Procure-to-Pay Excellence: Road Map to Success
Best Practices for Deploying and Adopting a Closed-Loop Procurement Strategy
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Procurement teams have done a superb job over the past few years in achieving savings and containing costs – often with fewer colleagues to share the workload. Now corporate management is raising the bar even higher. How are best-in-class purchasing organizations driving efficiencies throughout the entire procure-to-pay process – from sourcing and contract management to order delivery and payment? What initiatives are procurement executives undertaking to support their companies’ broad strategic goals?

More than ever before, procurement executives are operating in a challenging and ever-changing environment. They’re tasked with monumental operational excellence goals while working with less personnel and capital. They’re taking a more prominent role in the organization’s strategic direction and innovation while driving a hard line on cost savings and efficiencies. And trends beyond the four walls require a global approach to procurement.

Given these conditions, what is top of mind for best-in-class procurement executives as they consider their near-term goals?

• Procurement discipline – Procurement teams reached unprecedented savings and cost containment goals during the economic downturn and are now being asked to not only uphold but magnify those outcomes going forward. Accomplishing this means leveraging the disciplinary lessons learned, which in turn requires visibility into spending and the ability to employ stringent compliance measures organization-wide.

• Globalization – As companies globalize, so do their supply bases. These new relationships introduce complexities and risk into the procurement and supply chain functions. Embracing globalization while mitigating potential risks calls for strong supplier collaboration and performance management, along with new levels of supply base intelligence.

• Mobility – Procurement is no longer a 9-to-5 operation. It is a 24x7 discipline that requires informed, just-in-time decision making. What was once a function readily managed at the desktop now requires new functionality to empower an agile and mobile procurement team that can respond to the immediate needs of the business.

• Operational efficiency – The effort to optimize processes and push them out to the end users and employees of the organization continues. As companies look to run leaner organizations and drive compliance to processes and guidelines, having systems that embed best practices while supporting easy-to-use procurement technology is imperative.

How are these executives addressing these difficult-to-achieve objectives while exceeding corporate expectations?

Best-in-class organizations have proven that driving efficiencies throughout their entire procure-to-pay lifecycle will return multiples on their investments.
To balance the pressures of savings, efficiency, and globalization while infusing purchasing discipline and best practices into the daily operations of their organizations, savvy procurement executives are turning their focus to procure-to-pay processes and technologies. Best-in-class organizations have proven that driving efficiencies throughout their entire procure-to-pay (P2P) lifecycle – from sourcing and contract management functions to zero-touch requisitioning and streamlined order delivery and payment – will return multiples on their investments. According to benchmarking studies performed by SAP and the independent industry association Americas’ SAP Users’ Group (ASUG), these investments can net as much as 5%–20% savings on every dollar under management. ("Spend under management" refers to the percentage of nonpayroll spending that is managed by the procurement organization.) See the table below for a comparison of key performance indicators (KPIs) and best-in-class outcomes from the most recent SAP performance benchmarking program.

Organizations that have achieved these powerful results and reap the daily rewards of a highly efficient procure-to-pay environment have much in common. SAP has studied the best practices of hundreds of leaders in procurement and has compiled their most impactful operating principles in this paper.

We’ll begin with an exploration of your options for rolling out a procure-to-pay solution. Key topics include:

- Deployment model options
- Defining success in your deployment strategy
- “Big bang” versus a phased approach
- Best practices for executing your chosen strategy
- Defining success in big bang and “phased” implementations

We’ll then turn our focus to what happens once your technology solution is in place by discussing the five core principles of P2P optimization:

- Developing a supplier connectivity, performance, and management strategy
- Creating a compelling end-user purchasing experience
- Achieving optimized procurement operations
- Driving procurement compliance
- Managing for change

We’ll address each of these principles in detail, outlining the practical and proven steps that procurement trailblazers have followed to achieve operational excellence.

### Improve Purchasing Power

- Organizations that foster supplier competition for commodity spend to further reduce price and achieve true market value have on average 61% higher annual savings for direct materials.
- Organizations where multiple suppliers are invited to participate in e-RFX and reverse auction processes have on average 37% higher savings via e-auctions for direct materials.

### Increase Purchasing Control on Spend Categories

- Organizations with the ability to monitor supplier compliance with contract terms, and perform regular reviews of contracts to ensure terms and conditions are being met, have on average 24% higher annual savings for direct materials.
- Organizations with systems providing various analysis and reports to monitor purchasing and providing analysis of compliance-related purchasing activities and processes have on average 53% lower maverick spend for direct materials.

### Streamline and Automate Sourcing and Procurement Processes

- Organizations where master data is synchronized between various systems (accounting, purchasing, and so on) to prevent data duplication and accurate reporting have on average a 31% lower PO error rate.
- Organizations with an integrated platform for indirect, direct, and services procurement have on average 61% fewer FTEs per billion of total spend.

### Collaborate with Suppliers to Jointly Reduce Costs Along the Supply Chain

- Organizations where supplier inventory is managed via automated signals such as minimum-maximum consumption, schedule-release-based replenishment, or KANBAN replenishment have on average 22% fewer orders requiring expediting.
- Organizations that facilitate order collaboration through a supplier portal for order acknowledgements, advanced shipping notifications, and confirmations have on average 55% fewer FTEs per billion of total spend.
Congratulations on your decision to improve your procure-to-pay processes. How do you now move from decision and vision to execution? Before you do anything, be sure to answer these two questions:

- What deployment model will you use?
- What approach will you take to implement the software?

Let’s start with your options for deployment models and how to decide which will work best.

DETERMINING THE RIGHT DEPLOYMENT MODEL FOR YOUR ORGANIZATION

Given funding constraints, the fast-paced business environment, and evolving procurement needs, businesses are evaluating alternatives to deploying and managing a best-in-class procurement infrastructure. While the traditional approach to building technology competencies in-house is still a meaningful and viable alternative, for some it can be time consuming and capital intensive. New options including on-demand solutions can lower price and deployment barriers but raise other questions about solution configurability and location of assets. To complicate the matter, businesses may not have the requisite knowledge and human resources to adequately address the specific technology and procurement requirements. So which of the myriad deployment options is right for your business (see the figure)? Before you make definite plans, let’s explore the industry definitions for the various license models and deployment options and then review the business factors for determining the best approach.

Figure: Procurement License Models and Deployment Options

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Software-As-a-Service Subscription
In a software-as-a-service (SaaS) model, software is deployed and its associated data is hosted centrally by the provider of the software or a business process outsourcing (BPO) partner. This deployment model is often described as on demand. The user organization subscribes to the software, and users access the application through a thin client (such as a Web browser) over the Internet. On-demand solutions are typically multitenant, meaning that one instance of software is shared by many organizations; however, single-instance models are also an option. Proponents of the on-demand model appreciate the procurement best practices that are preconfigured into the solution and the frequency at which new versions are released. The software vendor maintains “ownership” of the software and is responsible for all product releases, updates, fixes, and product uptime as part of the service-level agreement. To ensure the segregation of your company’s information, data security is strictly enforced by encryption protocols, organizational IDs, and passwords. On demand has rapidly grown in popularity due to its low cost of entry and pay-as-you-go subscription model.

Perpetual License
By definition, a perpetual license is a one-time purchase of software that does not expire as long as the software is being used in accordance with license terms. Traditionally, a perpetual license led to an on-site (on-premise) deployment of the purchased solution. But changing market conditions and an increased appetite for third-party services have opened the door to several deployment options for the perpetually licensed procurement solution:

- **On premise** – In a traditional on-premise deployment, the procurement software is installed and run on the premises of the user organization. This method requires an organization to purchase and house the required hardware; deploy and configure the software to meet the defined needs of the business (usually with the help of a systems integrator); and manage ongoing support, service levels, and software upgrades. For some, this deployment may come in the form of multiple procurement instances to address various needs across the organization. Alternatively, a shared-service approach might be more practical – with the procurement software and business function being managed as a center of excellence. In either case, this traditional deployment is a significant undertaking, typically appealing to the large enterprise that wants to control and consolidate operations while adding a level of governance to the procurement process.

- **Hosted** – Companies leveraging a hosted software option turn to a third-party provider to take care of installing, setting up, and supporting hardware, software, or both on their behalf. In this case, the perpetually licensed software can reside on a third party’s server, alleviating the need for hardware and IT oversight by the user organization. A service-level agreement binds the third-party provider to guaranteed uptime and scheduled hardware maintenance tailored to meet your organization’s needs. The ownership of the software package remains with your company, and in most cases your company still manages daily procurement operations and the function of the software. Some hosted-service providers offer extended levels of support. But be sure to scrutinize the hosting provider carefully if you are expecting procurement-specific expertise, as this is not typically a competency of hosting providers.

- **Business process outsourcing** – Some buying groups are interested in owning the software but want to take advantage of having a third-party host and manage the solution while providing additional procurement-specific services. For these organizations, the BPO option has become the gold standard. As with the hosted option, the BPO partner carries the responsibility for maintaining uptime and managing the hardware necessary to support the solution – alleviating the need for internal IT resources. Unlike hosting providers, BPO partners will often take a much deeper ownership of the solution configuration, functions, and daily operations. In many cases, the BPO partner will carry the responsibility of processing purchase orders and managing strategic sourcing activities – adding significant value and acting as a true extension of your organization’s procurement function. With the procurement BPO market growing at a rate of 30%–40% over the past five years, this model has clearly matured into an equally viable option for many organizations.1
Weighing the Options
Simply put, a successful deployment strategy will align directionally with your business needs. By weighing a few key business factors, you can determine your company’s appetite for the various license and deployment options:

- Is up-front cost and capital expenditure an issue?
- Are your IT resources limited?
- How complicated are your procurement processes?
- How flexible is your organization to adapt to new processes?
- Do you manage highly regulated and confidential information as part of your procurement and contracting activities?

Cost – Most organizations’ decisions come down to a matter of money. To license a solution outright and deploy it on premise typically represents a capital purchase. Capital purchases require significant planning and budgetary approvals. Procurement initiatives are often stalled at the point of financial approval because the deployment of other IT-focused projects takes precedence. This is when many organizations turn to on-demand solutions. On-demand solutions are packaged with a subscription agreement that allows the buying organization to “pay as you go,” lowering the barrier to entry and reducing investments to a simple monthly or annual payment. Additional benefits include regular software upgrades and product fixes at no extra charge, as these functions are part of your service-level agreement.

But don’t overlook the benefits of perpetually licensed on-premise solutions over the long term. While the initial cost outlay for an on-premise solution may be high, there can be economies of scale over time. When your peers are in their 10th year of subscribing to their on-demand solution, your perpetual license will have been off the books for some time. And given the tight alignment of your procurement and enterprise resource planning (ERP) software functionalities, you may also be able to share existing infrastructure for these solutions.

Availability of financial and IT resources – Despite your procurement department’s readiness to deploy new purchasing software and processes, your project may be tempered by the availability of IT resources and funds. In addition to cost pressures, many organizations are also finding it difficult to attract and retain essential IT talent. On-premise procurement applications require IT ownership of the solution – from solution deployment to the management of workflow, catalog content, and electronic data interchange (EDI) connectivity. If your IT organization doesn’t have the bandwidth or hardware to accommodate another enterprise-level software solution, then consider on-demand, hosted, or BPO solutions – since all three alleviate the need for behind-the-firewall IT support. But do keep in mind that even third-party-managed solutions will most likely require some level of integration with existing IT systems, so keep your IT colleagues closely involved as you weigh your options.

Complexity of procurement processes – Does your organization utilize standardized purchasing processes, or is your approach to procurement fairly complex? Organizations that have the flexibility to adjust their procurement processes can readily benefit from on-demand products and take advantage of the highly iterative and customer-driven releases these products can offer. Administrators have the ability to configure aspects of these applications, such as basic workflow steps or user roles and permissions; but customization is out of the question. If you require customized processes in support of highly complex functions from your procurement software, turn either to on-premise software or private editions (single instance) of on-demand solutions to meet your specific needs. These solutions are yours to modify and are more flexible in addressing your nonstandard integration requirements.

Regulated, confidential, and sensitive information – Some organizations prefer to have their corporate data exclusively served on their own hardware and behind their firewall to address corporate governance. If your organization touches on highly regulated, confidential, or sensitive information throughout its purchasing processes, if you’re concerned about protecting contract prices, or if you restrict the location of corporate data, an on-premise deployment may be the best option.

The primary advantage of an on-premise deployment is the sense of security and control, as the solution is deployed within the enterprise firewall. Other advantages include lower vendor dependency, the ability to customize the solution, and potential lower cost per unit over the long run based on utilization.

As you seek the best deployment model for your procurement investments, a lack of deployment options certainly won’t be a limiting factor. It is the associated constraints and risks that add complexity to your decision-making process. Weigh all of
the above parameters with key stakeholders from procure-
ment, finance, and IT. Be honest about your organization’s
appetite for the introduction of third-party providers for out-
sourcing some or all of your needs, and about your in-house
resources and abilities. A comprehensive evaluation of all
options will enable you to make an informed decision, guard
against adverse impact, and increase the probability of
success.

“BIG BANG” VERSUS “PHASED” APPROACH

Next, let’s look at the two options for the functional rollout of
your procure-to-pay solution. These are typically referred to as
“big bang” and “phased” approaches.

A big bang approach means rolling out the maximum function-
ality in a productive system – the full scope of your require-
ments – all at one time. This means you’ll be blueprinting and
implementing all the functionality simultaneously. For example,
your entire functional scope might include internal and external
catalogs, purchase orders for all commodities and services you
buy, online receiving and invoicing with online vendor access,
standard workflows, and integrated spend management
reporting.

A phased approach provides a road map to roll out the com-
plete functional scope over a period of time. The phased
approach doesn’t dictate a particular functional approach but
is more of a methodology that creates a logical evolution of
your solution from the first function you roll out to the final
function. For example, you might start with purchase orders for
commoditized service categories (such as landscaping, clean-
ing, or print services) and high-volume, low-value repetitive
orders for a few supply categories. Use these simpler orders to
pilot your online receiving and vendor invoice entry. Expand
the use of the system several categories at a time. Add more
vendors to the online receiving and invoicing function as you
go, until you’ve completed the rollout for all categories, and all
vendors are working through the system.

Regardless of which approach you choose, you will end up with
the same result. But the time it will take you to get there, the
way you plan your project, and the resources you’ll need to
make it happen will vary. Next, we’ll talk about best practices
for each approach and a few key considerations for each.

BEST PRACTICES FOR EXECUTING YOUR CHOSEN STRATEGY

Some best practices apply regardless of your implementation
approach, including:
• Do your homework; understand what you bought and what it
can do before you start.
• Leverage lessons learned from your integrator, other
customers, user groups, and internally.
• Make training a priority; start building materials early and
offer refresher classes after going live.

While every procure-to-pay project has a unique operating
environment and players, there are globally applicable
strategies that reduce the risk of failure and increase internal
customer satisfaction with the outcome. Let’s take a look at
some of the highlights.

Option 1 – A Big Bang Approach

A project plan for a big bang implementation isn’t necessarily
sequential in structure. With procure-to-pay processes, certain
functions are interdependent, but others can be blueprinted in
parallel. To make the project happen in a reasonable time, this
concept is a key consideration.

Key recommendations for this approach include:
• Create a “brain trust” of open-minded, experienced business
experts as functional leads – and secure executive support
to commit these “irreplaceable” resources full time to the
project.
• Build redundancy into each functional area; the absence of
one person should never stop work.
• Identify opportunities to run parallel work streams to save
time and improve coordination.
• Enforce meaningful and continual collaboration across proj-
ect functional teams to avoid building conflicting process
steps and system configuration into the blueprint.
• Prioritize training of project team members and end users;
many projects fail due to poor user acceptance, which is
disproportionately a result of insufficient training before and
after going live.
Plan to have a lead for each area, as well as at least one more functional expert – but preferably two. These resources also act as “knowledge multipliers” during the training phase, which tends to be one of the most challenging phases of big bang projects. This will exponentially increase the diffusion of information – that is, a “train-the-trainer” model. Identify a group of senior functional experts in the organization who are trusted by their peers and respected by management to be the architects of the core processes. These are usually the same people to whom management assigns the toughest and highest-complexity tasks, and so are seen as “too valuable” to remove from a department for a temporary assignment. But this shift will give others new opportunities to grow, and it is imperative to project success.

In the end, the success of a big bang approach isn’t as much about having the perfect project plan as having your “A team” on the project, for as long as that takes, and with management’s full support. Then make sure they have the opportunity to collaborate from the design phase through implementation, training, and going live. Your A team will also play a significant role in socializing the new solution and ensuring buy-in from users across the organization. Understaffing your implementation team won’t only affect the project timeline; it can negatively affect the rollout and user acceptance as well. Invest in your people to ensure project success.

Option 2 – A Phased Approach

You’d probably use a phased approach when renovating a house, so why not when you are implementing a new procure-to-pay solution? While a phased approach typically takes longer overall to roll out the complete scope of functionality, it provides flexibility to respond to unexpected events. And it’s a better way to accommodate fluctuating budget and resource availability.

Key considerations with a phased approach include:
- Create an overarching framework project that spans all phases.
- Identify and secure resources for the duration; don’t rotate staff on and off.
- Choose the right resource for the right topic; don’t pick the closest available person.
- Create a logical “flow” to the phases; they’re interconnected, not random topics.
- Require collaboration of all the phase leads throughout the duration of the project.
- Incorporate lessons learned from each phase into subsequent phases.

When you begin, make sure to understand the impact on each team. Choose the best resources for the topic, even if that means having to create new permanent positions or provide temporary backfill support for the project members’ departments. Why go through the effort of replacing disconnected, “stove-piped” systems or manual processes with a holistic procure-to-pay solution if it is rolled out in a disconnected way? Your most experienced business experts for each area will most readily identify weaknesses on the fly.

And this may seem like common sense, but you still need to have a rationale behind the order of your phases. Regardless of which order you choose to implement your procure-to-pay functions, just make sure that it’s logical and the steps are well connected.

Don’t overlook the benefits of perpetually licensed on-premise solutions over the long term. While the initial cost outlay for an on-premise solution may be high, there can be economies of scale over time.
When you do identify the inevitable weaknesses in your plan, or a roadblock, make sure to document them and share them across teams. This is valuable insight, and it’s easy to forget later how you developed a solution to a problem when you were in the moment. Don’t take chances; share the knowledge early and often.

DEFINING SUCCESS IN BIG BANG AND PHASED IMPLEMENTATIONS

Success isn’t just about going live with your procure-to-pay solution. Celebrate incremental successes throughout the project lifecycle to encourage both the project team and the business-user community to get – and stay – engaged, motivated, and even excited about the changes to come. How you measure success depends on the objectives laid out at the start of the project. Below are some typical measures that can be applied regardless of implementation strategy:

- Target to bring 80% of categories under management by end of project
- Target to achieve 70%–80% spend under management by end of project
- Increase percentage of “touch-free” purchase orders generated per time frame (monthly, for instance)
- Increase percentage of touch-free invoices processed with matching rules and tolerances
- Reduce the time to process orders by 30%
- Reduce the time to process invoices by 30%
- Reduce fees, interest, and penalties for late payments to vendors by 30%
- Reduce the number of nonelectronic documents processed

In all likelihood, the goal of achieving these or similar outcomes is the reason you invested in a procure-to-pay solution in the first place. Prioritizing your desired outcomes can help identify from the start the best implementation strategy and methodology for your organization. It can also be helpful to “back into” your project plan by understanding what you will need to change in your processes, and what to configure in the software, to achieve your priorities. For example, if the main idea is to reduce the cost per transaction for ordering raw materials and to expedite invoicing to reduce late fees, figure out which is costing you more. Then prioritize accordingly in your project plan rather than simply listing all the business processes you want to improve in random order.

On demand has rapidly grown in popularity due to its low cost of entry and pay-as-you-go subscription model.
THE FIVE CORE PRINCIPLES OF P2P OPTIMIZATION

Excellence in Practice

Few positives have emerged from the recent economic recession. But one silver lining lies in the lessons learned from those companies that continued to thrive despite such challenging business conditions. These lessons are especially helpful to procurement departments, whose budgets are often constrained even when the economy is not in turmoil.

So how have the survivors of the recalcitrant economy pulled through? How have best-in-class companies found new and strategic ways to elevate their procurement proficiencies? To find out, SAP spoke with seasoned procurement executives from companies of various sizes and across several vertical markets. Here, we share the top five principles employed by best-in-class performers, along with their guidelines for defining success. The figures in the "Defining Success in Developing a Supplier Strategy" section below represent best-in-class measures on which to set your sights.

DEVELOP A STRATEGY FOR SUPPLIER CONNECTIVITY AND PERFORMANCE MANAGEMENT

A significant portion of your procurement workflow relies on interactions with your supplier community — for many, a largely untapped source of additional savings and efficiencies. Best-in-class procurement organizations take advantage of the rewards gained by integrating suppliers at key points in their procurement process — from catalog enablement enhancing the search for goods and services to contract collaboration, order delivery, and electronic invoice presentment. Shoring up these key integration points will significantly shorten requisition-to-invoice cycle times and deliver additional savings in total cost per order. Key suppliers in your value chain will welcome the opportunity for a more tightly integrated relationship as they too will benefit from reduced overhead.

Best Practices for Developing a Strategy

Integrating suppliers at key points throughout the procure-to-pay cycle can appear to be an insurmountable task. You have hundreds of suppliers in your supply chain, and the way each one interacts with your organization involves different nuances. Too many organizations devolve to the status quo, not tackling what appears to be an uphill battle. With the application of simple business rules, with identification of key integration points and technology as your underpinning, supplier integration can be an achievable task with tremendously beneficial outcomes.

Here’s where to focus:
• Determine which suppliers should be integrated.
• Deploy supplier enablement technology.
• Integrate suppliers across your P2P processes.
• Utilize performance data to drive improvement.

Not every supplier in your supply base needs to be fully integrated into your connectivity strategy. For example, it doesn’t make sense to develop deep integration points for a supplier you may purchase from once a year. Determine the 20% of suppliers that represent 80% of your transactions. It’s those key suppliers that represent your highest return on connectivity.

Deploy technology that enables integration of suppliers into your systems and processes. Leading procurement technologies have evolved in the area of supplier connectivity, and they do a terrific job of plugging the supplier community into your everyday workflow. Be sure to choose technology that leverages industry-standard supplier integration functions at its core. And be sure to adopt a solution with an easy-to-use and intuitive user interface for both suppliers and your system administrators.

Build a platform that encourages interaction with suppliers at key points in the P2P process. Supplier integration encompasses far more than delivering electronic purchase orders. A well-developed integration strategy includes supplier self-registration, seamless integration throughout strategic sourcing activities, collaborative contract negotiations, PO and invoice integration, interactive performance tracking and management, and more.

Finally, leverage system data to mitigate risk and evaluate opportunities for improvement. By capturing supplier data in a single system of record, your organization is empowered to evaluate performance in new ways. Build dashboard reports that pull KPIs into a reporting structure that automatically alerts you when suppliers are falling outside of your expected parameters. Typical measures include order fulfillment accuracy, invoice accuracy, and timeliness of delivery. Identify corrective actions you expect from your suppliers and share that information with them. Those that appreciate your business and want to continue their relationship will step up to meet your standards. Finally, seek solutions that provide predictive
 Seek solutions that provide predictive information as to how a supplier or potential supplier will perform going forward. Use this information to carefully select top-performing suppliers to participate in your supply base.

### Defining Success in Developing a Supplier Strategy

What are the key measures that you’ll want to track across the board? What are the typical measures that a best-in-class procurement organization should expect of its supplier interactions? Here are a few examples:

- **Total suppliers enabled**: A typical number is 20%–30% of total suppliers.
- **Cost per order**: This measure encompasses the total cost to create, place, and pay for an order. Start by measuring your current state and work toward lowering your cost (typically US$8–$10).
- **Early-payment discounts**: This KPI is the percentage of invoices paid early enough to take advantage of early-pay discounts (for example, 60% or more).
- **Contract compliance**: This KPI is the percentage of orders compliant with supplier contracts (for example, 85% or more).
- **Visibility into supplier performance and supplier risk**: Seek industry standards to benchmark those measures that are most important to your organization (for example, 85% or more on-time delivery of goods).
- **Use of cleansed or enhanced supplier data**: 70% of best-in-class procurement organizations employ data cleansing and enhancement. This way, decision makers have actionable, market-validated data sources that assist them in making smart supplier selections and mitigate potential supplier-related risk.

### Best Practices for Delivering a Compelling End-User Experience

Encourage employees – especially novice and casual users – to leverage your procure-to-pay solution by building an environment that looks familiar to them and provides visibility into their purchasing choices. Here are a few suggestions:

- **Front corporate contracts with a catalog-style interface**: users may not even know they’re buying on contract.
- **Incorporate supplier catalogs into the system**.
- **Leverage automated workflows and validations to reject or redirect exceptional requests**.
- **Front inventory items with a catalog-style interface – “buy” from your warehouse**.
- **Drive the user experience with a wizard-based process – “just click ‘next.’”**
- **Provide mobile options for simple procurement functions**.

A common mistake organizations make in deploying catalog-based buying is heavily restricting which catalogs and content end users can see. This makes sense in a paper world where a person has to evaluate each request. But when people want something and don’t find a catalog item, they’ll typically create a free-text request – a reaction that reduces your spend under management. Instead, use automated validations and workflows to reject or redirect inappropriate requests, and give users access to as many catalog options as possible.

Ultimately, for a catalog strategy to deliver the value in a procure-to-pay solution, employees must be able to consistently find what they are looking for in the catalogs, and they need to have real options. When they do, they will gravitate away from work-arounds like sending e-mails or making phone calls, and are far more likely to use the corporate solution.

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**CREATE A COMPELLING END-USER PURCHASING EXPERIENCE**

Organizations need to look at their procurement processes from their end users’ perspective. Employees are Web savvy; at home they shop online, navigate purchasing sites, and use tools that allow them to slice and dice their options. Then they come to work and have to fill out a glorified spreadsheet to order goods and services.
Defining Success in Creating a Compelling End-User Experience

When employees purchase online and have a positive experience doing it, they’re happier, and the organization gets tangible benefits. Some of the typical outcomes of an optimized end-user experience include:

- Higher use of e-procurement systems (for example, 60% of potential users)
- Increased spend under management (for example, by 70%–80%) since catalogs provide built-in compliance
- Leveraging of volume discounts through automated order aggregation (for example, 10%–20% savings)
- Shorter time to fulfill requests (for example, by 50%)
- Reduced administrative workload for purchasers, allowing them to focus on more strategic or productive tasks
- Strengthened effectiveness of contract negotiations – for example, lock in volume discounts or eliminate low-volume vendors

The fact is that enabling users to get what they need when they need it from a single online source improves the bottom line – and drives user adoption and satisfaction, as well as cost savings.

ACHIEVE OPTIMIZED PROCUREMENT OPERATIONS

Operational procurement, specifically the procure-to-pay process, provides one of the most potent sources of cost saving and efficiency gains across the entire organization. Process optimization is critical to the success of any procure-to-pay initiative, but organizations that leverage technology in the procure-to-pay process are disproportionately in the high-performing category compared to their peers.²

Best Practices for Optimizing Procurement Operations

One key best practice is to employ a zero-touch procurement process where practicable. One of the often-overlooked and most compelling opportunities for P2P improvement is in the automation of procurement workflow and approvals. Lulled into a sense of comfort with antiquated processes, many organizations leave significant savings on the table. Step back and thoroughly evaluate your PO-to-invoice process. How many human touches are required before a PO is approved? How long does that process take? What are the required steps to place an order with suppliers and to receive their invoice for approval? What percentage of small purchases is sourced touch free?

Similarly, if you haven’t considered centralizing procurement, you need to do that too. No discussion of procurement optimization is complete without looking at the shared-service model. This is not a deployment model; it’s a broader strategy for streamlining procurement, aggregating demand, leveraging and negotiating volume discounts, managing suppliers more effectively, and reducing administrative burdens on professional staff.

Best-in-class organizations leverage their procurement technology to do the heavy lifting of approvals, order delivery, and invoice management – cutting days to weeks out of the purchasing process while lowering manual personnel tasks. According to Aberdeen Group, organizations that implement a zero-touch process and best-in-class functionality stand to cut requisition-to-order costs in half while reducing order cycle times as much as 60%.³ For many employees, this reduction in manual tasks creates a shift in procurement focus, creating bandwidth for more productive activities such as strategic sourcing and contract management.

Accelerating the requisition-to-invoice process has many attractive outcomes, including the ability to take advantage of early-payment discounts. Negotiated into supplier contracts, early-payment discounts are often extended to organizations that can accelerate payment of invoices. According to Hackett Group, less than half of all organizations measure this benchmark.⁴ With a potential 2%–3% additional savings per each invoice at the ready, an early-payment initiative will rapidly pay for itself and deliver ongoing savings.

More best practices include the following:

- Document as-is process benchmarks. Success must be measured against a baseline.
- Calibrate for success – be realistic in objectives. Don’t overpromise and underdeliver.
- Implement a shared-service model – deliver procurement as a centralized function.
- Employ a “zero-touch” process where practicable – leverage automation and workflow.
- Maintain a 360-degree view of the process. Warehouse, maintenance, accounts payable, and suppliers are affected by the procure-to-pay process, not just buyers and purchasers.
- Establish a spend-management information system. The right reports reinforce the process.
- Refresh processes and technology continually. Don’t create a new legacy system on day one.
Defining Success in Optimizing Procurement Operations

In procurement operations, most organizations expect to see cost savings as a result of process changes and the introduction of technology. But reducing cost is only one of many outcomes; equally beneficial are process efficiencies and productivity gains. Centralizing procurement is the single most effective way to achieve these goals. This is where big process changes make big impacts – and where your executive support is crucial to achieve desired benefits. Here are several ways to define success:

• Achieving to-be improvements compared to documented as-is benchmarks
• Centralizing purchasing across the organization using a shared-service model
• Unifying disparate procurement systems and data sources in a single landscape
• Lowering per-transaction costs
• Reducing request-to-invoice cycle time

Once you’ve achieved in operational procurement what you set out to do, make sure you return periodically to reevaluate your processes, technology, and strategies. Over time, all of these can become stale, and advantages can diminish. To prevent creation of a new legacy system, plan to revisit your operational procurement strategy every three to five years, and keep your procurement applications up-to-date with vendor-supplied support packs as well as with periodic upgrades. To avoid exhausting your process-improvement potential, look to user groups, online communities, and your vendors for help in identifying new opportunities to further optimize your operational procurement strategy.

DRIVE PROCUREMENT COMPLIANCE

Contract execution and compliance are important in any environment, but they become critical in economically challenging times. Many companies are reviewing their contracts portfolio and making significant changes to terms that will drive more value to the business. Enforcing compliance to contracted terms and pricing is another way procurement departments are capturing more of the potential value they created through sourcing processes.

Best Practices for Driving Procurement Compliance

Prioritize the spend categories you want to manage. While there are many pockets of potential across your purchasing organization, some represent a greater opportunity for savings than others. Start with categories such as indirect goods that are simple to standardize and will deliver a high return. The availability of catalog content, punch-out sites with preferred suppliers, and increasingly common data-interchange formats make this an easy category to target first. From there, prioritize your second tier of categories with an analysis of total spend by category, percentage of off-contract spending, complexity of category, and potential impact to the business of bringing the category under management.

According to Aberdeen Group, best-in-class procurement organizations bring as much as 80% of their spending under management – a full 58% more than their laggard peers. By driving more spend under management, your percentage of on-contract spending increases while driving down the overall cost of goods. Industry averages show that every dollar under management represents 5%–20% in savings. Therefore, prioritize the spend categories that will yield the highest rate of spend under management for your organization and reap the benefit of significant savings.

One key best practice is to employ a zero-touch procurement process where practicable. One of the often-overlooked and most compelling opportunities for P2P improvement is in the automation of procurement workflow and approvals.
Finally, we come full circle, back to the subject of creating that compelling end-user experience. One of the fastest, easiest ways you can boost contract compliance and spend under management is by increasing the use of catalogs of all kinds. This is one way technology builds a solid foundation for the success you want to achieve. By tying shopping carts to contracts in a centralized procurement system, you create end-to-end traceability from requirement through fulfillment. Further, you can “feed” information systems the raw data to be synthesized and analyzed to evaluate your compliance situation – and target areas for improvement. The following will help you define success in driving procurement compliance:

- Increase the number of transactions under management (for example, by 70%–80%)
- Reduce cycle time for indirect goods (for example, by 60%)
- Increase the average discount on strategic contracts (for example, by 7%–15%)
- Increase the number of categories under management (for example, by 70%–80%)

EFFECTIVELY MANAGE FOR CHANGE

As you embark on a journey toward improved procurement processes, don’t underestimate the impact of these changes on your organization. Change management is an art, and it is central to the success of your procure-to-pay initiatives. Leverage the following tried-and-true strategies that procurement trailblazers employ to ensure success.

Obtain and articulate leadership buy-in – For change management to be successful, it must be driven from the highest offices within your organization. Executive leadership must set an example – articulating the importance of these changes for the organization and living with those changes as they expect everyone else to do.

Set organizational goals and KPIs and make the transition a formality – How can you tell if a transformation is successful if it is not measured? Begin your journey by measuring your starting point. From there, set clear expectations for the key performance indicators you expect the organization will be measured against. What percentage of spend under management do you want to drive within the first 6, 12, and 18 months? What are your savings goals? Articulate and track these measures carefully so everyone understands the outcomes and benefits of the new approach.

Market your procurement project internally – Communicating progress and milestones along the way keeps everyone informed and involved, so be sure to socialize your successes across the organization. Provide quarterly reports that track the transformation. Post an internal Web page to share key performance metrics over time and celebrate major milestones and successes. Share case studies of business units that are exceeding expectations for adoption and performance.

Form a procurement center of excellence – Involve stakeholders and make them part of the solution by forming a center of excellence. Assign subject-matter experts as go-to resources for the breadth of procurement functions – from use of technology to execution of corporate protocols. Organize ongoing training sessions on a variety of relevant topics. As internal users become more comfortable with procurement processes and aware of their full implications, these changes will become accepted and institutionalized.

Drive compliance – The end game for any successful procurement transformation is deriving savings and efficiencies as an outcome of your business transformation. This can only be accomplished if mechanisms for compliance are built into your new processes and technologies. Don’t leave the adoption of your new policies and procedures to the discretion of the employees. If you’ve done a good job of articulating the importance of these changes and setting expectations of their use, employing compliance guidelines will simply be a logical step in the change management process.

Deploy technology that enables integration of suppliers into your systems and processes. Leading procurement technologies have evolved in the area of supplier connectivity.
About SAP® Procurement Solutions

SAP® SUPPLIER RELATIONSHIP MANAGEMENT

The SAP® Supplier Relationship (SAP SRM) application is a comprehensive solution for managing procure-to-pay operations in large and midsize companies. Robust, user-friendly, self-service functionality relieves procurement personnel from burdensome administrative tasks that add little value to the company. The application makes procurement processes faster, more affordable, and more user-friendly. Users can shop in internal and supplier-hosted catalogs, create and manage their own requisitions, approve requests, check status, and follow up on receiving and invoicing processes.

Integrated with the SAP ERP application, SAP SRM enables centralized control of procurement operations. With SAP SRM, the procurement department can manage centralized sourcing and contracts across direct, indirect, and services spend throughout the company. The solution features tight back-end integration to SAP ERP and personalized role-based user interfaces that give employees convenient access to exactly the functionality they require. Powerful workflow functionality enables transparent and compliant procurement policies.

One of the key benefits of SAP SRM is its ability to span multiple SAP or non-SAP back-end systems and serve as a shared-service resource – centralizing procurement activities across the entire organization. This solution can make requisitions, POs, and other transactions virtually touch free and bring down the amount of transactional processing within the procurement department. It also forces compliance related to approved items and pricing, as well as playing a significant role in overall demand management through structured approval processes. With SAP SRM, organizations will benefit from:

- Self-service requisitioning for goods and services, enabling touch-free procurement and adherence to purchasing guidelines
- Compliance and exception management
- Plan-driven procurement from MRP with automated execution of required direct material
- Supplier collaboration on transactions, driving efficiency and visibility into supplier interactions
- A shared-service platform that can be leveraged across a diverse system landscape
- The SAP SRM rapid-deployment solution, available on a fixed-scope and fixed-fee basis for rapid time to value
- Standardized best practices regardless of varied back ends

TIME TO VALUE WITH THE SAP SRM RAPID-DEPLOYMENT SOLUTION

To reduce the time to value for the SAP SRM software, many procurement executives are choosing to deploy the self-service procurement functionality of SAP SRM with a packaged solution provided at a predetermined time, cost, and service scope. Specially developed to meet the needs of small businesses and midsize companies, as well as dedicated business units of larger enterprises, this solution delivers a fast and cost-effective mechanism for realizing the benefits of SAP SRM.

The SAP SRM rapid-deployment solution can help you create the foundation for streamlined procurement processes. Qualified experts from SAP Consulting use prototyping and pre-coded enhancements called accelerators to deliver the self-service procurement functionality deployed by most companies as they begin using SAP SRM. Because these tools have been tested at multiple customer sites, they help you deploy the software in weeks rather than months and dramatically reduce your overall implementation cost as well as your project risk.

To learn more about how SAP can help you rapidly realize the benefits of self-service procurement functionality, visit www.sap.com/services/bysubject/predefined-services or call your SAP representative.

EXTENDED PROCUREMENT SOLUTIONS FROM SAP

SAP has a wide range of products and solutions that cater to the evolving procurement environment. In addition to the extensive procure-to-pay features of the world-class SAP SRM application, SAP also offers solutions for companies that require modular, on-demand, or hosted procurement solutions that work in concert with SAP SRM and their existing procurement infrastructure. Choose from a robust set of options that can help you grow and evolve your procurement practice.

SAP Information Interchange OnDemand solution – This solution, also available as a rapid-deployment solution, enables you to connect directly with the suppliers with whom you do the most business. Supplier enablement is supported as a “connect once” opportunity so that supplier connectivity preferences can be used across a variety of buying organizations, making new connections faster and easier over time.
With a direct flow of electronic transactions, both buyers and suppliers are able to speed processes and increase visibility into the status of orders and invoices.

**SAP Sourcing and SAP Contract Lifecycle Management applications** – These offerings deliver an integrated, strategic approach to your “source to contract” processes. Together, these applications support multiround sourcing and auction processes; contract authoring, negotiation, and administration; supplier performance and risk management; and integrated sourcing and operational procurement execution.

**SAP Spend Performance Management analytic application** – This application helps organizations identify cost-saving opportunities and minimize supplier risk through savings identification, collaborative performance management, proactive risk identification, and spend and supplier data validation and enrichment.

**SAP Invoice Management application by OpenText** – This “any source” invoice management solution increases visibility into invoice exceptions and liabilities, optimizes invoice exception approvals, eliminates data entry and duplicate invoice approvals, streamlines internal and external communication regarding invoices, and enables prompt payments.

**SAP Supplier Lifecycle Management application** – This application helps companies take a global approach to managing their supplier relationships, supporting supplier registration, qualification, evaluation, classification, order collaboration, and eventual phaseout.

**EXTENDED OFFERINGS THROUGH THE SAP PARTNER ECOSYSTEM**

Through the SAP partner ecosystem, your company is connected with a diverse group of providers and a broad set of resources to help deploy, configure, and optimize the best procurement environment to meet your business needs. Across this ecosystem you’ll find a breadth of value-added solutions and services ranging from BPO, systems integration, and software that are strategically aligned with SAP procurement solutions.

**Business process outsourcing providers** – SAP procurement solutions can be implemented in a BPO model through several strategic partners. Should you choose to outsource the management of your SAP software, turn to one of our seasoned partners who will work with you to develop an outsourced model that meets your security, finance, and integration needs.

**Systems integrators** – SAP partners include highly experienced experts in systems integration that can assist you with the deployment of your SAP solution and its integration to your existing infrastructure. Certified professionals can help you scope, deploy, and manage the many changes that transpire when deploying procurement processes and technologies.

**Software vendors** – SAP software solution and technology partners extend the functionality of SAP solutions with a variety of complementary applications. From invoice management and document management technologies to workflow enhancements, these options are designed to plug and play with your existing SAP software environment, while providing efficiencies and value to the procurement process.

For more information about the SAP partner ecosystem, visit the SAP EcoHub solution marketplace at [ecohub.sap.com](http://ecohub.sap.com).

**INTEGRATING YOUR PROCUREMENT ENVIRONMENT**

The robust and open SAP NetWeaver® technology platform integrates both SAP and non-SAP software, enabling you to exchange information and execute transactions as if they were running on a single system. Application-to-application and business-to-business processes are connected and managed smoothly – empowering your organization to leverage and
expand upon existing systems without the need to migrate to new platforms in order to achieve your procurement excellence goals. Call on your local representative to learn how SAP NetWeaver can be used to configure your optimal procurement environment.

**BENCHMARK YOUR PROCURE-TO-PAY FUNCTIONS AGAINST PEERS**

Throughout this paper we’ve outlined industry standards and best-in-class measures that you can use to evaluate your procurement functions. SAP strongly recommends starting any procurement journey with a stake in the ground – a commitment and road map charting clear measures for success. If you are well along your journey, regular checkpoints and incremental measures are equally important in tracking your ongoing improvements. To assist you with these measures, SAP has partnered with the independent industry association ASUG, together amassing an industry-standards database with procurement benchmarking measures from more than 700 organizations worldwide. You can request a benchmarking study to compare your current state against the database – assessing their strengths, uncovering areas for improvement, and identifying best practices and IT strategies against overall industry performance.

For more information about the SAP and ASUG benchmarking program, visit valuemanagement.sap.com.

**ACHIEVE YOUR PROCURE-TO-PAY EXCELLENCE GOALS WITH SAP**

Whether you’re seeking immediate savings to help your organization weather the hardened economy or looking for core procurement principles to set the pace for long-term gains, procure-to-pay optimization can help you achieve your goals. SAP is here to assist you. With 40 years of operational experience and more than 25,000 customers worldwide leveraging our solutions, SAP can provide the people, processes, and technology to help transform your procurement and supplier management processes to achieve procure-to-pay excellence. Call on SAP today to learn how your organization can:

- Increase savings by reducing process costs and purchase prices for goods and services
- Accelerate and automate procurement-process compliance across the enterprise
- Maximize contract savings
- Deepen and enrich supplier relationships
- Unify disconnected, disparate systems and data sources with a flexible platform
- Evaluate suppliers and improve both the procurement process and data visibility

Visit www.sap.com/procurement to start your procurement transformation journey today.

**FOOTNOTES**

2. “Compulsive Contributors – More is asked and more is delivered: Accenture research and insights into high performance in procurement,” Accenture, 2011.