."

Results

PROACTIS was first rolled-out on a department-by-department basis to manage the purchasing of indirect goods and services. The next step was automating the invoice processing and approval procedures.

"PROACTIS has been very well received by the whole organization," says Christine. "Change management was always going to be the most difficult part – convincing people that moving away from signing your name on a piece of paper to authorizing electronically was the way forward. But once people started to use PROACTIS, they realized it was making their job easier and didn't detract from their other duties."

For employees that have to travel overseas, PROACTIS means there is no delay in invoice authorization. Users can log on to the system anywhere in the world and access all the information they need to authorize an invoice.

In Accounts Payable, the visibility and control that PROACTIS has brought has really changed the way MPS works. By enabling suppliers to bill them electronically, MPS has reduced the manual input previously done by Accounts Payable by about 7,000 invoices per year and these efficiency savings will grow as they increase the number of suppliers that bill them electronically.

Christine comments: "PROACTIS has enabled our Accounts Payable team to focus on more value-added projects than was possible before, due to getting bogged down in endless mountains of paper."

And the benefits extend beyond increased efficiency. Invoices no longer get lost or misplaced, coding errors are reduced and fewer duplicate payments are made.

MPS's suppliers are also reaping benefits.

"Previously, a supplier could have been waiting some time for a bill to get authorized but now it's brought in electronically, the turnaround time is much quicker so we're able to pay our suppliers sooner which fits comfortably with one of our core values of fairness" says Christine.

Even for suppliers that are not set up electronically, the new system is still much more efficient than the previous manual system. MPS scans the paper invoices into PROACTIS and most of the coding is done electronically using the unique case number. The file handler is notified and can view the invoice online.



PROACTIS has enabled our Accounts Payable team to focus on more value-added projects than was possible before, due to getting bogged down in endless mountains of paper.

Processing & Administration Manager,
The Medical Protection Society Limited



Goals

- Reduce time and cost of authorizing and processing invoices
- Increase visibility and control over spend and invoices
- Enable suppliers to send invoices electronically

Results to Date

- Automated invoice processing and authorization processes
- Accounts Payable now in control and focused on value-added projects
- Decreased number of coding errors
- Increased quality of data going into ledger
- Suppliers paid sooner
- Fewer duplicate payments made

The Missing Link

The Role of Finance in Supplier Engagement

Too often, responsibility for managing and monitoring supplier records and relationships is diluted across the organization. But if Finance and Procurement seize the initiative and drive through an automated strategy, a spectrum of instant and long-term benefits will make themselves felt on the bottom line, leading to greater efficiencies and more profitable supplier relationships.

“Rationalizing the supplier database alone has the potential to reduce the administrative overhead by 80%, simply by cutting a swathe through the volume of enquiries about approval and invoice payment status.”

Tough times require tough cost control measures. So your first, second and third response is probably to lose people. It feels like an instant saving and it shows up quickly where the board wants to see the consequences: on the bottom line. But there could be a more logical place to start pruning costs, and that's your supplier database.

Ask who owns the supplier relationships in your business, and a number of contenders will jostle for management position: operational staff who interact directly with suppliers; the legal department because it is responsible for contracts; governance gatekeepers because they oversee the compliance of suppliers' products and services in critical areas of the business; the sales team, because suppliers might contribute a vital element of a customer service or product.

The truth is that they might all have responsibility at key stages of the supplier engagement and management lifecycle. But there is no overall strategy to extract the efficiency and cost-saving benefits of proactive supplier management. Ultimately, supplier records are owned and run by a committee that never actually compares notes. And this lack of visibility is a constant drain on the business.

The absence of centralized records means that the same supplier might be duplicated many times across the business, obscured by inconsistent terminology

and different spellings. Irrelevant records clog systems up. Suppliers themselves have no actual interface with the business' core systems for invoicing or tracking purposes. The business is constantly reacting after the event rather than managing suppliers proactively. And this is driving up the cost of procurement at every stage.

So here is a radical thought. Why don't Finance and Procurement take ownership of the supplier relationship, and drive an automated system-based strategy across the organization that will rationalize records and provide a platform for leveraging the cost and efficiency benefits of improved supplier relationship management?

This is the key to building a comprehensive cross-business picture of supplier engagement, which will impact positively at every level and deliver savings straight to the profit line. It will crystallize the integrity of a single, accurate master vendor record. And it is a rapid, inexpensive option compared with cash-hungry alternatives: calling in costly consultants or initiating an unnecessarily grandiose supplier relationship management strategy.

The effect would be immediate. Administration costs are the biggest overhead for Accounts Payable, for example, and one of the banes of the CFO's life. Rationalizing the supplier database alone has the potential to reduce the administrative overhead by 80%, simply by cutting a swathe through the volume of enquiries about approval

and invoice payment status. Cross-organizational spend can be cut by up to 15%.

Using an automated system to categorize suppliers and classify goods and services means that everybody in the procurement chain can find what they need, based on the right engagements with their required categories.

Automation also removes the need for manual supplier record maintenance – another daily cost that can be excised at a stroke. Some specialists estimate that the overhead associated with fielding supplier records in Accounts Payable can be cut by 25% – and that the data integrity of supplier records passing into the Finance system can be improved by an impressive 100%. The Accounts department is liberated from the paper chase to focus on invoicing and revenue gathering.

These are quick wins. The long-term benefits of unified supplier data across Finance and Procurement are also invaluable in terms of reduced

overhead and efficiency. According to a report from strategic advisory company The Hackett Group, companies who reduce supplier numbers can focus greater resources on managing relationships, develop purchasing leverage and reduce the cost of ongoing monitoring. If a company distributes 80% of its annual spend across 20% of its suppliers, says Hackett, each procurement dollar represents \$2.10 of spend reduction.

Automation has the potential to deliver this level of ongoing savings in a way that penetrates the very heart of the business. It generates knowledge that informs negotiations with suppliers for better deals, helping to guard against price fluctuations and to model costs more accurately. And it can provide considerable improvements – as much as 65% – in the supplier accreditation process. For example, a typical business probably has numerous stationery suppliers in its database – even allowing for record duplication. These could be reduced and relationships with the selected few managed far more efficiently.

For Procurement, rationalization also delivers considerable benefits on the risk management front – an increasingly pressing consideration, particularly for public sector organizations that typically engage with many thousands of suppliers and don't have the time and resources to undertake a comprehensive, largely manual review.

A supplier might be apparently low-value and low-volume, and hardly an obvious choice for management. But if they are supplying seemingly mundane food products to a school, for example, the potential risk of food poisoning should demand close monitoring. The knowledge generated by an automated system would help to identify, accommodate and categorize such specific requirements.

Pre-event risk management costs are notoriously hard to quantify, but in these circumstances, supplier knowledge is probably the most powerful tool to guard against potentially costly or disastrous events.

Similarly, a system would enable administrative staff to see at a glance that criminal record checks have been carried out on all the drivers at a taxi company employed to ferry special-needs children to school. Or it would allow an accountable public sector authority to easily report on its suppliers' carbon emissions.

Commercial organizations face different but equally challenging rationalization issues. They might, typically, have fewer suppliers but the logistics of running multiple sites,

and growth often achieved by absorbing new businesses through merger and acquisition, raises the likelihood of supplier duplication on a potentially global scale – an issue that a best-in-class system could easily address.

Then there are the rewards of streamlined supplier engagement. Automation means that the process of identification, adoption, approval, constant and consistent record updating, supported by a system that can manage supplier information regardless of the number of interfaces with the business' core Financial systems, can be managed proactively.

Automation makes it much easier to request supplier information as an integral part of the relationship management, and for this information to be used internally to qualify and categorize the supplier. Questionnaires can be designed for on-boarding different categories of supplier. The business can rank and score them according to their response to specific questions. If they are supplying hazardous products, do they have the necessary ISO accreditations, for example?

This might require a shift in your organization's approach to supplier management at every level, but unless somebody gets a handle on the records and establishes a policy for cleaning them up, the hidden costs of poor or non-management will continue to eat away at the business's profit margins. It makes sense for the CFO, in tandem with Procurement, to take the initiative.

And once the system is in place, it opens up the potential for a host of further benefits. Departments with specialist knowledge, such as IT, can engage directly with the supplier approval process through the system. It becomes a platform for switching on a range of shared services that enhance the procurement process: self-billing, for example, driving purchase order compliance throughout the organization, and gaining control of "maverick" spend.

Effective contract management and best-value sourcing – two goals at the heart of Finance and Procurement strategy – depend on good supplier relationships. Automation will eventually empower suppliers to manage their own profiles via exclusive portals, monitoring the progress of queries and invoice status. Smaller suppliers will benefit from being able to flip purchase orders back as invoices. And fat will be cut out of the process at every stage.

How Finance and Procurement Can

Join Forces to Drive Savings

How CFOs can better understand and leverage Procurement's role in spend control

As CFO, you're undoubtedly spending much of your time working to reduce costs wherever you possibly can; and trying to do so in ways that strengthen, rather than weaken your organization. You may be working to reduce costs within the Finance function with initiatives like Accounts Payable (AP) automation. And like many CFOs today, you may be focused on the subject of spend control, possibly using tools such as eProcurement.

Gaining control and visibility of your purchase-to-pay process is a big step towards realizing the benefits of spend control, including better management of budgets and consistent compliance with purchase authorization policies.

But the biggest benefit comes when you are able to actually reduce the cost of the goods and services your organization buys by channeling a higher percentage of purchases to preferred suppliers and contracts – i.e. to sources with the lowest prices and best overall value.



Spend Under Management: A Big Opportunity for Savings

Purchases made from properly evaluated and selected suppliers, and against professionally-negotiated contracts, are called “spend under management”. Typically, organizations can save between 5% and 20% for every dollar of spend they bring “under management”. And keep in mind that, depending on your industry, a \$1 million cost saving is the equivalent of anywhere from \$10–47 million in revenue increase based on typical profit margins.

Increasing the percentage of spend under management is what your Procurement team is working to facilitate every day. It's a big challenge when you consider the range of purchase categories and the number of suppliers involved; and that operating departments don't always want to take the time to involve Procurement when they should.

Strategic Procurement and How You Can Help

The functions your procurement people perform to do their job – supplier relationship management, sourcing, and contract management – are often referred to as strategic procurement. Joining forces with your Senior Procurement Manager to better understand and leverage strategic procurement in conjunction with your spend control initiatives may be one of the biggest things you can do to positively impact your organization's bottom line. As CFO, you are needed to:

- Work hand-in-hand with your senior procurement people
- Use your sphere of influence to gain organizational support for strategic procurement
- Help with the refinement of procurement policies to drive savings
- Help guide the application of enabling technology

A Likely Opportunity for Quick Wins

The “quick win” opportunities within one organization will be different from those in another. Depending on your level of procurement maturity and progress to date, your best opportunities may lie in areas such as contract management or sourcing. But our experience has shown that many organizations have great opportunities for realizing rapid and direct cost savings by simply putting in place the basic tools to improve what we call supplier engagement. By taking the steps to better capture and organize supplier information, cleanse and extend that information, and use it to support key initiatives such as supplier rationalization, many organizations can gain significant cost savings within a matter of months. These savings usually come from:

- Reduced purchase costs from improved

supplier agreements and greater use of those agreements (i.e. increased “spend under management”)

- Re-allocated FTEs in Accounts Payable due to reduced workload for responding to supplier enquiries and maintaining supplier data
- Other savings derived from improved analytical capabilities such as spend analysis due to improved supplier information in financial systems

The four steps outlined below, all of which can be done within a few months with proper commitment, will provide important and valuable “quick wins” in many organizations:

1. Implement a central supplier directory:

Utilizing a procurement system to establish a central supplier directory – and the processes to keep it complete and up to date – provides an informational foundation to improve just about every procurement activity. Besides providing a single view of your suppliers (much like you have probably done for customers), a central electronic directory enables you to quickly:

- Eliminate redundant and excessive maintenance effort
- Improve Procurement team and Accounts Payable department productivity
- Enable supplier base categorization to support better spend analysis
- Improve the effectiveness of existing financial systems through improved supplier data
- Set the stage for supplier self-service data management

2. Strengthen supplier qualification and contract review processes:

Supplier qualification and contract review processes are critical to maintaining a solid supplier base and avoiding undo risk. But they can take a lot of time and effort. A good procurement system will support streamlined processes that can quickly do several important things:

- Identify existing supplier risk so steps can be taken to mitigate it
- Reduce risk, and the associated cost, going forward
- Improve Procurement team productivity by automating supplier reviews and performance assessments, as well as the contract review process

3. Perform a supplier rationalization process and establish corporate contracts:

Once a central supplier directory is in place, suppliers are categorized for effective spend and risk analysis, and a solid qualification and review process is implemented, you will be in a position to address what is likely to be your biggest “quick win” opportunity: supplier rationalization.

If your organization is like most, you have

accumulated far more suppliers in many categories than you really need, while possibly having too few in others. Spreading your spend across more suppliers than necessary dilutes your buying power, while maintaining only one source of supply in key areas may represent too much risk if that supplier should fail to perform.

Using information from your supplier directory along with spend history and other information from your financial systems, a supplier base rationalization initiative will enable you to:

- Reduce the overall cost of purchased goods and services by negotiating lower prices and better overall value when you consolidate your spend to just one or a few good suppliers per category
- Lock in savings through corporate contracts with preferred suppliers
- Where appropriate, reduce the risk of reliance on just one supplier in certain categories by establishing relationships with one or more additional suppliers

4. Deploy a supplier portal:

One of the best tools for reducing administrative expense in both the short term and long term is deployment of a supplier portal. Using a secure Internet portal, you can dramatically streamline two-way communication with suppliers. You can use such a portal to:

- Reduce initial supplier engagement effort by enabling potential suppliers to apply for approved status and answer questionnaires online themselves
- Reduce supplier on-boarding effort by enabling suppliers to enter or upload profile and catalog information themselves
- Reduce sourcing event effort by enabling appropriate suppliers to browse open invitations to tender, download RFx documents, upload responses, and view award status
- Reduce the workload in Accounts Payable by enabling suppliers to access account information themselves
- Reduce supplier information management effort by enabling suppliers to maintain changes to their profile and catalog information themselves

As stated above, these may or may not be your organization's best opportunities for “quick wins”. If you already have these capabilities in hand, your best opportunities for quick savings may be in better contract management or streamlined sourcing processes. A good procurement system will allow you to start wherever your best opportunities lie, and move towards the ultimate benefits of an integrated approach in the phases that work best for your organization.

In the
Spotlight



Des Moines Area Regional Transit Authority Streamlines Procurement

Goals

- Improve purchase authorization controls
- Eliminate authorization bottlenecks and delays
- Improve grant fund management
- Improve visibility of purchase commitments and overall spend

Results to Date

- Effective authorization controls in place for all types of purchases
- Managers can quickly approve purchase requests from anywhere
- Greatly improved control of operating budgets and grant funds
- Considerably better financial visibility with drill-down to source transactions
- Personnel additions avoided in Finance department

Profile

Des Moines Area Regional Transit Authority (DART) provides public bus transportation throughout the city of Des Moines, Iowa and nearby communities in surrounding Polk County – an area with approximately 350,000 residents.

DART operates a fleet of 130+ transit coaches, 25+ smaller busses, and 90+ vans to support fixed routes, general public demand-response routes, fixed route deviation services, complementary paratransit services and a vanpool RideShare program. Vehicles are both purchased and leased. Maintenance and administration functions are performed from a central facility. Most services are operated in-house with a few services contracted to taxi companies.

In 2009, DART had approximately 260 employees and operating expenses of \$23 million.

Challenge

Transporting citizens safely, reliably and within budget can be a significant challenge for public transportation authorities and operators. Equipment and facilities must be kept in consistently good working order while managing within tight budgets. The use of grant funding must be closely controlled and tracked. And accurate financial information must be provided to a host of agencies and stakeholders on a regular basis.

When Sharon Cramer took over as DART's new Financial Director, all this was especially challenging because the organization's operational and financial systems were out-dated and ineffective. Financial reports required extensive use of spreadsheets outside the main system and took an enormous amount of time and effort to produce. The purchasing process was completely paper based, resulting in loose approval processes, poor visibility of purchase commitments, and frequent delays in urgently needed items.

"Paper requisitions had to be physically taken to someone for approval. For lots of reasons, they would often sit gathering dust while, for instance, a bus sat waiting for a part," says Cramer. "At the same time, our Grant Manager, General Manager, and I did not have clear visibility of expenses until invoices arrived. That made it very difficult to manage budgets and produce meaningful financial reports."

Why PROACTIS?

DART decided it was time for a complete systems overhaul and selected PROACTIS partner TriBridge to implement a comprehensive new system, including Microsoft Dynamics GP financials, a fleet maintenance and inventory management system from AssetWorks, and the PROACTIS spend control and eProcurement solution.

"In terms of purchasing, we knew we wanted a solution that made the request and approval process electronic instead of paper-based for a number of reasons," says Cramer. "The things that set PROACTIS apart were the power of the business rules and workflow engine, the fact that it's web-based, and the way it uses email to notify the right people when something needs to be acted upon. Another key capability was the fact that it allowed us to allocate the cost of a single PO line item across multiple accounts. That is something we often need to do – especially for capital items and major projects."



We are extremely pleased with PROACTIS and the way it's integrated with our financial and operational systems. It gives us far greater authorization controls while making us much more efficient. I would recommend it to anyone!



Sharon Cramer

Finance Director, Des Moines Area Regional Transit Authority (DART)



Results

Today, DART is using PROACTIS for the purchase of just about all goods and services, including inventoried fleet maintenance items. It is tightly integrated with the Dynamics GP financials, giving managers direct visibility of GL account, budget, and balance information when they are approving purchase requests, and passing electronic payment authorizations to GP once invoices are approved. Integration with AssetWorks enables that system to automatically pass inventory requirements to PROACTIS as requisitions which then follow the prescribed authorization process. Goods receipts are entered into PROACTIS and passed automatically to AssetWorks to show inventory availability.

"We're now able to consistently comply with clearly defined authorization rules for all types of purchases based on category, dollar amount, and other factors," says Cramer. "Once a request is entered into the system, it's instantly routed to the person(s) who need to approve it. That may include the General Manager, a department manager, and/or myself. It also includes our Grant Manager if it is to be funded by one or more grants."

But improved authorization control is only part of the benefit. "Everything is so much faster and easier now," continues Cramer. "We all love the way PROACTIS uses email to alert us when something needs to be done, then gives us instant access to all the details we need to either approve or question the request. Initiators always know exactly where their request stands and who still needs to approve it. Our Grant Manager has gotten

rid of her spreadsheets and now rarely needs to revise budgets due to surprises. People who sometimes work away from their office can even approve requests from their BlackBerry – our General Manager especially likes that capability."

In Accounts Payable, many invoices are now electronically matched with the PO and receipt and automatically approved for payment. When discrepancies are found, invoices are routed via workflow to the originator for review and approval. Approved invoices go straight to Dynamics GP for payment.

"With PROACTIS tied into our other systems, we can now control our budgets on a daily basis, and I can answer just about any financial question the commission asks quickly and confidently," says Cramer.

The productivity improvements from the integration of the new financial, maintenance, and purchasing systems has been great enough that DART has been able to avoid what had been a planned personnel addition within Finance even though operations have grown significantly over the past couple years. Cramer has also received kudos from DART's outside auditing firm for how much easier the PROACTIS audit trail has made their job.

In summarizing DART's experience with PROACTIS, Cramer says: "We are extremely pleased with PROACTIS and the way it's integrated with our financial and operational systems. It gives us far greater authorization controls while making us much more efficient. I would recommend it to anyone!"

Addressing the Gap in Enterprise Cost Management

Rolling-out best-in-class spend control internationally

Traditional IT systems have generally been found wanting when it comes to addressing an obvious gap in enterprise cost management: indirect spend control. That's one of the reasons why so many ERP procurement modules lie dormant. But infinitely configurable and best-in-class systems are rapidly giving global enterprises the opportunity to establish common practices and spend visibility with short project lead times and minimal disruption. This gives you, as CFO, a vehicle for turning spend control into instant profit – as long as you plan your roll-out carefully.

Less than 20% of organizations around the globe are exploiting the benefits of spend management, according to investment bank Triple Tree¹. Given that between them they are spending more than \$20 trillion every year on direct and indirect goods and services, that's a staggering degree of inertia.

Any single dollar saved would contribute instantly to the bottom line, and yet at a turbulent economic time when complete visibility on costs should be a priority, staff continue to follow ad hoc, "maverick" purchasing practices around the globe.

CFOs must plug the gap

As CFO of a multi-national enterprise, you are effectively presiding over the leakage of your share of more than \$500 billion annual profits that are lost through inefficiency and non-adherence to an effective spend management strategy – and missing a major opportunity to consolidate the financial and organizational benefits of a coherent, global spend control framework.

Mandate to cut costs

Urged on by the Board, you are driven by the need to cut costs and drive down administrative overheads, improve financial control and compliance with policies, and increase organization-wide productivity.

It's clear that everyone will benefit. But as you contemplate the sheer scale of the challenge, it's equally clear that significant change will be required to see it through:

- Accounts Receivable and Accounts Payable are immersed in manual processing, excessive troubleshooting and mountains of sticky-notes that represent an underlying lack of control. They should positively support the working capital and cash position.
- Information Systems are largely locked down, fire-fighting existing IT issues. Instead, they should be effectively supporting common enterprise-wide purchase-to-pay processes: automating workflow, ranging from data capture to the review, approval, cost allocation, payment authorization, delivery of goods, and more.

- Procurement is struggling to maintain accurate, complete and up-to-date information and is constrained by time-consuming and inconsistent supplier adoption and communication processes. Instead, they should be enabled to build improved relationships for best value procurement across the organization.
- "Maverick" spending is endemic. Methods should be created to reinforce the vision for improved spend control across all quarters of the organization. This might sound like the platitude that a sharp-suited consultant would promote, but true compliance and control can only be achieved if "maverick" spending is contained.

First step to spend control

With the evidence gathered, your first step is to establish a baseline in which you can identify the existing spend control position and measure performance against internal targets and industry standards. You must define the needs of the organization and set goals and strategy for achieving them, without embarking on a monolithic process re-engineering project that is costly and time consuming.

This requires a clear idea of your organization's global structure, including local behaviors that it makes sense to preserve, and elements that are ripe for collaboration and cost saving throughout the organization. For example, you might decide to decentralize Accounts Payable or Procurement spanning across multiple sites and/or divisions in the same geographic area and deliver them as shared services across the Group.

Whether the model you arrive at is based on a set of common processes or the principles of shared service, it will require a supporting system that enables you to manage spend control and procurement across your territories: language independent so that it is equally accessible to every user, allowing the mixing and matching of local and global suppliers, enabling an appropriate level of local autonomy, integrating easily with the variety of underlying ERP and business systems and accommodating local tax and currency regulations.

Fragmented ERP systems

Your COO might tell you that this is already available within your existing ERP infrastructure. But closer inspection will probably reveal that globally, this is highly fragmented with territories and countries all running their own systems and favoring different ERP and Financial system brands. Further complications will almost certainly include various charts of accounts and different business processes – all the consequence of growth through acquisition. The problem is that most eProcurement systems and ERP modules are developed to address the needs of the ideal – a single financial organization with one set of ledgers. And your reality could hardly be more different.

In addition, many of these systems cover a broad function scope and offer a degree of integration across their different applications. Yet this breadth often leads to a lack of focus on issues such as bringing "maverick" spend under control, giving visibility of the cost pipeline and delivering economies of scale.

This is where infinitely configurable, best-in-class spend control and procurement solutions offer advantages and should be considered in an international spend control initiative.

PROACTIS: best-in-class

One example is PROACTIS, which is very different from the purchasing module of an ERP system. PROACTIS includes a full suite of modular, integrated applications to support all key aspects of the procurement cycle. Each application is built around proven best practices, with a depth of functionality not often found in packaged software products. Each application can be implemented individually or in combination to complement existing ERP back-office systems and financial packages.

Compare that with the concept of trying to impose a monolithic ERP procurement module across ten territories, each with their own unique mixture of environments. Without rolling the system out across them all, it would be highly problematic to generate complete visibility of Group spend – your ultimate goal – and consultancy, training and integration issues would probably turn a project that should be delivering results in weeks into a five-year development epic.

PROACTIS supports procurement of the tremendous variety of indirect goods and services needed throughout the organization, as opposed to the relatively few direct materials or products that are usually driven by automated MRP or replenishment methods.

Guaranteed rapid adoption

PROACTIS has been designed to be practical for complex organizational structures, and it is highly configurable as an overlying procurement platform or within any number of specific, pre-existing environments.

And it has the look and feel of an intuitive front-office application that a generation of Microsoft users has come to expect and willingly embrace. This is where many ERP systems are found wanting: they have been designed with the finance professional in mind, not the casual user. But unless a system is easy to use, and everybody has access to it, it will be impossible to get any control over "maverick", discretionary spend.

In one global organization comprised of 2,000 independently managed offices, PROACTIS has been deployed as a single spend management front end across four different ERP platforms. Wherever they are in the world, the user logs in to the same intuitive system, but customized to their location and job function. They know nothing of the underlying sophistication – they simply take advantage of it.

Resistance from territory managers

Once you've made your system choice, you may still encounter resistance from Territory Managers who see it as a threat to their autonomy. Just because the Board is convinced about a rapid global return on investment, it doesn't follow that everybody else will fall into line, particularly when they are concerned about protecting their own Profit and Loss (PNL).

They might see pressure to deploy the ERP procurement module as using a sledgehammer to crack a nut and, even while they are paying their share of the system's cost, they would rather pursue a different solution that is less likely to impact on their established methods of remuneration.

Driving change across the organization

Triple Tree's estimates have shown that spend control is hardly a nut-sized problem. And this is where the Board – and principally the CFO, aided where possible by a high-visibility CPO – has an opportunity to drive change across the organization, cutting through political issues to demonstrate the benefits of the new system and encourage comprehensive end-user adoption.

Many employees will respond positively to evidence of how cost savings they make by using the system contribute directly to the business's profitability. But ironically, as CFO, you may find yourself pushing non-financial benefits to your managers in smaller divisions and territories.

For example, increased visibility will actually help them to manage their PNL and budgets more effectively and identify areas for cost cutting. The system may also offer them a way to iron out the discrepancies, inaccuracies and limited analytics hitherto generated by the variety of underlying platforms and applications that now come together under its integrate umbrella.

The double whammy of avoiding a massive process re-engineering program simply to establish a system-based model for spend management, and achieving an elevated view of spend control should ultimately provide a winning argument against even the most stubborn resistance.

Time to Choose an eProcurement Solution?

Do you know where to start?



PROACTIS: Spend Control & eProcurement

As a specialist in spend control and eProcurement, PROACTIS helps organizations to take control of costs and streamline procurement by instituting best practices, automating key business processes, and improving operational controls:

- **Procurement Solutions** to enable buyers to obtain best value and ensure compliance through effective supplier adoption, evaluation and communication.
- **Purchase-to-Pay Solutions** to streamline day-to-day processes for employees, managers, and buyers, and ensure compliance with the organization's policy and procedures.

Software that is designed to seamlessly integrate with customers' existing operational systems in order to provide true spend control.

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