PACKAGED P2P
the evolution of purchase to pay

A Purchasing Insight White Paper by Pete Loughlin

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Introduction

Despite decades of effort, Purchase-to-Pay technology has failed to make the impact that it really ought to have. That is not to say that progress is not impressive. The cost of business transactions has fallen dramatically over the last four decades, largely as a result of the growth in computer technology, but the promises of the technology haven't been fully delivered.

Bound by the constraints of archaic thinking born out of centuries-old trading environments, the document-centric approach to supply chain transactions has reached a limit in terms of its ability to support automation. To understand why requires a knowledge of the P2P journey that we've been travelling since the 1980s; and to understand how we break through the limits requires a new way of thinking.

In this brief paper, we introduce the concept of Packaged P2P – a process-centric approach that allows business to process supply chain transactions with levels of efficiency that would otherwise be unattainable.

Remarkable P2P claims

Even for mature organizations, it is very typical to only achieve about 50% of invoices processed without some intervention. There may be no PO to match the invoice to and even when there is, a significant proportion of invoices will have some sort of issue that needs to be managed through before it can be made ready for payment. What is seen as good practice varies from one industry to another and indeed from one country to another. In some parts of Europe, for example, payment within 10 days is commonplace because of the uptake in AP automation tools like e-invoicing and the rates for Straight Through Processing (STP) are relatively high. Some supply chains are very slick and efficient out of necessity – food retail for example – where we see STP rates of over 90%. But typically, when we take a mixed bag of direct and indirect material, STP rates of over 80% would be considered healthy and for business embarking on a Purchase-to-Pay program, 80% STP would be a credible aspiration, a realistic target.

Many solution providers make great claims about their percentage success but, like all statistical claims, they should be treated with caution. OCR (Optical Character Recognition) solution providers, for example, will claim that their technology can achieve close to 100% accuracy in recognizing and interpreting paper documents. But there's a big difference between having nearly all of your paper documents digitized with 100% accuracy and having 100% of your documents nearly correct. E-invoicing service providers are getting better at supplier adoption and some businesses now receive over 90% of their invoices electronically. This is impressive, but the reality is only as impressive as the levels of process automation that is achieved as a result of this.

So if you've been around long enough, you naturally pause when you hear about customers achieving 90% Straight Through Processing rates. That doesn't mean over 90% of document are electronic – in itself, that means nothing – it means that 90% of all transactions are completely automated. And when you look a little deeper and ask 'what does "over 90%" actually mean?' and you're told that the exact number is 97%, you have to wonder where the catch is.

So what is it that enables such remarkable results? What is it that is so different about Packaged P2P?

A brief history of P2P

As recently as the 1980s everything was done on paper. A controlled ordering process involved a hand-written requisition authorized by a physical signature, and a paper purchase order was prepared from a pad of paper POs with sequential PO numbers on them. Quotations and invoices were created using a typewriter and carbon paper to make an accurate copy. Dispatch notes and goods received notes were all paper. But it was in the 1980s that things changed. The first self-contained computers that could sit on a desk were becoming available. Computers were being used for accounting. Purchase ledgers were tables in a database. The preparation of quotations could be automated from a database of parts and prices. It's easy to overlook how much of a transformation it was to be able to print a PO based on a record held in a computer ensuring its integrity.

Computers transformed supply chains. It became possible to analyze and manipulate the raw data in manufacturing supply chains to optimize inventory, predict demand, and fine-tune warehousing needs. The Material Resource Planning systems (MRP) delivered efficiencies in industries that made adopters of the technology more competitive. The industrial strength, modular business applications embraced an increasing number of business areas so that the whole enterprise was supported by increasingly sophisticated computer power. The modern Enterprise Resource Planning (ERP) system matured in the 1990s.

The biggest global businesses spearheaded the use of ERP and spend literally tens of millions of dollars in the latter part of the 20th century implementing these systems – yet, when it came to placing a purchase order, businesses were using their tens of millions of dollars of IT investment to produce a piece of paper that would be put into an envelope and sent to a supplier who would rekey the data into their tens of millions of dollars of IT investment. And it was the same for invoices. Paper - all of them.

A few words about EDI and proprietary networks

When you look into the history of the technology that supports Purchase-to-Pay, you can find a wide variety of stories. Some supply chains are very sophisticated and have always been supported by leading edge technologies and techniques. If you were to take military or aerospace supply chains for example, you'd see the emergence of highly automated processes very early on. EDI supporting real-time inventory management and electronic ordering and invoicing was already mature in the 1980s in some supply chains, in contrast to many other industries that were barely computerized at that time. The reference to supply chains rather than industries is deliberate. In financial services for example, the management of the supply of direct goods – the raw materials of the industry such as market data – is absolutely critical and huge private global networks were built as soon as the technology was available. Cost was no obstacle. Yet the management of supply of indirects such as stationery, marketing and contingent labor was as inefficient as any other business. It wasn't until the 1990s – when tools like e-procurement emerged – that these categories of spend were addressed.
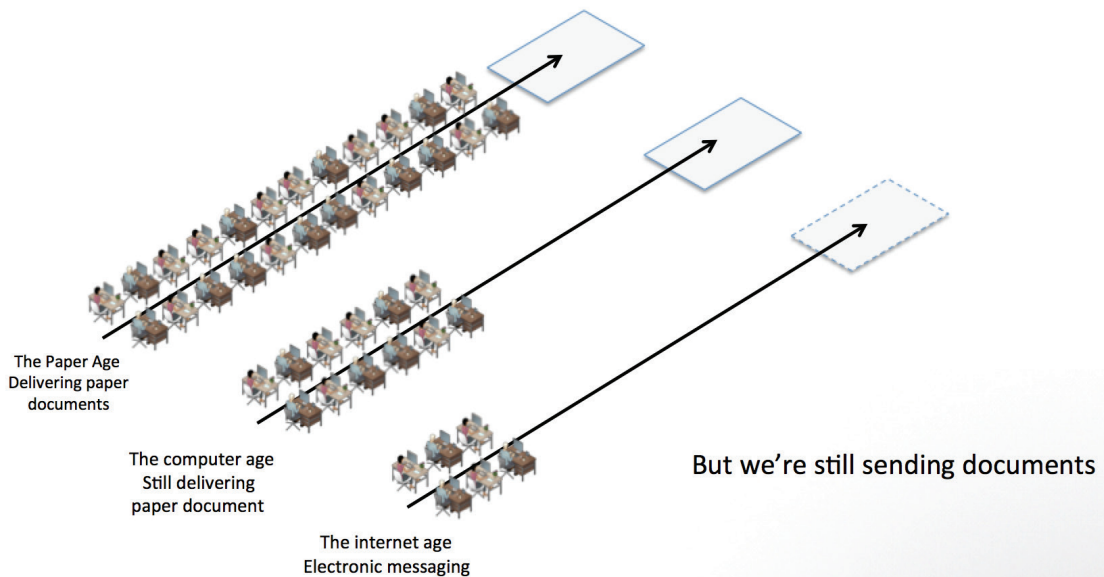
e-Procurement and e-Invoicing

Although it is now taken for granted, the Internet was revolutionary in the 1990s. As it became ubiquitous and trusted by business, it promised a low cost, flexible way to transmit business messages, in contrast to EDI networks.

A web-based catalogue could reach a global audience of potential customers. Whole industries were transformed, and while the B2C success stories like Amazon and Dell took the headlines, the same transformation was happening in the B2B space. e-procurement and to a lesser extent e-invoicing, grew rapidly as people in business sought to emulate the ease of trading online they experienced at home.

Over the last 30 years there have been two major leaps forward in what we now call Purchase-to-Pay – the development and growth of ERP which delivered the automation of many supply chain management, purchase, and supply business processes – and Internet technologies which provided an inexpensive and flexible platform for business systems to communicate.

These are big steps forward but we are still left with one of the fundamental barriers to further efficiency. Businesses remain in their own silos and this prevents true collaboration. To put it simply, if I am a buying organization and I receive an invoice, it makes little difference to me whether it's a paper invoice or an electronic invoice. It's still an invoice and I have to do something with it. I have to compare it and match it with a PO and receipt confirmation and even if I automate those processes as much as I can, I still have to do it. And this is absurd because the data that I process from my suppliers invoice was originally generated by me in my purchasing system. Why am I manipulating it twice?

The Paper Age
Delivering paper documents

The computer age
Still delivering paper document

The internet age
Electronic messaging

But we're still sending documents

Dumb pipes or smart networks

But there's another problem with sending messages – beyond the fact that we still have to manipulate them when we receive them – standards.

Standards are seen as the solution. When two systems talk to each other they need to talk in a common language, spurring the creation of a whole industry supporting B2B communication standards. These standards define the messages that businesses send to each other: POs; Invoices; Credit Notes etc. They define what data is sent and in what format. And while standards solve the interoperability problem – allowing disparate systems to interoperate with one another – they don't solve the P2P problem because it doesn't matter how well formatted a message is if the information it contains is incorrect.

What would you rather receive? 100 incorrect electronic invoices or 100 correct paper invoices? It's not the format that makes the difference, it's the quality of data.

Focusing on communication layer is allowing the technology tail to wag the business process dog. We should recognize that EDI, whether sent over proprietary VANS or the Internet in its modern XML guise, is simply messages sent over dumb pipes. Straight through processing isn't about delivering messages at the speed of light over dumb pipes. True straight through processing is about the delivery of accurate data via smart networks.

Packaged P2P – facilitating the extended enterprise

To understand the potential of Packaged P2P, we have to think in a slightly unconventional way. Consider this: Purchase Orders and Invoices are the same. Contractually this is clearly not the case but put that to one side for a moment. If you translate it into plain speech, a PO may say "I would like 3 widgets at $10 each and will pay $30 for them". And the corresponding invoice would say "I have supplied 3 widgets at $10 each and require payment of $30". Breaking this down into the core data elements, the data on the PO is: 3 widgets, $10 each, total $30. The data on the invoice is identical: 3 widgets, $10 each, total $30. From an information point of view, a PO is the same as an invoice; or rather, they are mirror images of each another. They are the same thing viewed from two different perspectives. It's exactly the same for a dispatch note and goods received note. They are mirror images of each another derived from exactly the same information.

The reason why it's difficult to leverage the shared heritage of these documents is that the information is held and maintained in separate systems. This is also where the opportunity lies.

Think non-technically and envision that all of the core data for a P2P transaction is held in the same place, in the cloud, where all parties have access to it. A buyer generates the initial data: 3 widgets, $10 each. The buyer can create a PO from this and enhance it with terms and conditions, special instructions and so on but the core data is there. In response, the seller can use that same core data to prepare an invoice and also create a dispatch note incorporating delivery dates location etc. The data in the dispatch note can generate a goods receipt record. All of the Purchase-to-Pay documents – quotations, POs, invoices queries and disputes, credit notes, return – can all be built from the same, shared, core data. And this has a remarkable effect.

Continue to envision, in a non-technical way, what this would mean to an Accounts Payable clerk. Instead of receiving an invoice, electronically or on paper, and having to match it, automatically or manually, I receive the complete P2P package. I'm sent a matched invoice – an invoice already matched with the PO and GRN in a single package.

Breaking the constraints of documentation

The fundamental reason why Purchase-to-Pay has struggled to fully automate the purchasing and payment cycle is that we constrain ourselves with old thinking. We think of Purchase-to-Pay as being document driven when we should be thinking of it as process-driven. And before you start thinking that this is consultancy claptrap, just imagine for a moment that an invoice is not a document but rather, a stage in a process. Treating Purchase-to-Pay as process centric rather than document centric releases the constraints of old thinking allow us to deliver on a promise of true straight through processing – that's a process – a right first time, every time, end-to-end process.

Nipendo's Three Guarantees for Packaged P2P

1st GUARANTEE:
90%+ touch-free, error-free straight-through processing

Moving beyond the limitation of discrete document-based systems, Nipendo automates the entire Procure-to-Pay process, enabling buyers and suppliers to collaborate through Nipendo Supplier Cloud. Invoices are automatically validated and reconciled with purchase orders and receiving records to ensure compliance with your payment policies. In case of a mismatch, the invoice is automatically returned to the supplier to be corrected, without any effort on your part and before it enters your system. As a result, Nipendo delivers automated and fully compliant invoice reconciliation with touch-free and errorless straight-through processing to your ERP systems for over 90% of supplier invoices.

2nd GUARANTEE:
Leverage your existing solutions

Recognizing that most organizations have made substantial investments in B2B infrastructure, Nipendo is designed to provide an added automation and compliance layer on top of existing systems. By ensuring interoperability with existing solutions, Nipendo enables your organization to achieve the next level of P2P process automation while maximizing any investments made in buyer-supplier connectivity solutions—be it electronic invoicing, OCR, EDI, or a supplier portal. Eliminating the need for one-off integration points, connecting your existing B2B and ERP systems to the Nipendo Supplier Cloud platform requires no complex customizations, data mapping, or changes to existing business processes, so you can go live and start automating P2P processes in 90 days or less.

3rd GUARANTEE:
Pay only for automatically reconciled invoices

Nipendo makes outrageous claims about the level of automation it can deliver, but it readily supports these claims with customer testimonials and an industry-first price guarantee. Since the ultimate value of a P2P solution is in removing the need for manual processing, Nipendo charges only for invoices that are processed straight through to your ERP without any errors, fully-reconciled and ready for payment—all without any manual effort.

Learn more about Nipendo's three guarantees >>>