While automation is widely adopted across the Procure-to-Pay (P2P) process, many companies are not leveraging technology to the full extent, and therefore not capturing the full range of benefits.

There is one area in particular where organizations are missing important opportunities. When it comes to working capital management, many still follow traditional approaches that don’t leverage digital innovation for business advantage.

This report will examine where companies are falling short and how to make the most of your investment in your P2P process.
Introduction

Nearly every large company has automated the P2P process to some extent. Approaches range from driving orders from electronic catalogs to scanning invoices or processing invoices electronically. Companies using P2P technology are reaping efficiency savings, and are able to deliver better business intelligence and insight than ever before.

However, one area where organizations are missing important opportunities is in working capital management. Some companies still use traditional strategies that don’t leverage the developments in automation and digitization. Many are still stretching out payment terms, without also considering a dynamic discounting or supply chain finance program.

This report will examine the missing links in working capital management – and how you can take action to address them and further extend the impact of P2P automation.

About our survey

sharedserviceslink and SAP Ariba conducted a survey with over 150 finance and shared services professionals. This survey sought to better understand the pain points, challenges and aspirations of finance and shared services, as it relates to the P2P process.

Chart 1

About our respondents

Revenue: 74% of respondents have over $1BN annual revenue (USD), while 38% of respondents have over $10BN annual revenue.

Invoice volume: 73% process over 100,000 invoices per annum, with 25% processing over 1 million invoices per annum.
Companies are leveraging enabling technology, but not to its full extent

Many companies are still highly manual

Despite the large invoice volume of companies taking part in this survey, many still have a highly manual payables process.

While 31% of respondents rate their payables process as ‘Good’ or ‘Excellent’, 69% see room for improvement in all or part of the payables process. [Chart 3]

Among all respondents, 69% of invoices on average arrive via paper or PDF/email, and only 17% give suppliers visibility into invoice status (e-invoicing, EDI, or supplier portal). Even for organizations that receive invoices electronically, only 23% of invoices arrive, on average, via an e-invoicing network, and only 36% give suppliers visibility into invoice status (e-invoicing, EDI or supplier portal). [Chart 4]

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**Chart 3**

**How would you rate your current payables process?**

- **Poor**: We have significant problems in our payables process
- **Fair**: The payables process is adequate, but there are some problems that we need to address
- **Good**: We are relatively efficient with decent visibility
- **Excellent**: We are highly efficient with excellent visibility
- **Mixed**: There is a good process in some areas of the business, but not in others

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**Chart 4**

**What percentage of your invoices are coming in through the following methods?**

- **% Paper**: 27% Those with e-invoicing, 38% All
- **% PDF/email**: 25%, 31%
- **% Scanned**: 12%, 14%
- **% E-invoicing network**: 23%, 9%
- **% EDI**: 9%, 6%
- **% Supplier portal**: 4%, 2%
However there is broad interest in improving invoice processing

Invoice automation is a priority for finance and shared services professionals.

89% of respondents say that either P2P automation, rolling out e-invoicing or improving an existing e-invoicing program was one of their top 3 priorities for the next 12-18 months.

81% of respondents want to improve how they process invoices – 35% have already secured the budget to do so. [Chart 5]

Chart 5

Are you actively looking to improve your invoice processing?

- 46%: We want to improve, but don't yet have budget
- 35%: We are looking to improve our invoice processing, and have budget to do so
- 11%: Our invoice processing is high quality and we aren't looking to change it
- 8%: Improving invoice processing isn't a priority right now

Lack of automation causes many preventable problems

High rates of manual invoicing processing leads to a number of predictable pain points. The most common pain points felt by respondents are:

- **High rates of invoice exceptions.** 80% of respondents say this is one of their main pain points in the P2P process. Invoice exceptions (any invoice issue that requires human intervention) can significantly extend invoice cycle times and increase processing costs. The most common causes of invoice exceptions relate to problems with purchase orders (such as a missing or wrong PO number) or price-quantity errors.

- **Poor PO Compliance.** Those with manual processes often have lower rates of compliance with purchase order policies. POs are sometimes not generated, then have to be chased, or they are generated retrospectively. PO problems lead to both high levels of manual intervention and reduced spend visibility. Of our respondents, 59% have fewer than 80% of invoices linked to POs.

- **High volume of calls from suppliers.** 57% of respondents say they struggle with the high volume of calls from suppliers. 37% say their AP team receives over 100 calls and emails a week from suppliers asking when they will be paid or confirming whether invoices were received. Some respondents cited 500 calls a week or higher. Assuming it takes 8 minutes to handle each query (answering the call, researching the issue, communicating back to the supplier), that adds up to 3,467 hours per year, or 1.6 FTEs solely dedicated to answering supplier queries. [Chart 6]
Companies are missing opportunities to add value through working capital optimization

Buyers that continue to follow a highly manual and inefficient invoice process are missing opportunities to optimize their working capital. They often pay late or, in some cases, pay sooner than they need to. Furthermore, in a manual invoice process, suppliers have no visibility as to when their invoice will be paid.

In all cases, manual invoice processing is responsible for these problems, and P2P automation tools can prevent them. e-Invoicing over a business network, for example, can automatically detect problems with invoices upon submission to the network, and send these invoices back to suppliers to correct them before they enter the system. Tools like PO-Flip can ensure high rates of PO-invoice matches. e-Invoicing also gives suppliers visibility into invoice status, eliminating the phone calls into AP. By compressing invoice processing cycles to a few days, it’s now possible to capture all available early payment discounts.

Low rates of discount capture. The biggest obstacle preventing companies from maximizing discount-based savings is process inefficiency. 44% say that they aren’t capturing discounts because they can’t process invoices fast enough to meet early payment deadlines.

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In addition, many organizations with a traditional approach to working capital management don’t leverage the power of a digitized P2P process. The combination of an efficient invoice process, with the ability for suppliers to access invoice and payment status, creates opportunities to pursue new, collaborative working capital management strategies.

What are the top working capital management strategies – and what impact do they have on your suppliers and buyers?

• Extending payment terms. When companies extend their payment terms - from 30 to 45 days, for example - they free up valuable cash flow. It can have a positive impact on the balance sheet and can help fund investments. But for suppliers it has the opposite effect. In response, cash-strapped suppliers may look to alternate sources of funding that can raise their operating costs.

• Early payment discounts. Buyers agree to pay suppliers early in exchange for a discount. These can be fixed discounts (i.e. 2/10 net 30 – 2% discount when paid on or before day 10 of a 30-day payment term) or on a sliding scale (dynamic discounting) up to the invoice due date. The discount meets the buyer’s requirements for cash return, while suppliers get paid sooner to help improve their DSO.
The cost of borrowing and the impact on the supply chain

The health of your supply chain relies on the health of your suppliers’ finances. For many suppliers, cash flow and the cost of borrowing present significant problems. Poor cash flow is a leading cause of insolvency for small businesses. Long payment terms may lead many suppliers to seek loans or factor their receivables (where a supplier sells outstanding invoices to a third party to get an immediate cash payment). Suppliers’ cash flow crunches can directly impact your supply chain.

Survey respondents rank payment terms extension as both the most important working capital management program, as well as the most widely used. 78% of organizations use payment terms extension and 40% rate it as their highest priority when it comes to working capital management.

63% take advantage of early payment discounts and supply chain finance. 22% rate early payment discounts as their top priority working capital management program and 12% rate supply chain financing as their top working capital management program. [Chart 7]

Chart 7

Please rank the payables-based working capital program priorities for your company:

<table>
<thead>
<tr>
<th>Program</th>
<th>No.1</th>
<th>No.2</th>
<th>No.3</th>
<th>No.4</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Terms Extension</td>
<td>40%</td>
<td>24%</td>
<td>10%</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Early Payment Discounts</td>
<td>22%</td>
<td>14%</td>
<td>17%</td>
<td>10%</td>
<td>37%</td>
</tr>
<tr>
<td>Supply Chain Financing</td>
<td>12%</td>
<td>27%</td>
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The missed opportunity for discounts

Despite the benefits for both trading partners, current use of early payment discount programs is low. Only 39% of surveyed organizations offer an early payment discount program, and only 4% capture discounts from more than 20% of suppliers.  

Many organizations (41%) aren’t looking at early payment discount programs yet, so they are missing this opportunity altogether. [Chart 8]

However the savings from early payment discount programs are significant. On average, companies with successful early payment discount programs are capturing between $1M - $1.5M in discount savings per $1BN in targeted spend. These savings can easily exceed the operational cost savings from a more efficient invoice process.

The key issue holding organizations back is an inefficient P2P process

The major obstacle keeping respondents from capturing more discounts is an inefficient P2P process. 44% said they aren’t capturing more discounts because they can’t process invoices fast enough to meet early payment cut-offs.

The key to capturing these savings is a streamlined, automated P2P process, with e-invoicing as a key component. e-Invoicing eliminates the many errors and processing delays from paper-based invoicing, while offering suppliers visibility into when they will get paid. Fixing a broken invoice management process with e-invoicing can help get supplier support for payment terms extension programs, especially when combined with options for early payment discounts.

**Bottom line:** A streamlined, electronic process transforms payables management by turning invoices into assets, offering benefits to both trading partners.
How to realize the savings and benefits from working capital management

A fully digital P2P process accelerates invoice processing, improves collaboration with suppliers, and helps you and your suppliers better manage cash and working capital.

Here are three practical steps you can take to reap the benefits.

1. Align the key stakeholders

Get program support from leaders in Procurement, Finance, and Treasury.

- **Procurement** is essential to engage early on, as working capital management strategies will have an impact on your suppliers. Communication from the Chief Procurement Officer or other procurement executive to your supplier base, educating suppliers on the value of transacting electronically, can drive high rates of adoption.

- **Treasury** must be involved early on as well, as they need to understand the new world of collaborative finance, where you can expand discounts and maintain or extend DPO. Treasury maintains control over rates of return and the amount of cash to apply to discount programs. To preserve cash, supply chain finance is another option for helping suppliers with cash flow.

- **Finance** must have at their disposal a streamlined and efficient payables process, where invoices can be processed straight through, suppliers have visibility into payment status, and early payment discounts are the norm, not the exception.

Aligning finance and procurement is key to success; however, for most organizations, finance and procurement are not sufficiently aligned. Only 20% of respondents are “mostly aligned” on goals and KPIs, and a mere 5% are “very aligned” and actually share goals and KPIs.

Global Process Owners can be valuable resources to drive alignment. While only 34% of respondents have end-to-end global process owners, they can help drive alignment between departments. Our survey shows a correlation between having end-to-end process owners and finance and procurement being well-aligned. (Chart 9)

![Chart 9](image)

- **45%** of companies that are well aligned (‘mostly aligned’ or ‘very aligned’) have end-to-end process owners.
- **25%** of those that are not well aligned (‘rarely aligned’ or ‘not aligned’) have end-to-end process owners.

Having shared KPIs that apply to all three departments is also an important step in ensuring that the activities and goals of these stakeholders are aligned.
2. Prioritize PO compliance and e-invoicing

PO compliance and rates of e-invoicing are building blocks for a strong working capital management program.

- **PO compliance** is crucial to help ensure your spend is effectively managed. It’s also a key indicator of a standardized process, ensuring alignment between Finance and Procurement. Getting the process right on the front end, with the PO, goes a long way to driving straight through processing of invoices on the back end.

- **e-Invoicing** drives collaboration, improves efficiency, promotes first-time PO and invoice matches, and lays the foundation for better management of cash and working capital, for both trading partners. Fast, efficient invoice processing is key to making any discounting program work, and the ability to collaborate with suppliers over invoices and payments creates collaborative finance opportunities that can’t occur with manual, paper-based processing.

While rates of PO compliance and e-invoicing are valuable KPIs, don’t ignore other metrics such as % of discounts captured and DPO. These, too, can help you optimize business performance, returns on cash, and working capital.

3. Leverage end-to-end P2P solutions

Standardizing and digitizing your process from procurement through to payment will promote straight-through invoice processing and improve control. Additionally, this will free up resources to tackle more strategic activities such as improving cash flow and working capital metrics.

- Close the loop. To effectively align Finance and Procurement, make sure your processes are as ‘closed loop’ as possible. When your suppliers can invoice directly off POs (as in PO-Flip), or from a contract without a PO, you have more control over spending.

- e-Invoicing lowers costs from a transactional perspective, and enables you to secure early payment discounts, where the cost savings can be much larger than the operational savings. When e-invoicing is delivered as part of a larger procure-to-pay suite, it can simplify management of the broader process.

- A business network is another key component that drives buyer-supplier collaboration and real-time transaction management. The more effective your collaboration with suppliers, the greater results you will achieve from your P2P-working capital management program.

Conclusion: The next phase

While many shared services organizations are moving in the right direction with process standardization, technology and alignment, our survey shows that when you drill deeper, most organizations aren’t taking P2P programs far enough to realize all the benefits.

Companies that move to the next phase are dramatically improving how they manage cash and working capital. You can too, by balancing payment terms extension program with early payment
discounts, maintaining or extending DPO while supporting the cash flow requirements of your supply chain. You can also add supply chain financing as a complement to a comprehensive working capital management program.

However, you can’t achieve best-in-class results without fixing the gaps in your P2P process. Connect electronically to your suppliers, link POs to invoices, and let automation manage the transactions and drive straight-through processing. By following this approach, shared services organizations will have more resources available to focus on strategic activities that strengthen their income statement and balance sheet.

Download three reports with more detailed survey results:
How SAP Ariba can help you improve procure-to-pay and working capital management

At SAP Ariba, we work closely with organizations like yours to digitize procure-to-pay processing. We support you with best practices, services, and solutions that redefine the way you manage business commerce. We help you collaborate electronically with suppliers and automate procure-to-pay operations, so you can process invoices quickly, manage cash better, and optimize working capital.

New areas of opportunity include early payment discounts and supply chain finance. Early payment discounts offer risk-free, double-digit cash returns that are especially attractive in a low interest rate environment. For organizations that don’t want to apply excess cash to discounts or desire instead to focus primarily on extending terms while holding onto cash, you can take advantage of supply chain finance. Here, a bank or third-party financial institution will fund the discount as you extend payment terms to increase DPO and unlock valuable working capital.

P2P automation and early payment discounts in practice

- American Electric Power (AEP) emphasized early payment discounts in its e-payables transformation and, in its first year, realized a substantial increase in early payment discount savings. Using SAP Ariba Working Capital Management Services team, the utility discovered that it had more than 150 distinct payment terms and that it was paying suppliers faster than its peers. By standardizing payment terms, they were able to extend DPO to conform to its industry average. They also found that the cost savings from the discounts would fund the larger procure-to-pay project.

- Another US utility realized even greater savings, earning close to $3 million in discounts for every billion dollars of spend, while achieving a discount capture rate close to 100%. According to the project lead, “With the results that we’ve seen, the investment in one person for this program and for SAP Ariba solutions has come back to us hundreds of times over.”

- A retailer’s suppliers were interested in accelerating their cash flow. Using SAP Ariba’s technology, they recognized the opportunity for discounts on merchandise spend, not normally a candidate for early payment discounts. But early payment discounts proved to be a good fit for a group of suppliers, and they were able to secure savings after identifying a mutually acceptable discount rate.

Maximize your return on investment

Double-digit cash returns and freed up cash flow aren’t always associated with a P2P automation initiative, but they should be. While the 60 to 80 percent cost savings from PO and invoice automation are impressive, even greater savings come from the opportunity P2P automation creates: defining a program that combines early payment discounts with payment terms extension enabled by supply chain finance to extend DPO, freeing up working capital and increasing free cash flow. Yet additional savings come from improved contract compliance. According to procure-to-pay industry studies and SAP Ariba customer results, the savings from automating these business processes are conservatively estimated to be $10 million per billion in spend.

Depending on the state of your procure-to-pay operations, the returns on a P2P automation initiative could be much higher. With the potential impact to your business, this is an opportunity worth a closer look.

For more information about SAP Ariba solutions and services please visit here.
About SAP Ariba

SAP Ariba is how companies connect to get business done. On the Ariba Network, buyers and suppliers from more than two million companies and 190 countries discover new opportunities, collaborate on transactions and grow their relationships. Buyers can manage the entire purchasing process, while controlling spending, finding new sources of savings and building a healthy supply chain. And suppliers can connect with profitable customers and efficiently scale existing relationships – simplifying sales cycles and improving cash control along the way. The result is a dynamic, digital marketplace, where more than $1 trillion in commerce gets done every year.

To learn more about SAP Ariba, visit www.ariba.com

About SAP

As market leader in enterprise application software, SAP (NYSE: SAP) helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront, desktop to mobile device – SAP empowers people and organizations to work together more efficiently and use business

About sharedserviceslink

sharedserviceslink’s mission is to connect the world’s shared services professionals to allow them to be more productive and successful. Our services are designed to connect you to other professionals to meet online, exchange ideas and content, learn and be part of a network of trusted relationships. We also provide benchmark tools and a huge amount of content to help you in your day to day work.

www.sharedserviceslink.com