

# PERSPECTIVE

Driving excellence together: Integrating the accounts payable and procurement functions



## Abstract

The accounts payable (AP) and procurement functions are two sides of the same coin. A key factor toward making these functions deliver outstanding results is the integration of their transactional and strategic activities. This paper provides a perspective on the approach to be followed while setting up an integrated procure-to-pay function (P2P).

## Background

While recent trends across the world are heavily tilted towards automation in accounts payable, the need for a well-integrated procure-to-pay (P2P) function that can drive accounts payable (AP) performance

continues to maintain its relevance. Although this need is felt all around, many organizations have failed on the execution front. More often than not, an enterprise's drive towards an integrated P2P function has

ended up being just a cosmetic exercise in renaming department names as 'procure-to-pay', 'requisition-to-pay', or 'procure-to-settle'. While the intent was good, the results have not always been impressive.

## Tying the procurement and accounts payable functions together

The AP and procurement functions hold great potential to unleash the synergies in their key objectives, focus areas, and challenges. Let us look at these briefly.

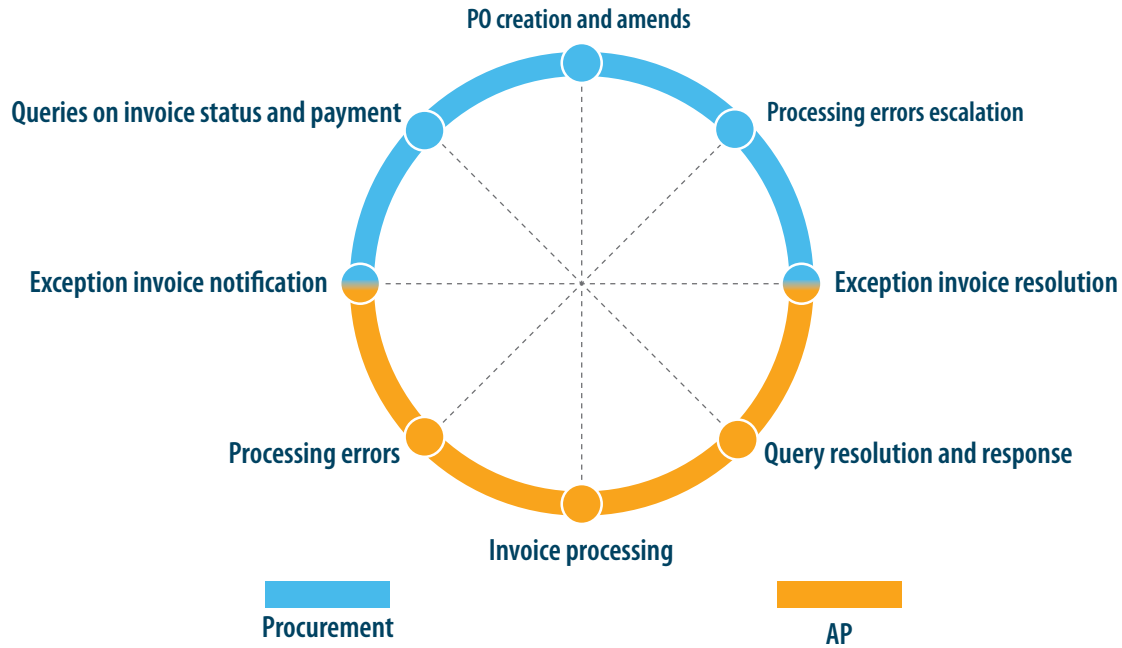
The key objective of a procurement team is to procure goods and services within stipulated timelines at the best available price, whereas that of an AP team is to process and pay invoices on time.

The key focus areas of these two functions are detailed in the table below.

| Key Focus Area                          | Procurement | Accounts Payable |
|---|-------------|------------------|
| Faster procurement of goods or services | Yes         | -                |
| Procure at best possible price          | Yes         | -                |
| Obtain invoices on time                 | Indirect    | Yes              |
| Process invoices in timely fashion      | -           | Yes              |
| Pay invoices on time                    | Yes         | Yes              |



As part of the day-to-day activities, there are a series of linkages interconnecting the AP and the procurement functions. These relate to natural occurring events as well as unexpected issues that require both the groups to team up to fix the issue and keep things running. These linkages are detailed in the graphic below.



By virtue of legacy practices, more often than not, the procurement and AP functions focus only on those aspects that lie within their vicinity. This approach could be more or less successful in meeting the immediate objectives of their respective functions and associated internal targets. However, the key for successful best-in-class performance levels is to implement an integrated P2P function.

## Key challenges experienced in partial integrated set-up

The key challenges in a partially integrated set-up do not just create issues on a stand-alone basis but also leave a cascading impact on downstream activities. For example, a delay in the resolution of a blocked / parked invoice could lead to (a) rework involved to notify, follow-up, escalate, etc., to resolve the issue (b) probable delay in payment (c) probable query from vendors (d) probable loss of discount (e) probable credit hold, etc. Below are some of the key challenges.

### Issues highlighted by Procurement

- Invoices not paid on time
- Matching to incorrect PO lines
- Routing invoices seeking resolution without proper research
- Resolutions not acted upon on time
- Delays in response time to queries sent
- Credit removal and placed on COD

### Issues highlighted by Accounts Payable

- Delay in resolving blocked invoice resolution
- POs with shorter payment terms lesser than E2E cycle time and missing OTP
- Vendor issues - UOM & Item description mismatch, Invoice with multiple PO Numbers
- Invoices not sent to designated Bill To Address
- Instructions to pay PO invoice as non - PO resulting in GR-IR imbalance issues
- Untimely funding of amount-based Purchase Orders

## Need for an integrated P2P set-up

The need for an integrated P2P set-up stems from the fact that each function operates in siloes focusing on their own set of performance measures. They end up losing sight of the performance measures which requires a partnership type of effort to deliver the results the organization

aspires for. For example, the procurement team after completion of a procurement effort believes all is well for the AP team to process and pay the supplier on time. By virtue of this thinking, procurement tends to overlook the fact that there could be downstream issues for which the AP team

needs support to resolve and make the end result happen. This particular challenge is highly prevalent in most organizations in the North America geography wherein the procurement function doesn't roll into the CFO's office.

## A five-step approach to integrating the AP and procurement functions

Organizational restructuring is a big step in the journey to implement an integrated P2P function. However, rolling over the procurement function into the finance function, or the AP function into the procurement function, is just a beginning — having a well-planned strategy coupled with a robust execution approach is of paramount importance to enable success.

The following five solutions will help address issues in creating an integrated P2P function:

### Shared performance metrics

Re-classified selected performance metrics as shared responsibility of procurement and accounts payable teams



### Ideation sessions

Quarterly forum to brainstorm on identifying process improvements, and for discussions on best practices in other clients' businesses in both procurement and accounts payable areas

### Cross-functional specialist team

High performer identification for training on both procurement and accounts payable, and deployed as a cross-functional specialist team with set roles and responsibilities



### Vendor awareness program

Awareness sessions for vendor teams on specific issues that are straining the relationship

### Periodical connect

Monthly governance to review status on process improvements, projects, action items to resolve issues, etc.



## 1. Create shared performance metrics

Some performance metrics that are often bones of contention between the procurement and accounts payable functions are outlined below:

| Metric  | Impact of poor performance of the metric  |
|---|---|
| First pass match percentage                     | Poor performance on the metric not just creates issues on a stand-alone basis but also creates a negative impact on downstream activities, e.g., an increase in query count, higher effort on researching, follow-up and resolution of exception invoices, etc. |
| Unresolved exception invoices > 30 days         | Poor performance on the metric indicates the rate at which the exception invoices are being resolved.   |
| Unresolved GRIR transactions > 60 days (amount) | Higher the amount above the prescribed threshold could denote the effectiveness of the functioning of the upstream processes – first pass match percentage, exception invoice aging, vendor statement clean-up, etc.  |
| On-time payment percentage                      | Poor performance on the metric could result in supplier dissatisfaction, the risk of getting shifted from credit to cash on delivery (COD), impact on credit terms, increase in query count, etc.   |
| Early payments discount availed percentage      | This is the subset of on-time payment percentage metric with the only change being the cut-off date for payment which is earlier than actual due date excluding discount terms  |

While a good drill-down mechanism helps in identifying the root cause behind poor performance, a knee-jerk reaction seen across most organizations is that of the procurement team blaming the accounts payable team and vice versa. One way to ensure that both teams work collectively is to classify these metrics as a joint responsibility with a common measurement of success for both the groups.



## 2. Hold joint ideation sessions:

Encouraging both teams to take time off and spend quality time in ideation sessions is of immense value. There is a classical quote that says 'Inside of every problem lies an opportunity'. Similarly, the objective of these sessions should be to inculcate the culture of 'recommending solutions along with highlighting of the issues'. This approach also speeds up the exercise of solution identification and the focus quickly moves on to execution.

Some real-life scenarios are outlined below.



| Issue  | Highlighted by   | Finalized Idea for implementation  |
|--|------------------|--|
| Around 85% of the invoices with multiple purchase orders (POs) are failing in a three-way match process  | Accounts payable | <ul style="list-style-type: none"> <li>Authorized AP to reject invoice(s) received with multiple POs</li> <li>Supplier awareness calls followed with written communication for ensuring adherence around the same</li> </ul>   |
| 15 percent of emails received from AP around blocked / parked invoice resolution could be self-resolved, e.g., item description mismatch, unit of measure (UOM) mismatch | Procurement      | <ul style="list-style-type: none"> <li>Usage of conversion tables by AP to attempt self-resolution before routing to procurement</li> <li>Keyword match by AP to self-resolve before routing to procurement</li> <li>Supplier awareness calls followed by written communication to amend their billing template wherever possible</li> </ul> |
| One of the top three reasons behind 'early payment discount loss' is delayed receipt by accounts payable   | Accounts payable | <ul style="list-style-type: none"> <li>Switch from paper invoice copy to email through supplier awareness communication</li> </ul>   |



## 3. Form a cross-functional specialist team

Forming a cross-functional specialist team can greatly aid in strengthening the execution strategy in the implementation of an integrated P2P function. Here is a three-step working model for building a cross-functional specialist team.

- Identify high-performance staff with knowledge of the end-to-end accounts payable process, and the linkage between process metrics and business metrics.
- Train the identified staff on the processes around touchpoints between the AP and procurement functions, and the possible impact and fall-out of strained touchpoints
- Create a 'concierge desk', seed it with members of the cross-functional specialist team to resolve ongoing operational issues, and drive transformation projects that implement sustainable solutions.

## 4. Hold vendor awareness programs

The vendor is an important link between the procurement and accounts payable functions in the P2P cycle, and also holds the key to driving success. It is important to conduct awareness sessions with vendors that focus on identifying vendor behavioral issues, addressing these issues upfront, and preventing them from reoccurring.

A common pattern seen across organizations is that the issues faced in the P2P cycle can chiefly be attributed to long-term vendors who have relationships running for some years, with voluminous, large-scale, repeat transactions. Vendors in this category often go easy on the formalities while processing invoices for

payment, and do not ensure compliance with the requirements of the client's accounts payable department. They fail to see the repercussions of noncompliance which could eventually delay payments and leave a negative impact on working capital management.

A few real-life scenarios organizations experience are:

- Supply of goods based on written communication rather than formal purchase orders
- Supply of additional goods without insisting on an amended purchase order

More often than not, the repercussions of vendor noncompliance result in a knee-jerk reaction where the procurement team blames the AP team for ignoring the impacting factors and not doing their job well. This creates undue pressure on the AP team which has to tirelessly address queries from both vendors as well as the procurement team.

It is important for both the procurement and accounts payable teams to stand unitedly and communicate in one voice on the importance of following the defined policies and procedures for processing supplier invoices.



## 5. Encourage both teams to connect periodically

Apart from the joint ideation sessions which have a specific focus on a particular issue, it is also very important for managers and supervisors from both the AP and procurement teams to be open and transparent about the issues bogging down

their performance. When they connect periodically to review topics such as project status, big-ticket ideas, performance metrics, and open items, they will be giving each other an opportunity to identify the

cracks within the system. These periodic governance meetings will also help address these issues through their collective deliberation on the measures to be taken to enhance performance.

## Conclusion

An integrated P2P function is a must-have for organizations and it continues to be relevant to meet its key objectives. Enterprises focusing on the current-day trends of tools and tech-driven automation would do well to focus equally on creating a world class integrated P2P function using the five step approach outlined in this paper. Integrating the Procurement and AP functions would give them a significant competitive advantage through not only improving performance on operating metrics but would also aid in delivering business outcomes like on-time payment, discount capture, cost per invoice, and more, thus truly delivering business excellence.

## About the Author



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Arvind has over 19 years of experience in the finance and accounting field. With Infosys, he has played a variety of roles across service delivery, transformation, solution design, transitions, and program management. He is a graduate in commerce and a Six Sigma certified professional with a deep understanding of North American and European markets, along with a deep domain knowledge of the procure-to-pay cycle.

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