

P2P—WHERE e-PROCUREMENT MEETS ACCOUNTS PAYABLE

The devil is in the details.

— Gustave Flaubert
French novelist

In purchasing and supply management, P2P is an acronym for “procure to pay” or “purchase to payment.” Another acronym with the same meaning is R2C—requisition (req) to check. P2P is the transactional flow that surrounds an order that is sent to a supplier, the fulfillment of the order, and then payment for the product.

As the preface to this book has described, e-procurement began in the hype of the dot.com boom in the late 1990s. Many companies started with e-procurement of indirect spend and found doing so was much tougher than the magazine articles and software ads had depicted. Even worse, some procurement leaders were “stained” by the damaging perception of senior management—an indelible picture of a struggling, million-dollar IT investment to save a few pennies on the pens and pencils stored in office supply cabinets. Not a good mental image for the people with the purse strings who were looking for a strategic intervention.

Through it all, the P2P pathway automation of e-procurement kept quietly plugging away, ultimately undergoing perhaps the most improvement in terms of capability and foundational importance. The nomenclature, however, is still fuzzy, with some SRM suites looking more like e-procurement suites and most

e-procurement suites having SRM modules (see Chapter 6). The original transactional P2P Internet interfaces—requisitions, purchase orders, delivery receipts, payment approvals, ledger postings, and funds transfers—are still the backbone for a host of evolving powerful purchasing tools. Not much imagination was required for software suppliers to add sourcing, contract, and compliance components to the horizontal process of the early tools.

e-Procurement suites, regardless of their specific product names, are e-tool lineups that mirror corporate supply management processes. Throughout this book discrete elements of the broad e-procurement tool set (spend analytics, go-to-market reverse auction/RFx, contract management, SRM, etc.) will be examined, but this chapter will return to the genesis of these e-tools and discuss how e-procurement has survived, even thrived, for companies that “get it.”

P2P is the ultimate multifunctional process, cutting across users (requisitions and desktop buying), sourcing (deal making to reduce cost or increase value), departments/functions (Finance and Accounting, money tracking and funds transfer; Accounts Payable, paying bills; Human Resources and Internal Controls, setting/enforcing policies), and ultimately the suppliers themselves (to “make it all happen” in the real world). A December 2004 benchmark report highlights continuing e-procurement improvements well:¹

- Basic requisition-to-order functionality—Matured requisitioning, approval routing, and reporting are comparable across most software solutions.
- Broader suites that more effectively tie the process together
- Improved catalog approaches requiring much less maintenance and providing more standard, intuitive user screens.
- Dramatically reduced product cost (e.g., a 75% license fee reduction since 1998)
- Availability of believable, realistic sourcing and internal efficiency savings for use in investment justification

Performance Area	Before e-Procurement	After e-Procurement
Maverick Spend	38%	14%
Savings on Maverick Spend	—	7%
Requisition-to-Order Cycle	20 days	4 days
Requisition-to-Order Costs	\$56	\$23
Spend under Purchasing	56%	69%

This capability is now something that is within reach for many companies, not just the well-funded elite. Plus, the return is clear. For many companies the journey to e-procurement is by no means over, but progress is obvious, with improvement areas becoming more visible and attainable. Hard work is still required, but it will be with far fewer unexpected missteps caused by immature software or overconfident implementations.

THE BUILDING BLOCKS OF e-PROCUREMENT SUCCESS—A KITCHEN TABLE

Like a kitchen table, successful P2P has four legs:

- User-friendly interfaces
- Solid sourcing behind the interface
- Policy development and compliance
- Supplier enablement to make it work

Successful P2P also has a table top, which is constancy of purpose or, said another way, steadily continuing execution. P2P success is not for the impatient or for the easily distracted.

Yet, according to the December 2004 benchmark report, the various P2P e-procurement applications had only a 40 to a 60% penetration by late 2004 and were projected to increase to just 55 to 75% by 2007. The range is caused by variation between particular elements, with catalogs at the top and items such as invoice reconciliation and automatic payment applications toward the bottom. The report listed many of the same traditional “challenge” areas that long-plagued implementations as barriers—supplier catalog management, user adoption, policy enforcement, non-catalog spend management, and the task of simply maintaining the e-procurement application.¹

Leg 1—User-Friendly Interfaces

Bottom line, the interface must be easy for users. “Easy” means easier than telephoning Costco or Staples and picking up the goods on the way home after work! If a computer desktop application is confusing or frustrating, users simply will not tolerate it. The battle then moves from implementation to insurrection because in many cases users can be quite inflexible. This situation leads to an interesting phenomenon. Several tool suites, especially those from ERP suppliers, would seem to be natural sole-supplier applications, thus avoiding integration costs. Yet an enormous number of companies implement a procurement vendor’s tools on top of an ERP vendor’s underlying systems.

Companies using multiple software solutions cite user unfriendliness and the “underwhelming-ness” of some ERP system tools as reasons why they pay for multiple software solutions. (*Comment:* Perhaps this is the same reason why SAP acquired Frictionless Commerce, Inc. in May 2006 to improve its then relatively weak e-sourcing tools?) Another reason is that e-procurement tools (e.g., Ariba e-Procurement) were purchased and installed before the completion of base ERP implementations and/or before the availability of ERP provider procurement or SRM applications. Still another reason is that integration costs continue to fall as middleware improves and tool providers include specific modules that more easily link with other suites, leading to lower cost implementations and quicker results. (*Note:* Frictionless Commerce, Inc. was certified as an SAP NetWeaver partner just 4 months before the acquisition.)

Whether through acquisition or internal application improvement, ERP products are improving, leading to intense budget and supplier choice battles. A CIO and CFO can be highly resistant to a “users dislike the interface” argument to justify six- or seven-figure investments and internal IT integration resources for a two-supplier solution. Meanwhile CPOs and functional budget owners counter with the point that if people will not use the system, the results will falter at any price. For example, 55% of companies cite employee adoption problems as the biggest P2P automation problem.¹ *Remember:* P2P functionality requires user involvement at levels in which personnel turnover is significant, necessitating ongoing training and “resale” of the system to new arrivals.

Leg 2—Smart, Practical Sourcing

The desktop interface, even when its use is persuasive to users, must be supported by strong supplier selection and management. The work “behind the scene” must deliver low-cost, high-service/high-quality vendors or the system will deliver only appearance without substance. Sourcing skills that leverage data cleansing, spend analysis, sourcing strategy, reverse auction/RfX, optimization, contract management, etc. produce valuable e-procurement results. Success also requires planning in two other important areas—adequate staffing and purchasing channel/tool matchups that drive usage.

Staffing

At a large manufacturing company, purchasing leaders convinced their CFO to mandate that all buying decisions had to be made by the purchasing organization, ending years of “legitimate” maverick indirect spend buying. Internal controls enforced the mandate. Viewed as an enormous victory, professional purchasing was finally in charge of almost 100% of the company’s purchases—a victory, that

is, until the orders started pouring into an organization that had not been staffed for the increase in work.

Deluged by “one-off” buys and people-consuming catalog maintenance issues, the program “fell beneath its own weight.” After a 4-year struggle, the program was declared a failure and in need of a relaunch. Sourcing became slipshod, as overwhelmed staffers put having a supplier—almost any supplier—ahead of sourcing-for-value acquisitions. The professionals were buying like the maverick amateurs they had replaced because leadership had failed to anticipate the demands of “a new world.” It was truly a Pyrrhic victory. (*Note:* Pyrrhus, king of Epirus, sustained heavy losses in a defeat of the Romans, losses that were costly to the point of negating the benefits of victory.)

Channel and Tool Choices

The second sourcing challenge is thinking through channel decisions. Purchases can be made via traditional purchase orders sourced by purchasing; by users placing orders with catalogs sourced by purchasing; and with P-Cards (procurement “credit cards”) that let users source, order, and pay for goods. (*Note:* P-Cards can be limited to certain suppliers for certain classes of items, thus enabling sourcing “behind the card.”) Channel strategy requires consideration of several things:

- Order size (dollars not volume) for control purposes
- Volume levels to determine the choice between catalog or formal sourcing
- Efficiency or staffing to deal with workload issues
- Spend documentation both for control and sourcing strategy reasons
- User support to push system utilization
- User compliance and budget control to deliver bottom-line results

Two examples illustrate channel choice:

- A major U.S. chemical company designed their e-procurement around monetary order size, with large orders (five figures) going through purchasing; routine families (e.g., office supplies) being handled by catalogs; spends between \$15K and \$1K using e-procurement POs; and unique item orders below \$1K using P-Cards.
- A pharmaceutical company set up an e-procurement approach that stressed effectiveness for most spends (catalogs and electronic purchase orders placed by users from a preferred supplier list) and purchasing support for larger spends (over \$100K) in their major facilities. In small satellite operations with small purchasing staffs (one or two people) and despite real concerns about P-Card sourcing

effectiveness, P-Cards were still implemented for efficiency reasons (the tradeoff with effectiveness being viewed as “good enough, but not ideal”).

The P-Card debate continues, with proponents citing efficiency and “good-enough” documentation in strong compliance and internal controls cultures as reasons to put “more rather than less” through the cards. Detractors counter that documentation is not good enough. Although card providers say level 3 data (detailed spend data) can be captured, they also admit that very few suppliers provide the card company with level 3 data. Unless the buying company uses its leverage with suppliers to insist on level 3 data, obtaining deep spend data is an unlikely outcome. Detractors are also concerned about fraud, given the user’s combined source/order/pay role and with controls being largely after the fact, rather than before.

Pareto analysis typically channels “nuisance spends” to P-Cards. Nuisance spends are often unique, low-dollar-volume items (not particularly catalog compatible) that represent over half of the transactions and less than 10% of the spend—the classic “non-critical” Kraljic spend quadrant strategy.

Is there one best way to do P-Cards? Probably not. The best approach, however, is “thinking the channel choices through” and driving the plan to its conclusion.

Leg 3—Policy Compliance

Policy compliance entails two kinds of policies—those that drive users to the company’s channel of choice (use the tool or adoption) and those that ensure that the negotiated savings show up in the bottom line versus encouraging increased usage because budget is available to spend. For channel compliance, spend visibility, including assignment to the department or budget center where the spending resides, is critical. Too often, senior executives want to insulate their organization from the need to comply because “they are different” or “Procurement doesn’t understand” and thus become the root cause behind e-procurement spend channel policies that do not work. Policy might be written by Procurement (unlikely to work), Human Resources (a little better) or Finance (much better), but at the end of the day, senior management must agree to comply and legitimize the policy by asking the managers of maverick buyers why their buyers are not using the proper channels.

Measurement of corporate losses when a local requirement is sourced off-contract is vital. Often the isolated local cost can be lower than the corporate deal (or it is perceived to be because the discount is not transparent to local people), but volume losses due to large local policy violations can undermine savings at other locations when a deal spans numerous sites. Without compelling data and

management support, policy violations can be a major issue. Typically successful implementations bring variations to the attention of the local budget owner, which often solves the problem. In other cases, the “user friendly principle” is in place so compliance works because the overall system works. (*Comment:* The authors are aware of termination for multiple compliance violations at only one company and the information was from a second-hand conversation.)

Some savvy companies intentionally “under” contract the corporate volume, which allows local deals to be accepted without hurting compliant sites, but this requires leading-edge data systems to monitor total spend and user policy management to avoid willful user violation of a deal.

As budgetary policy, the best in class build purchasing savings into forecasted profit plans for the upcoming year, thus raising general manager (GM) questions during budget reviews when indirect spend usage levels along with supplier deal compliance are not delivering forecasted cost reductions in the financials. Another successful use of transparent cost and usage levels is the escalation of certain decisions to the GM or comptroller for a conscious choice about savings—to take savings to profit or to spend gains on other value opportunities (e.g., marketing spend savings can either go to the bottom line or to fund additional top-line growth plans—the key is rigorous financial success criteria for new projects audited by the comptroller’s office to avoid wasteful spending to protect budgets for next year). (*Comment:* Without rigorous oversight by finance, many GMs will submit to the “siren’s song” of marketing spend because that is the strongest cultural imperative and the cause of much wasted expenditure.)

Leg 4—Supplier Enablement

The first three legs look internally. The fourth leg looks externally. Supplier enablement, as defined in a 2004 benchmark study,¹ applies to the catalog process and deals with the enormous workload of managing supplier catalog content, data maintenance, and transactions.

Catalog Management

Early on, buyers chose catalog self-management only to discover that maintaining information, ensuring that price discounts were realized, and simply dealing with the large numbers of site arrangements and suppliers/catalogs drained their resources. The ideal solution seemed to be “punch-out” or “round-tripping”—transferring the responsibility for data maintenance to the supplier. Users would be routed to supplier catalog websites. Unfortunately all websites are different (users are not thrilled about this). Comparison shopping across more than one catalog for the same item is complex to impossible (requires more than one

round-trip) or unlikely (a user just buys at the first punch-out location regardless of price). Inconsistent transaction management across supplier sites is another variable.

Software vendors are extremely helpful in supplier enablement. Software vendors provide supplier networks—a set of suppliers recruited by the software vendor (directly or from other customers) that uploads their catalog data into the software. The data can be augmented by buyer-specific suppliers. Buyers are “enabled” to check multiple catalogs for similar items and do not have unique buyer-specific maintenance tasks. These catalog hubs can tailor the buyer’s view of specific deal information, plus add price check and discount verification services. However, the 2004 benchmark report notes that just over half of the catalogs in a 147-company survey use these networks or hubs, leaving many companies still internally handling catalogs, thus making catalog transaction management the top challenge cited.¹ A well-designed e-procurement success plan needs supplier enablement for efficient and effective catalog data housing for use and control purposes.

Real-World Application

Conceptually, expanding supplier enablement beyond catalogs opens a huge number of options though the use of tool suite supplier portals. Suppliers can access their own data—scorecards, buyer specification changes, shipping schedules, and invoice payment information.

Personal experience has brought this home to co-author Rogers. After 30 years with a large multinational corporation, he now works as an independent contractor in a small 30-person consulting consortium or singly as a supply management consultant. In a subcontract arrangement with another consultant to manage a supplier relationship project, the consulting firm was to manage client invoicing and reimburse Rogers.

Several weeks after an engagement, reimbursement had still not arrived. The consultant’s administrative office said that the invoice had been sent and the payment issue was with the client. The client had supplier self-service invoice tracking in its SAP Accounts Payable supplier portal service. As a registered supplier, Rogers accessed his accounts payable data and found that no invoice had been received. Pressing the consultant’s office manager revealed that the invoice had never been sent, triggering a call to the consultant’s president. As a result, (1) the invoice was issued; (2) Rogers tracked the invoice until payment to the consulting firm; and (3) once funds had transferred, Rogers ensured his own next-day payment. This is supplier enablement (and the difference between a big company buyer and a tiny company seller)!

e-Procurement suites allow suppliers to use their own data to solve problems via portals and various modules in the toolset. In fact, these portals represent an SRM-enabler as well (see Chapter 6). Dan Kraus, head of Hallmark’s global sourcing group, began managing long-distance relationships long before procurement and SRM software were available. He endorses the use of these portals as a strong enabler for relationships and e-procurement because strategic suppliers worldwide can access their data from the portal to manage ongoing business.²

The Table Top—Constancy of Purpose

What is constancy of purpose? Two examples will illustrate it.

The HP Experience

Technology leader Hewlett-Packard (HP) has had a major e-procurement effort underway for 6 years. Chris Connors, a 20-year HP veteran, spent 5 years leading indirect spend e-procurement solution implementation at HP and is now the Procurement Director of Strategy and Planning. The HP journey was described by Connors at the National Association of Purchasing and Payables (NAPP) conference in February 2006, illustrating the planning and ongoing drive necessary to get the most out of e-procurement.³

Over the 6-year effort, HP experienced enormous change—the Compaq acquisition/merger, expansion of HP IT services business, and a highly public CEO change, to name a few. Yet the program continued. With the focus of new CEO Mark Hurd on creating a competitive cost structure to battle the highly contested hardware and service businesses, importance of the program can only increase. Results to date are strong:

Category	Inception	Current	Projected
Indirect Procurement Operations Cost (% of Spend)	0.95	0.72	0.65
Tactical Headcount (% of Total)	60	40	30
Strategic Headcount (% of Total)	40	60	70
Number of Suppliers (Thousands)	125K	55K	<45K

Savings are up significantly and 95% of indirect spend goes through the HP Ariba Buyer system. The HP “headline” metric is indirect spend as a percentage of revenue and its “affordability” metric is procurement budget expense as a percent of spend. Additionally, effectiveness and efficiency are benchmarked against the

Hackett Company's value grid system, in which HP is in the "world class" quadrant, but still sees improvement opportunities.

More impressive is that HP started from a very challenging place—a strong, locally focused culture of fragmented organizations, local tools, locally focused internal metrics, numerous suppliers, and many legacy systems. The HP plan, which has four stages, has been comprehensive and sequenced for steady improvement and sustained results, while engaging budget owners in the business units. The first three stages are well underway and a fourth stage aligns with CEO Hurd's cost structure strategy:

Stage	Description	Process Leader
1. Supply Management	Focus supplier relationships on value for HP	Procurement
2. Compliance Management	Capture savings, by using preferred suppliers	Procurement + Business Units
3. Consumption Management	Reduce TCO by addressing usage drivers	Procurement + Business Units
4. Budget Compliance	Book savings into budgets	Business Units

A phased cost-reduction framework emerges from the table—negotiate better deals (savings and cost avoidance), increase spend compliance (use preferred supplier contracts), and tighten spend controls (control consumption, analyze spend trends, report to business unit budget owners).

A stepwise approach to user channel strategy helps manage the cultural challenge necessary for change:

- Step 1.** Use the tools (e.g., Ariba e-Procurement and P-Cards)
- Step 2.** Use the suppliers (buy from approved vendors)
- Step 3.** Get the right price (enforce contract pricing)
- Step 4.** Reduce spend (address consumption, deliver savings)
- Step 5.** Have spend controls (budgetary commitment)

Doing everything at once is like trying to jump over a canyon—the risk of failure is high. In a stepwise approach, each step delivers results that build on the others and over time a new culture emerges (Figure 7.1).

The Pfizer, Inc. Experience

Pharmaceutical giant Pfizer also relates a steady "constancy of purpose" story.⁴ Pfizer's e-procurement system deals with enormous complexity and scope breadth—operations in 150 countries, as many as 60,000 users buying items on

Compliance Stages

1. Supply management:
focus suppliers on value
2. Compliance management:
focus users on right suppliers
3. Consumption management:
reduce/change usage drivers
4. Budget management:
build savings into profit plans

User Channel Evolution

1. Tools:
e-procurement suite, P-Cards
2. Suppliers:
preferred suppliers
3. Pricing:
price enforcement with suppliers
4. Spend:
reduce usage and lower prices
5. Budget:
turn reductions into commitment

Figure 7.1. e-Procurement Constancy of Purpose—Stepwise Progress in Parallel: Compliance and Channels.

the system, and major acquisitions to be integrated. Pam Prince-Eason (senior director in Pfizer’s Global Sourcing organization) has responsibility for the design and implementation of electronic P2P. She views P2P as an end-to-end process that requires close coordination between the upstream side (requisitioning, sourcing, ordering) and the downstream end (receiving, invoice processing, discrepancy intervention, and disbursement). In her words, “Purchasing and Accounts Payable belong together and should live happily ever after.” The Ariba e-Procurement suite sitting atop Pfizer’s Oracle ERP system seeks to accomplish this by including not only typical buying modules, but also electronic invoicing (e-invoicing).

Prince-Eason’s plan used classic “as is” and “to be” gap analysis to create a blueprint for its e-procurement implementation. Given the variety of Pfizer’s operations around the world, this blueprint has to be worked out with local organizations that have a key voice in both supplier and catalog selection. The plan has four dimensions over a 6-year horizon:

- Governance boards, including local users, procurement, and accounts payable
- Spend management guidelines that drive channel compliance (Ariba e-Procurement and P-Cards)
- A range of training formats (classroom, interactive Internet meetings, and e-training)
- Tools that encourage adoption and really work

The last dimension is the reason that Pfizer uses the Ariba tool, not just its ERP procurement modules. In the end, “It’s about adoption,” Prince-Eason said. User reaction ultimately drove the decision to have a procurement system atop the

ERP backbone. The justification can be challenging, but to get results, people must use the system.

As any global e-procurement rollout continues, perhaps the most important insight from the process is that the range of three e-procurement options that are available to any company can be blended to integrate location size and culture for success:

- High compliance, with robust supplier enablement (high use of an e-procurement system with heavy focus on catalogs)
- Basic compliance, with minimal supplier enablement (e-procurement and P-Cards with less reliance on catalogs)
- Optimizing existing systems (manual, P-Cards, local e-procurement tools, limited use of corporate software suite modules)

The first two options should represent the overwhelming majority of e-procurement, but all three are necessary to cover the full range of user capability. One “size” rarely fits all locations, despite the belief of IT management that it should (Figure 7.2).

Comment: Constancy of purpose is clear in both of these success stories—6-year journeys through major organizational and business changes along the way and attention to the four “table legs”—user friendliness, sourcing, policy, and supplier enablement.

CLOSING THOUGHTS—THE ACCOUNTS PAYABLE INTERFACE—DO NOT DROP THE BALL!

The National Association of Purchasing and Payables seeks to improve interaction and integration between the purchasing and payables disciplines. For P2P to work, purchasing and accounts payable must overcome differences to seamlessly create an efficient and effective process. Although some companies include purchasing and accounts payable in the same organization, most do not. Accounts payable often resides in finance or, as is the case in a growing number of companies, accounts payable is outsourced to low-cost countries for internal overhead savings via labor arbitrage and the specialized expertise of these outsourcing companies. Regardless of location, accounts payable and purchasing must work well together. When they do not, the organization will experience deterioration of payment-on-time (POT) metrics.

A major company experienced this the hard way. In the early 1990s, during a downsizing, accounts payable moved from purchasing into finance. Things were fine for the first 2 to 3 years—until existing accounts payable and procurement boundary staff began to retire, move to new assignments, or leave the company

	Type	Description	Benefit	Risk
1	Extensive catalog High automation	High supplier enablement Best-in-class implementation	Full e-buy usage SOX visibility	Up-front sourcing Long time line High investment
2	Minimum electronic compliance model	Focus on SOX compliance Partial use of front-end user interface	Lower SOX Cost Partial e-buy usage	May need future changes IT resource conflict
3	No or minimal e-buy suite	Improve business process Use legacy systems High site resourcing	Fast incremental improvement High site commitment	Little ERP or IT leverage Will need future changes High site resources

Figure 7.2. P2P Deployment Options.

for other opportunities. Gradually, so gradually as to be almost unnoticeable, mutual understanding of the sourcing and payment process intersection points drifted away. Then there was a series of major “initiatives”—an extremely difficult SAP implementation with its massive retraining to allow basic system use; an offshoring project to move accounts payable to a low-cost country; and another reorganization including simultaneous procurement administrative staff reductions and outsourcing of much of the offshore accounts payable organization to an even lower-cost third party. Suddenly, almost 10 years later, the company began to encounter supplier refusals to ship to new locations and price increases to cover slow payments. The arrival of the Sarbanes-Oxley Act and its need for strong P2P processes to ensure financial reporting integrity added even more headaches. What was once a sourcing sales pitch—“We pay supplier bills on time!”—soon became embarrassing, as supplier management confided that on-time payment was a growing concern. A point of pride had become a “crisis of confidence” at the purchasing/accounts payable interface, which required a 2-year intensive effort to finally solve.

Part of the transactional functionality of user-friendly e-procurement tools can help avoid these types of situations, when connected to downstream process-efficient payables workflow-management tools such as paper invoice imaging and electronic funds transfer (EFT) e-tools. Whether managed internally or managed as part of an outsourcing agreement, the sourcing/accounts payable boundary must be rigorously handled.

The “downstream” receipt/post to ledger/payment process was vividly described in a 2005 *Business Week* article about India’s IT and outsourcing companies.⁵ The article pointed out that reapplication of Toyota’s manufacturing

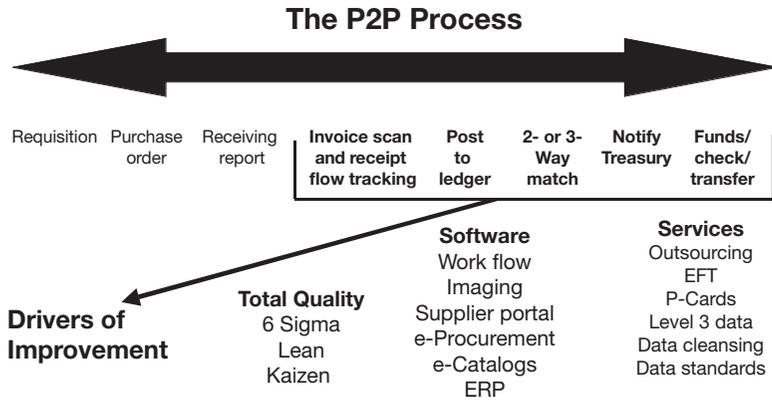


Figure 7.3. Back-Office P2P Improvement.

principles to paperwork flow is part of India’s outsourcing success recipe—not just wage arbitrage, but also quality improvement. The *Business Week* article followed the path taken by an invoice through an accounts payable outsourcing operation in Bangalore. The description included passing a paper invoice through scanners to make electronic copies and the path of the work flow software that tracked its trip from accuracy verification to accounting entry to payment authorization and ultimately to payment itself.

Tight linkage between purchasing and payment is critical—regardless of whether the work is done internally or externally. The key to efficiency is minimizing the number of “touches” along the invoice journey—electronic invoices (e-invoices) instead of paper; pay-on-receipt approaches that eliminate invoicing altogether (the buyer creates e-invoices upon receipt of goods using e-procurement suite capabilities); vendor-prepared service receipts that users verify; e-invoice consolidation (combines multiple invoices into one periodic payment); etc. Essentially, procurement e-billing modules meet accounts payable workflow management software tools to image, post, track, check, and pay electronically (Figure 7.3).

The old AT&T (part of the reincarnated AT&T with SBC Communications, Inc. and BellSouth) stressed supplier e-invoicing for years, but by 2002 the effort had stalled at 87% until AT&T leveraged the Ariba e-Billing module to drive to e-invoicing to 97%—instrumental in reducing the accounts payable headcount by 56% between 2002 and 2005.⁶

This purchasing/payables connection is also a component of total cost of ownership (TCO) for materials and services, especially when the process goes electronic using e-procurement invoicing and ERP integration modules. Timken,

a bearing manufacturer, dramatically increased use of purchased goods and services after a major 2003 acquisition significantly reduced its level of vertical integration.⁷ TCO analysis was instituted as an integral part of a renewed Timken sourcing strategy process. TCO analysis identified transaction costs as one of the top five TCO components (others were price, quality, supplier reliability/capacity, and transportation/logistics). This analysis made supplier P2P invoicing capability an important part of sourcing evaluations, leading to supplier selection criteria:

- An ability to access the Timken Supplier Network (Timkin's enablement network)
- Supplier electronic data interchange/evaluated receipts settlement (EDI/ERS) capability
- A supplier back-office enterprise system (ERP development level)
- Ease of payment terms and currency requirements
- Quality assurance applied to the billing/collection process

Bottom line, purchasing recognized that the number five TCO cost contributor required sourcing to incorporate expectations that suppliers have effective e-procurement/supplier billing/accounts payable interaction.

LESSONS LEARNED

- The P2P aspects of e-procurement tools have improved steadily over time and are no longer largely hype.
- Procurement and accounts payable must work together.
- Organizational capabilities are extremely important to manage the cross-functional process of procurement and accounts payable collaboration.
- User-friendly interfaces are a must.
- "Do the sourcing" before the organization is "set loose" to desktop buy.
- Corporate buying policy development and enforcement are vital.
- Supplier enablement improves the efficiency of order/delivery/payment operations such that supplier P2P capability becomes an important component of a TCO analysis.
- Constancy of purpose is not a sprint, but rather a marathon. Constancy of purpose across organizational changes, business condition shifts, and buying tool/channel evolution facilitates ever-larger benefits.



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