eBook

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# The Essentials of Procure-to-Pay

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Section 1: What is Procure-to-Pay?

The procurement process has become a necessity for business efficiency. It concerns the buying and managing of raw materials that a company requires to manufacture its products or provide services. This process typically involves huge cash flows and requires visibility throughout the transaction cycle, from vendor selection to the final invoice generation and payments with adjustments.

A procurement plan is indispensable and can be implemented in any small to mid-tier thriving business. Successful procurement planning can define clear purchasing guidelines, place a company above their competitors, and identify anticipated goods and services for potential purchase, thus reducing expected costs.

Section 2: Typical Procurement Framework
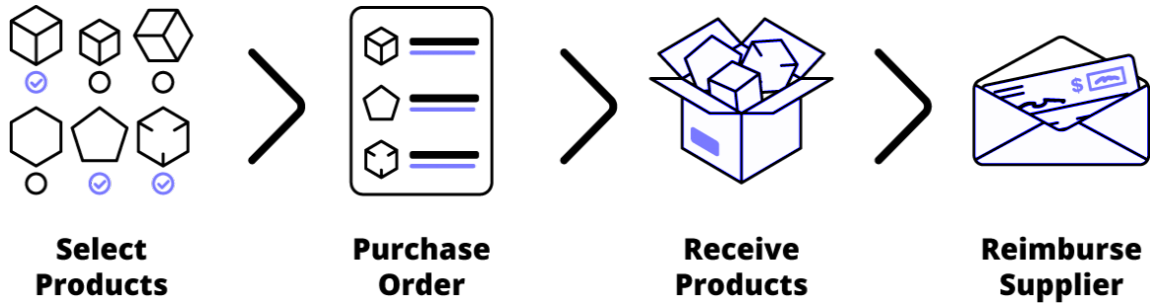
A dynamic procurement process includes transparent, efficient online purchase request creation by any department. The ability to vet suppliers, check budget, time, and quality, and enforce contracts are all built in. Single-click approval capability using desktop or mobile and orders issued to suppliers is completely online.

Other important considerations include automatic three-way matching and payment issued with built-in facilities. The ultimate goal should be a complete paperless process that spans from receiving goods and services receipts to invoicing.

Section 3: Steps Involved in the Procure-to-Pay Cycle
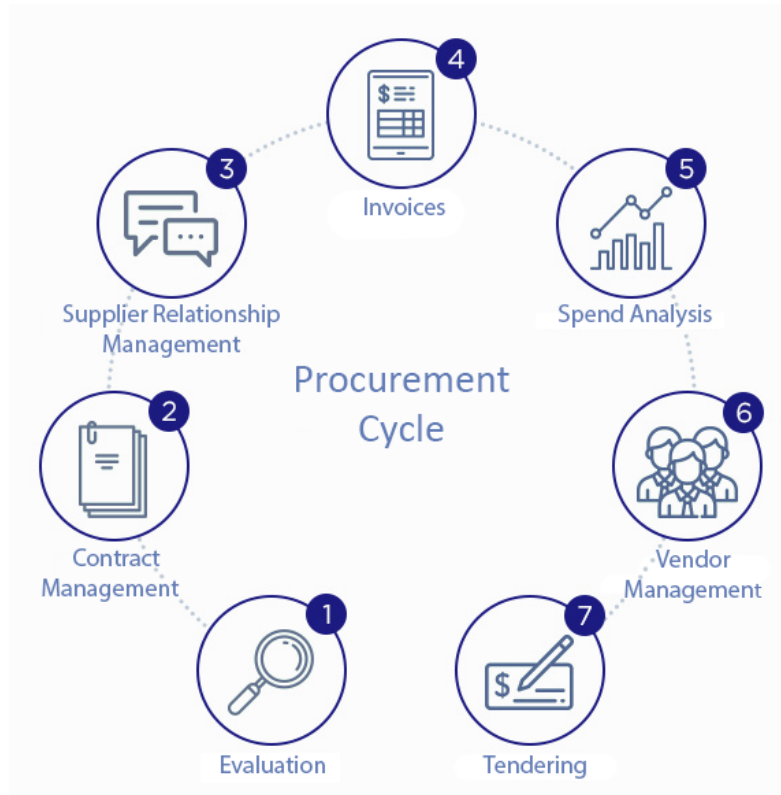
1) Identifying the Requirement

The buyer determines and defines business requirements. Procurement (along with the relevant business team) sketches out specifications for goods/products and terms of reference (ToR) for services, as well as statements of work (SoW).

2) Creating Requisitions

A requester fills out a purchase requisition form and submits it into the system.

3) Approval

Next, the department head and procurement officers review the submitted purchase requisitions. The requisition's approval or rejection is based on need, budget, and validation.

4) Vetting suppliers

Screening and monitoring vendor selection is a vital step. Once the list is made, the buyer sends each vendor a request for proposal (RFP) or quote outlining the requirements.

5) Taking quotes and negotiating terms

Suppliers return a bid on the job, detailing turnaround. This includes time, price, and pertinent material specifications. A supplier quote may also contain sales terms, payment terms, delivery terms, freight fees, insurance fees, quantity discounts, quality details, and more. After this, both parties agree on terms and conditions and the deal is finalized.

6) Issuing the PO

Once negotiations with potential suppliers are concluded, the company awards the supplier with a contract and purchase order. The purchase requisition form includes a description of goods and services, department account number, authorized managers' signatures, delivery instructions, and a quote from the authorized vendor.

7) Inspection of goods

After the goods are received, inspection activities, including quality and quantity checks, are performed.

8) Preparing the goods receipt note (GRN)

Once the company receives the goods from the supplier, the purchasing department prepares a goods receipt. This is an internal document produced after inspecting delivery. It is compared with the purchase order for validation. The goods receipt is inspected and then approved or rejected by the authority based on the standards specified in the purchasing contract or purchase order. If any discrepancies are discovered, the buyer can contact the seller and post a complaint.

9) Invoice received

After acknowledging the received goods, the vendor submits an invoice for payment, which is then entered into the system.

10) Three-way match

The system automatically uses a three-way matching process, comparing the purchase order, invoice, and all other delivery documents. This helps confirm that the goods have been delivered as ordered and billed accordingly. The items that do not match are flagged and reported for investigation.

11) Vendor payment

Once the three-way match is successful and the invoice, purchase order, and delivery documents all match, invoices are approved for payment, payments are made, and the accounting system is updated.

Section 4: Steps Involved in the Procure-to-Pay Cycle

As seen above, the average procurement cycle can be highly complex. This can lead to serious problems, such as:

❏ **Slow invoice processing time**

Manual routing, processing, and sign-off procedures slow down the Procure-to-Payment cycle. This can make it difficult to capture early payment discounts, cause late payment penalties, and even damage your supplier relationships.

❏ **Difficult data retrieval**

When invoices and POs are stored and retrieved manually, finding information quickly can be virtually impossible. Whether you're handling audits, vendor inquiries, or another process, the work can quickly get complicated.

❏ **Lack of centralized data**

Companies using more than one ERP system may find it hard to have a single, integrated source of accurate supplier and business data. This impairs global spend visibility and could mean that potential compliance issues aren't flagged.

Section 5: Why Automated Procure-to-Pay Matters

What can automation do to address these issues? Here is a quick summary:

❖ It makes invoice processing exponentially faster.
❖ You can virtually eliminate double payments and over payment, while completely eliminating human error.
❖ It gives better insight and transparency.
❖ It's easier to monitor accounts payable performances and productivity.
❖ It makes reporting, budgeting, and auditing far more efficient and accurate.

Section 6: Benefits of Automated Procure-to-Pay

Streamline supplier management processes

Working with multiple vendors requires a lot of time and effort. Automation provides a clear line of disclosure and transparency between buyers and suppliers. With an automated and responsive system, suppliers can quickly respond to bids and buyers can assign each order to the best available quote.

Greater visibility

You can have a combined view of actual expenses, which helps when making well-informed purchasing decisions. Moreover, this can continuously assist in keeping costs low and identifying inefficiencies. With immediate access to analytics, its easier to react quickly to unexpected problems so you can determine the best course of action. Altogether, there is more control over your department's budget and more transparency to help the business stay profitable.

Eliminate cumbersome manual steps to save time

One of the biggest possible bottlenecks in procurement operations is the purchase order approval process. Automation makes this cycle far faster as it includes an e-signing application and provides proactive alerts to inform key players of pending actions.

All contracts accessible from a central place

Centralizing and consolidating allows you to manage duplicate or overlapping contracts to avoid problems. By automating contract management, you can on-board new suppliers more quickly and ensure all critical guidelines remain consistent for each document. In addition, potential compliance issues can be flagged. Alerts can be set up prior to a contract's expiration, so you can plan to negotiate new contracts with more favorable terms.

Budgeting

With immediate access to every document, as well as built-in analytics solutions, budgeting becomes easier and more efficient. Automation can help generate in-depth reports and provide a granular view of all expenses. This allows for more accurate predictions for future budgets, and assists you with identifying possible cost savings

Conclusion

Automation can improve not just procurement, but several other critical aspects of business as well. With more intelligent processes comes better data gathering, which you can use to inform departments and business decisions. While deciding how to automate may take serious consideration, the results could be hugely beneficial to your ROI.

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Vijeta Shetty is the Manager of Documentation and Communication and has over 12 year of experience working with Symtrax software.