ivalua

Closing the Digital Gap

2019 P2P Performance Study Results

The Hackett Group

WATCH FULL WEBINAR REPLAY: http://bit.ly/Hackett-Group-Webinar

Today's Speakers

ivalua

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Today's Session

- Where are we with core automation of the P2P process?

- What about the other aspects of digital transformation?

- What stumbling blocks are holding us back?

- What are the next steps we need to take, beyond process automation, to truly transform the process

- Brief introduction to Ivalua

The P2P Performance study measures the end-to-end transactional processes from requisition to payment

End-to-End Purchase to Pay Process

Requisition & PO Processing	Supplier Scheduling	Receipt Processing	Item Master/ Content Mgmt	Catalog Mgmt	Contract Master Mgmt

Supplier Master Mgmt	Invoice Pre-Processing	Verification and Approval	Invoice Processing	Discrepancy Resolution	Supplier Payment

Customer Inquiry and Response	File, Store, & Retrieve	Reconciliation, Accrual and Compliance	Pcard Management

Purchasing Operations

Accounts Payable

Study Scope

- The study covers a 12 month time period
- The Hackett Group's methodology utilizes a rolling sample, new benchmarks are calculated every two years
- Results are representative of approximately 100 organizations across various industries and geographies
- Labor, Outsourcing, Technology/Systems and Overhead Costs across all sub processes are included
- All third party vendor spend and transactions are included (payments for areas such as salaries, taxes, and product logistics are excluded)
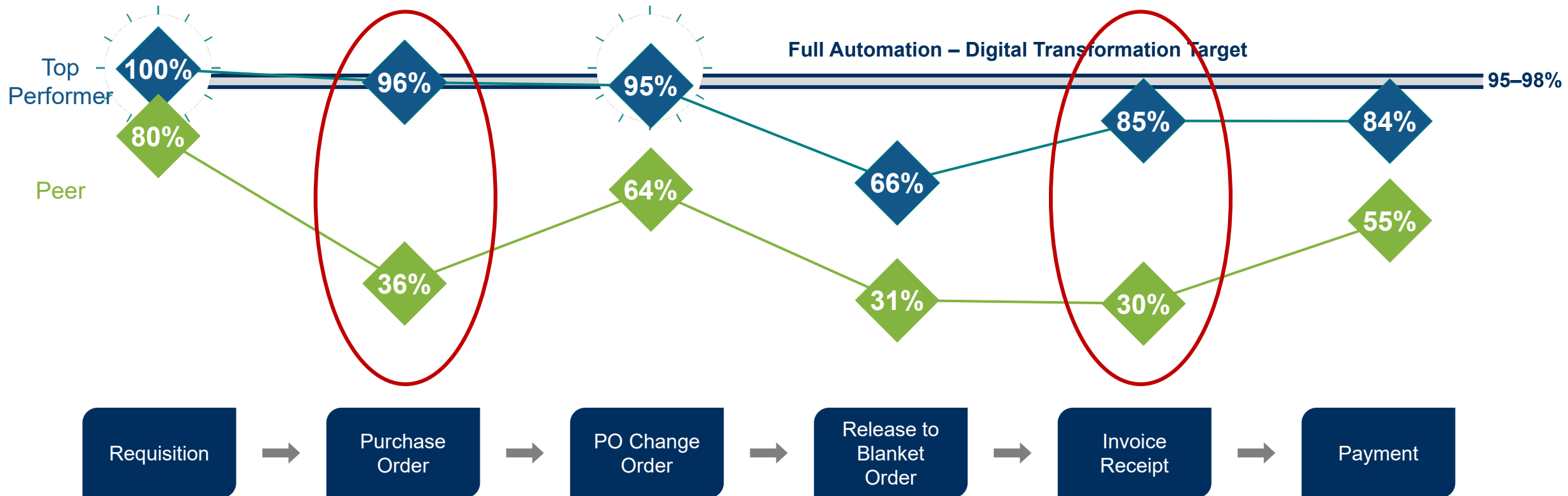
Metrics in this presentation fall into the following categories:

Master Data	Purchasing	Payables	P-card	Working Capital

Digital Progress

- **Automation**
- Information
- Stakeholder Centricity
- Agility
- Talent

Fully-electronic P2P requires automated purchase approval workflow and order dispatch with electronic invoice-to-pay transactions

Full Automation – Digital Transformation Target

Top Performer

100%	96%	95%	66%	85%	84%	95–98%

Peer

80%	36%	64%	31%	30%	55%

Requisition	→	Purchase Order	→	PO Change Order	→	Release to Blanket Order	→	Invoice Receipt	→	Payment

Core process automation (and information) is foundational to digital transformation. If processes are still manual and/or data is not received electronically the ability to increase value delivery will be limited.

In P2P, we face a *Digital Gap: Despite having systems in place organizations are far from having 100% of transactions, spend, users and supplier flowing through a digital process*.

Source: 2019 P2P Study, The Hackett Group

The Hackett Group

Does a "digital gap" exist in your P2P core process automation?

- Yes – We have systems in place but are not near-100% automated
- Yes – We don't have systems in place yet
- Yes – We're stuck somewhere in the middle
- No – We are as close to 100% as we feel is possible

The Hackett Group

Let's start with automation of the *purchasing operations* process with e-procurement tools

An Internet or intranet-based solution that provides a self-service utility for buying goods and services, creating requisitions, viewing catalog content with pre-negotiated prices, finding preferred suppliers, obtaining approval for purchases, managing spend against a budget and communicating POs to suppliers.
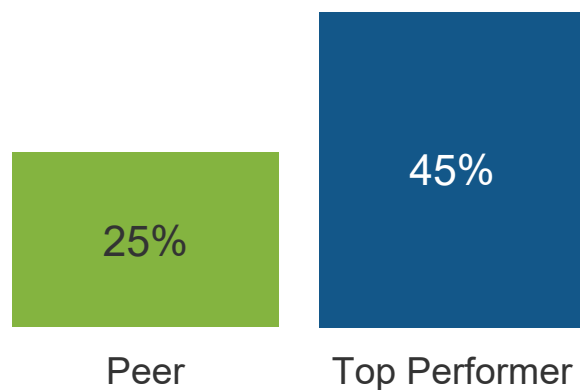
E-procurement software provides:

- Catalog management
- Requisitions management
- PO management
- Approvals and workflow

E-Procurement

- Maintain e-catalogs
- Search approved suppliers
- "Punch-out" to supplier catalogs
- Create requisitions
- Manage approval workflow
- Auto-generate PO
- Notify suppliers
- Update receiving status

Source: The Hackett Group

The Hackett Group

E-procurement systems primarily focus on catalog-based buying technology to empower end-users; however catalogs are only going so far
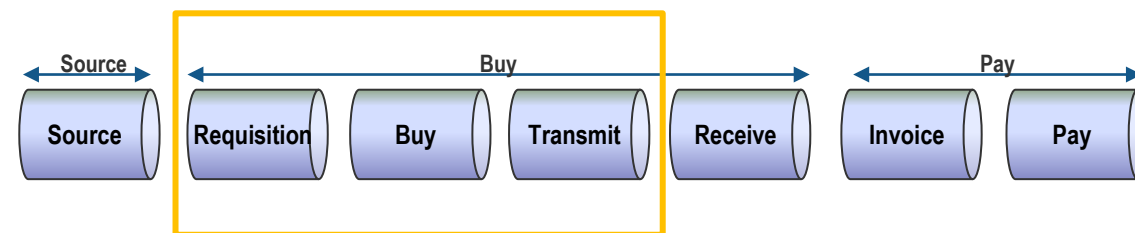
Indirect E-Catalog <u>Transactions</u>

Peer	Top Performer
25%	45%

Indirect E-Catalog <u>Spend</u>

Peer	Top Performer
10%	14%

37%
Indirect requisitions from **catalog** vs. **free text**

Source: Purchase-to-Pay Study, The Hackett Group, 2019 (left, center)
Source: Procurement Benchmark Median, The Hackett Group, 2019 (right)

The Hackett Group

Digital maturity in e-procurement means all spend has an <u>intentional</u> buy channel
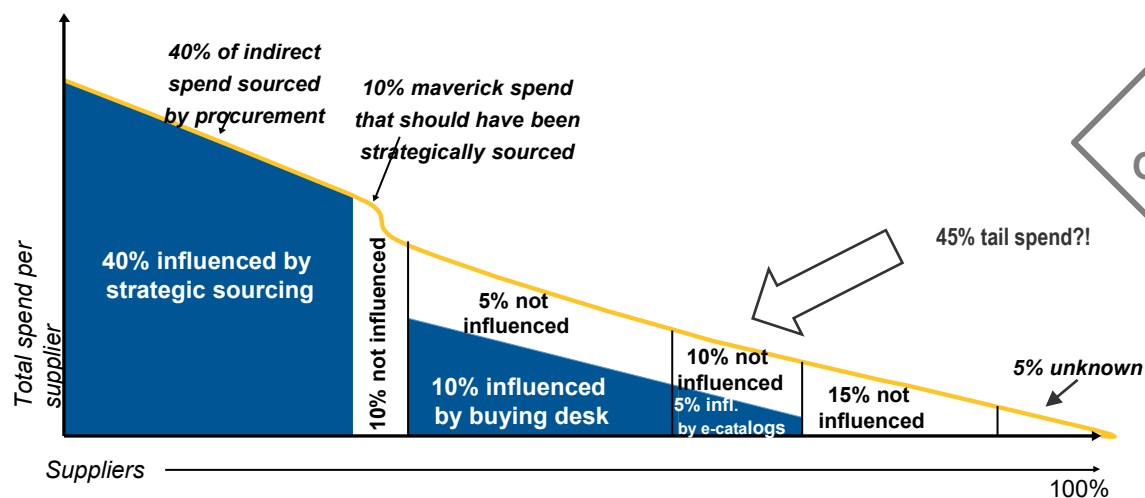
Objectives of a Digital Requisitioning Channel Strategy:
- Improve user experience
- Fully digital Req-to-Pay process
- Capture visibility to 100% of spend
- Leverage volume for value where possible
- Reduce process costs of onboarding and purchasing
- Eliminate maverick/rogue spend
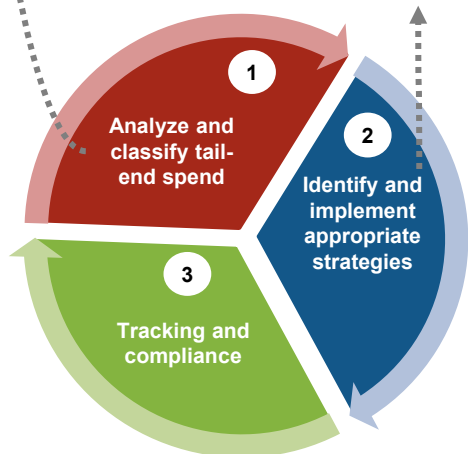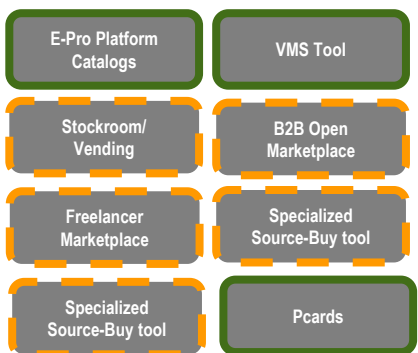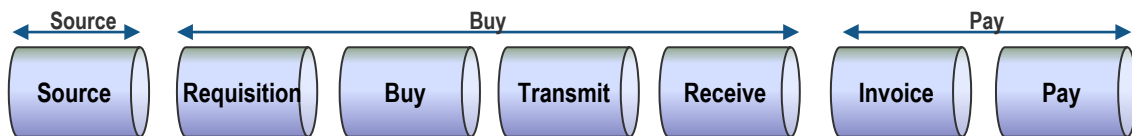- Reduce supply risk and fraud

Others??

Source | Buy | Pay

Source | Requisition | Buy | Transmit | Receive | Invoice | Pay

Indirect Tail Spend Curve for an Organization with 55% Spend Influence

40% of indirect spend sourced by procurement

10% maverick spend that should have been strategically sourced

40% influenced by strategic sourcing

10% not influenced

5% not influenced

10% influenced by buying desk

10% not influenced
5% infl. by e-catalogs

15% not influenced

5% unknown

45% tail spend?!

Not Optimized

What we often call tail spend is really uncategorized, mostly indirect purchases that don't flow through our existing source and buy channels. Few sourcing organizations will reach 100% of spend coverage, so this becomes a purchasing operations problem.

We need new buying tools and processes to address this spend.
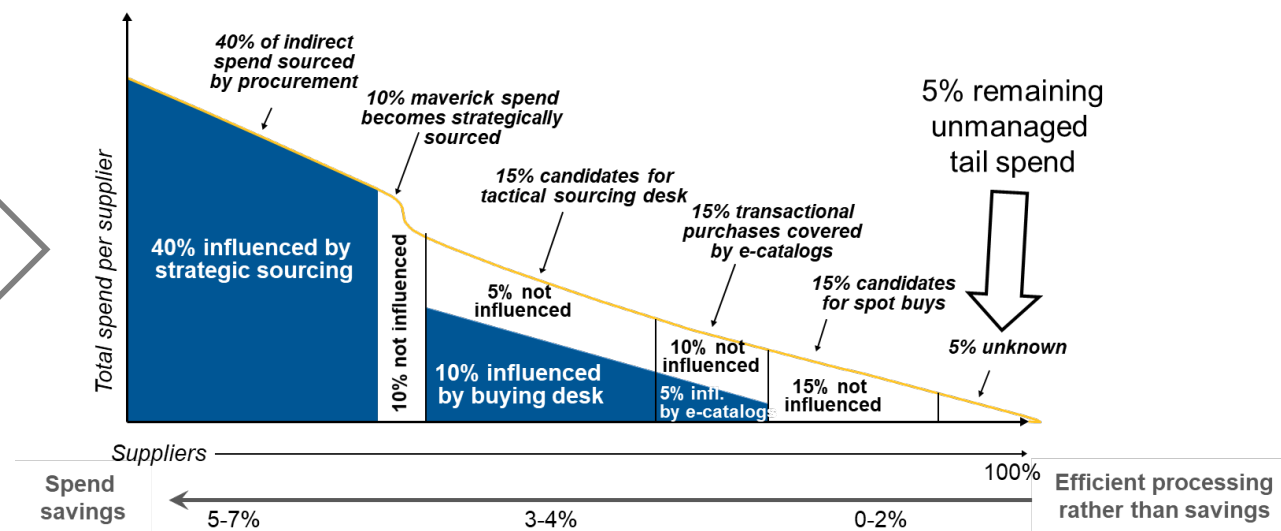
Total spend per supplier

Suppliers

100%

Source: The Hackett Group

The Hackett Group

Addressing "Tail Spend" requires a multi-pronged approach, since it is a multi-faceted problem

Source — **Buy** — **Pay**

Source | Requisition | Buy | Transmit | Receive | Invoice | Pay

E-Pro Platform Catalogs | VMS Tool

Stockroom/ Vending | B2B Open Marketplace

Freelancer Marketplace | Specialized Source-Buy tool

Specialized Source-Buy tool | Pcards

1. **Analyze and classify tail-end spend**
2. **Identify and implement appropriate strategies**
3. **Tracking and compliance**

In an _optimized model:_
- Most spend should flow through a defined channel
- Remaining "tail spend" is analyzed, reclassified, and re-routed into a preferred channel for future purchases
- Ad hoc requisitions are analyzed for catalog potential
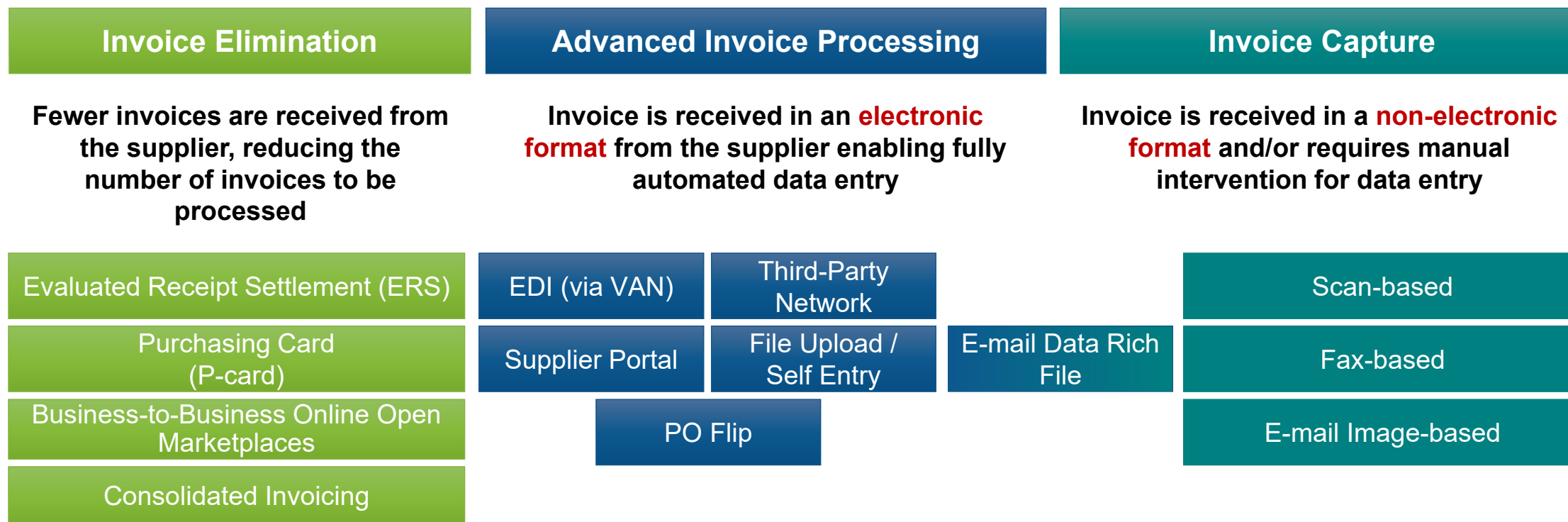- New channels are added to accommodate requisitioner needs

Better Optimized

Integrated Tail Spend Management Strategy for Indirect Spend

Total spend per supplier

40% of indirect spend sourced by procurement

10% maverick spend becomes strategically sourced

15% candidates for tactical sourcing desk

15% transactional purchases covered by e-catalogs

15% candidates for spot buys

5% remaining unmanaged tail spend

40% influenced by strategic sourcing

10% not influenced

5% not influenced

10% influenced by buying desk

10% not influenced

5% infl. by e-catalogs

15% not influenced

5% unknown

Suppliers

100%

Spend savings

5-7% | 3-4% | 0-2%

Efficient processing rather than savings

Source: The Hackett Group

The Hackett Group

For most organizations that means your technology implementation must go beyond a standard e-procurement platform

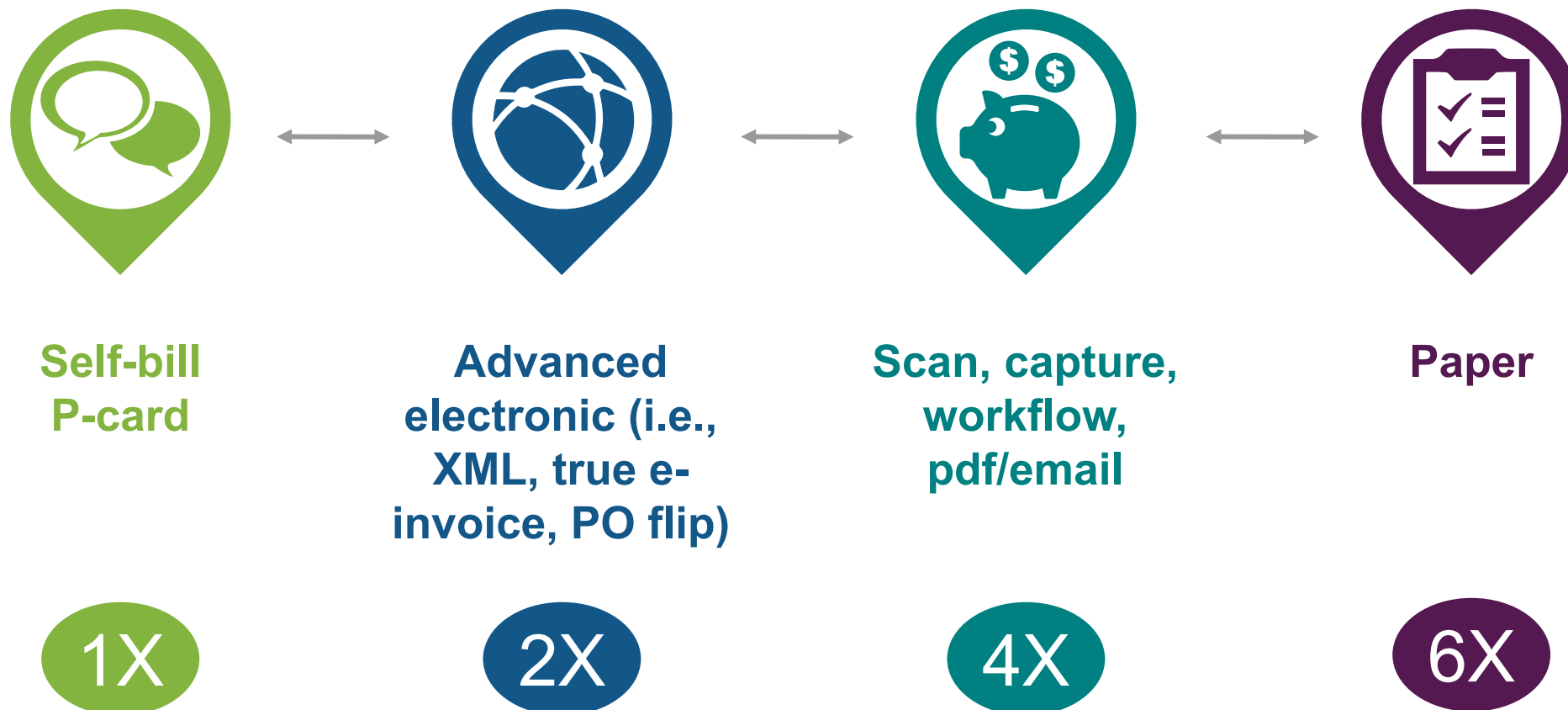| Spend Type	Typical Indirect Categories	Primary Requisitioning Channel	Executed By
Large, strategic project spend	Outsourcing, Strategic Consulting Services, Benefits	Contract-based ad hoc requisition through ERP or e-Procurement platform	Internal or external buyer team
Recurring spend with contracted suppliers	Travel, Promotional Items, Office Supplies	E-Catalogs	Internal or external sourcing and data teams
Contingent workforce and complex services	Temporary Labor, SOW workers	Services procurement tool	Internal or external sourcing and data teams
Recurring consumable spend with contracted suppliers	MRO Supplies, Lab Supplies	Stockroom inventory, vending machines, RFID refrigerators	End users with procurement enablement
Specialized recurring spend with medium to low risk factors	Print, Marketing, Promotions	Light or specialized e-sourcing tools that feed into ePro process	Tactical Sourcing Team (internal or outsourced)
Short term creative or ad hoc services	Video creation, Website Design	Targeted online marketplaces for freelancers	End users with procurement enablement
Non-recurring business critical spend	Conference Speakers, Influencers, Affiliates	Consolidation and process management by a third party tool	External provider
Recurring or one time low dollar, low risk goods	IT Accessories, Basic Tools	B2B Open Marketplace	Hands-off execution
Nonrecurring or one time low dollar, low risk goods	Birthday Gifts, Conference Room Rentals	Pcards on an external website or retail location	Hands-off execution
Uncategorized "Tail Spend"	Any, especially unmanaged categories like Prototypes or Local Facilities	Spend analysis along with light e-sourcing tools with to find leverage opportunities	Tactical Sourcing Team (internal or outsourced)

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One of the complexities of optimising the overall *invoice automation* strategy stems from the numbers of ways invoices can be submitted by suppliers

Invoice Elimination	Advanced Invoice Processing	Invoice Capture
Fewer invoices are received from the supplier, reducing the number of invoices to be processed	**Invoice is received in an electronic format from the supplier enabling fully automated data entry**	**Invoice is received in a non-electronic format and/or requires manual intervention for data entry**

Invoice Elimination
- Evaluated Receipt Settlement (ERS)
- Purchasing Card (P-card)
- Business-to-Business Online Open Marketplaces
- Consolidated Invoicing

Advanced Invoice Processing
- EDI (via VAN)
- Third-Party Network
- Supplier Portal
- File Upload / Self Entry
- E-mail Data Rich File
- PO Flip

Invoice Capture
- Scan-based
- Fax-based
- E-mail Image-based

Source: The Hackett Group

The Hackett Group

While most organizations have moved from paper, shifting from scan and capture to electronic and elimination has benefits for cost, quality, and data visibility

## PROCESSING COST DIFFERENTIAL BY INVOICE TRANSMISSION CHANNEL

Self-bill P-card — 1X

Advanced electronic (i.e., XML, true e-invoice, PO flip) — 2X

Scan, capture, workflow, pdf/email — 4X

Paper — 6X

Invoicing shift left strategy

Source: 2019 P2P Study, The Hackett Group

The Hackett Group

While top performers maximise e-invoicing, the majority of organizations still struggle with adoption

80%
have
e-invoicing
tools in place

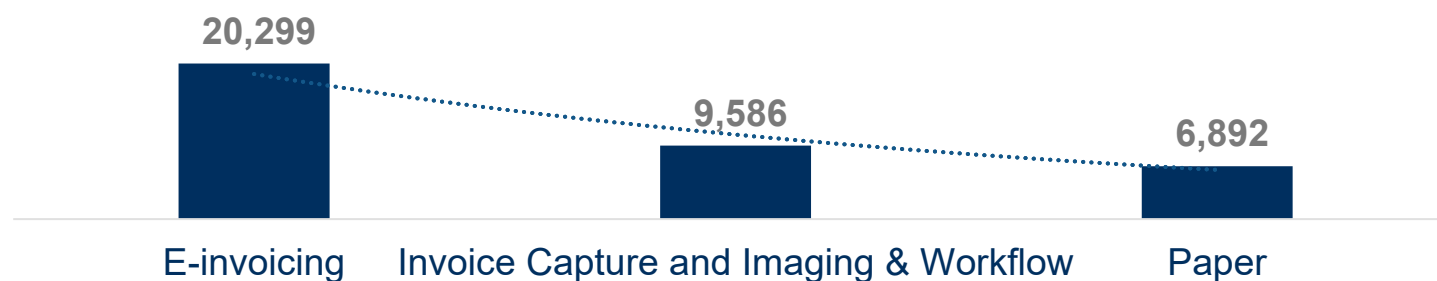### PERCENT OF ELECTRONIC INVOICES AND INVOICE-LESS TRANSACTIONS

30%
Non Top Performer
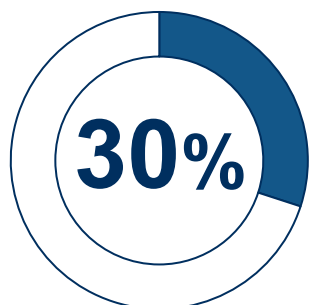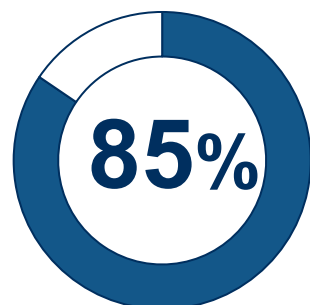
85%
Top Performer

ACCOUNTS PAYABLE PROCESS COST PER INVOICE (LABOUR & OUTSOURCING)[1]

$2.13 — E-invoicing
$3.93 — Invoice Capture and Imaging & Workflow
$6.39 — Paper

INVOICE PER ACCOUNTS PAYABLE FTE[1]

20,299 — E-invoicing
9,586 — Invoice Capture and Imaging & Workflow
6,892 — Paper

1 Based on organisations with high percentage of transactions through dominant strategy
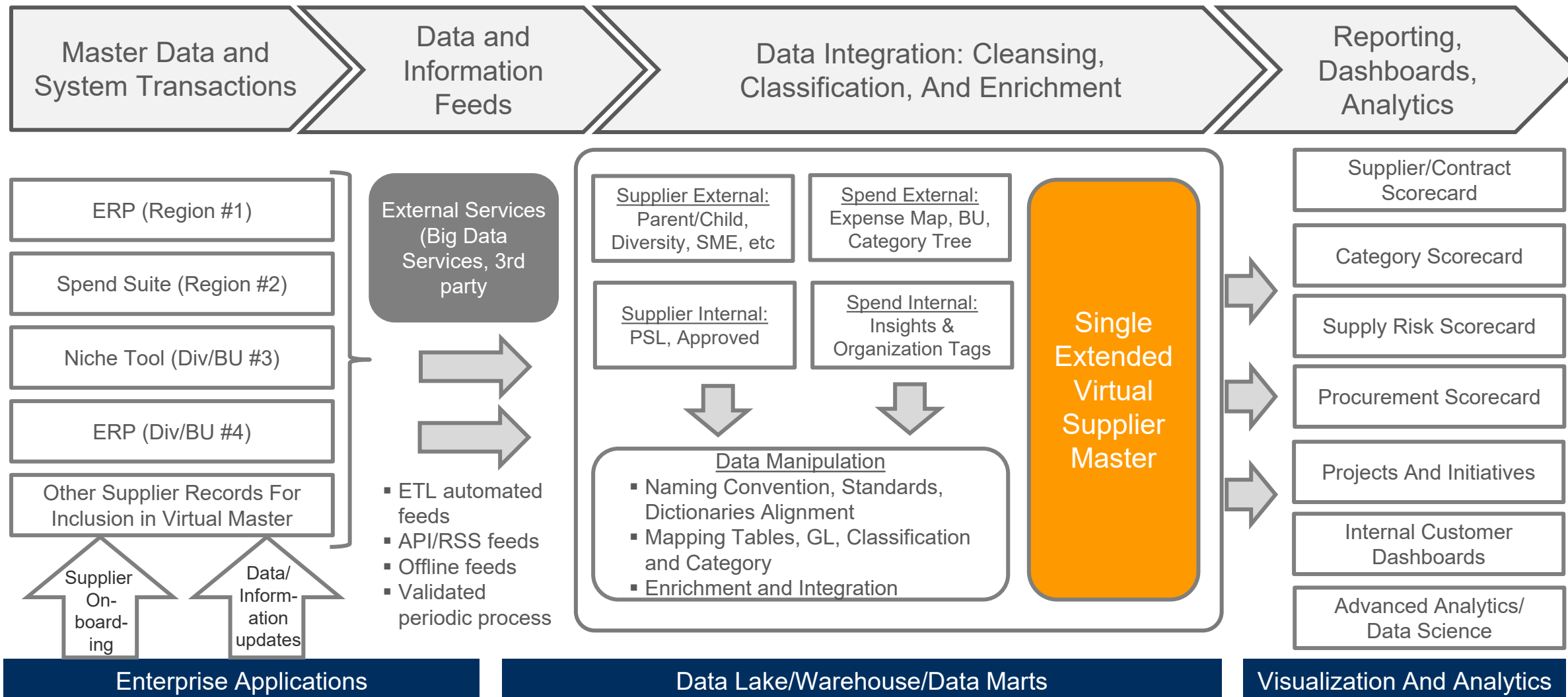
Source: 2019 P2P Study, The Hackett Group

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Digital Progress

- Automation
- **Information**
- Stakeholder Centricity
- Agility
- Talent

The Hackett Group

"The world of master data management is changing – it's no longer just about managing data". Rather "organizations need to be data enabled so that they can gain insights and make data infused decisions, and this requires a fundamental change in behaviour towards data"

Source: MDM Strategy, Large Pharma Company

Master data requirements have evolved to Supply Information Management

Supply information architecture requires an insight driven approach to define and manage required data and information sources including classification, enrichment, maintenance, visualization and analytics


Master Data and System Transactions → Data and Information Feeds → Data Integration: Cleansing, Classification, And Enrichment → Reporting, Dashboards, Analytics

- ERP (Region #1)
- Spend Suite (Region #2)
- Niche Tool (Div/BU #3)
- ERP (Div/BU #4)
- Other Supplier Records For Inclusion in Virtual Master
  - Supplier On-board-ing
  - Data/Inform-ation updates

External Services (Big Data Services, 3rd party)

- ETL automated feeds
- API/RSS feeds
- Offline feeds
- Validated periodic process

Supplier External: Parent/Child, Diversity, SME, etc

Spend External: Expense Map, BU, Category Tree

Supplier Internal: PSL, Approved

Spend Internal: Insights & Organization Tags

Data Manipulation
- Naming Convention, Standards, Dictionaries Alignment
- Mapping Tables, GL, Classification and Category
- Enrichment and Integration

Single Extended Virtual Supplier Master

- Supplier/Contract Scorecard
- Category Scorecard
- Supply Risk Scorecard
- Procurement Scorecard
- Projects And Initiatives
- Internal Customer Dashboards
- Advanced Analytics/ Data Science

Enterprise Applications | Data Lake/Warehouse/Data Marts | Visualization And Analytics

Source: The Hackett Group

The Hackett Group

A gap in line item visibility limits the value Source to Pay can deliver, you don't know what you are buying

How can you re-channel purchases when they aren't even visible?

Line-Item Spend Visibility Rate

93%

41%

Peer

Top Performer

The Hackett Group
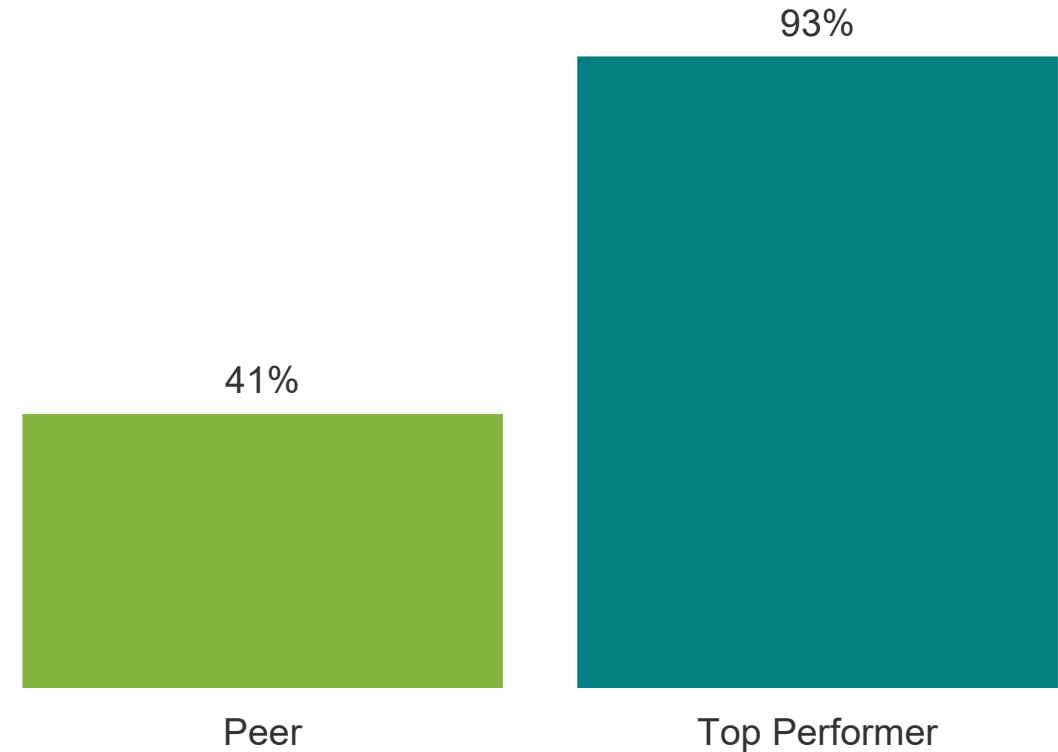
Supplier onboarding is the on-ramp for supplier information – how do we think about the process with a **channel** mindset like we do other aspects of S2P?

Supplier Type/ Category	Identify	Qualify							Onboard	
	Discovery	Quality	CSR/ Diversity	Financial Risk	Supply Chain Risk	InfoSec	Safety/ Workplace Risk	Regulatory/ Legal	AP Info	Monitoring Strategy
Strategic & Direct	🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩
IT Related	🟩	🟩	🟩	🟩	⬜	🟩	⬜	🟩	🟩	🟩
Onsite	🟩	⬜	🟩	🟩	⬜	🟩	🟩	🟩	🟩	🟩
Indirect Low Risk	🟩	⬜	🟩	🟩	⬜	⬜	⬜	🟩	🟩	🟩
One Time Mod. Risk	Stake-holder Led	⬜	⬜	⬜	⬜	🟩	⬜	🟩	🟩	⬜
One Time Low Risk	Stake-holder Led	⬜	⬜	⬜	⬜	⬜	⬜	3rd parties	Do not onboard	⬜

Balance control with risk – There should be different paths and cycle times to onboard different types of suppliers

Source: The Hackett Group

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Digital Progress

- Automation
- Information
- **Stakeholder Centricity**
- Agility
- Talent

The Hackett Group

What does it mean to be customer focused in P2P?

- Streamlining and ease of use in the buying experience

- Visibility to status and key information

- Independence – self service in order placement, status checks, issue resolution

- Increasing responsiveness/agility based on customer needs

- Aligning scorecards and SLAs to stakeholder success metrics

- Balancing the organization to best support stakeholders

- Honing client facing skills

- Supplier as customer mindset… leading to a customer of choice position in the market

Source: The Hackett Group

The Hackett Group

If your organization was polled today, how would the majority rate your P2P process?

Poll

If your organization was polled today, how would the majority rate your P2P process?

Poll Options: Very dissatisfied — Dissatisfied — Neutral — Satisfied — Very Satisfied

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We know a focus on ease of use and streamlining helps user experience

Steps most effective to improve the P2P customer experience for the buyer, shopper, or supplier

Step	%
Deploy/enhance easy to use technology platforms	67%
Streamlining policy and procedures	52%
Investing in change management skills and expertise for P2P teams	42%
Stakeholder community training and education	36%
Enhance customer contact and helpdesk	33%
Customer journey mapping / service design	27%
Measure and track customer experience	27%
Deploying services tailored to specific stakeholder groups e.g. occasional shoppers, executives, SME vendors	24%
Other	6%

Q2.11 What steps, if any, have been the most effective to improve the P2P customer experience for the buyer, shopper, or supplier?

The Hackett Group

Source: Purchase-to-Pay Key Issues Study, The Hackett Group, 2018

Intuitive self-service buying that guides users to preferred sources of supply is critical to a streamlined P2P customer experience

**Effectiveness of driving requisitioners to preferred buy/pay channels
with the right supplier/right price/right buy method**

Peer

Top Performer

13%

19%

13%

56%

100%
of TP are effective
at guiding
stakeholders

50%

50%
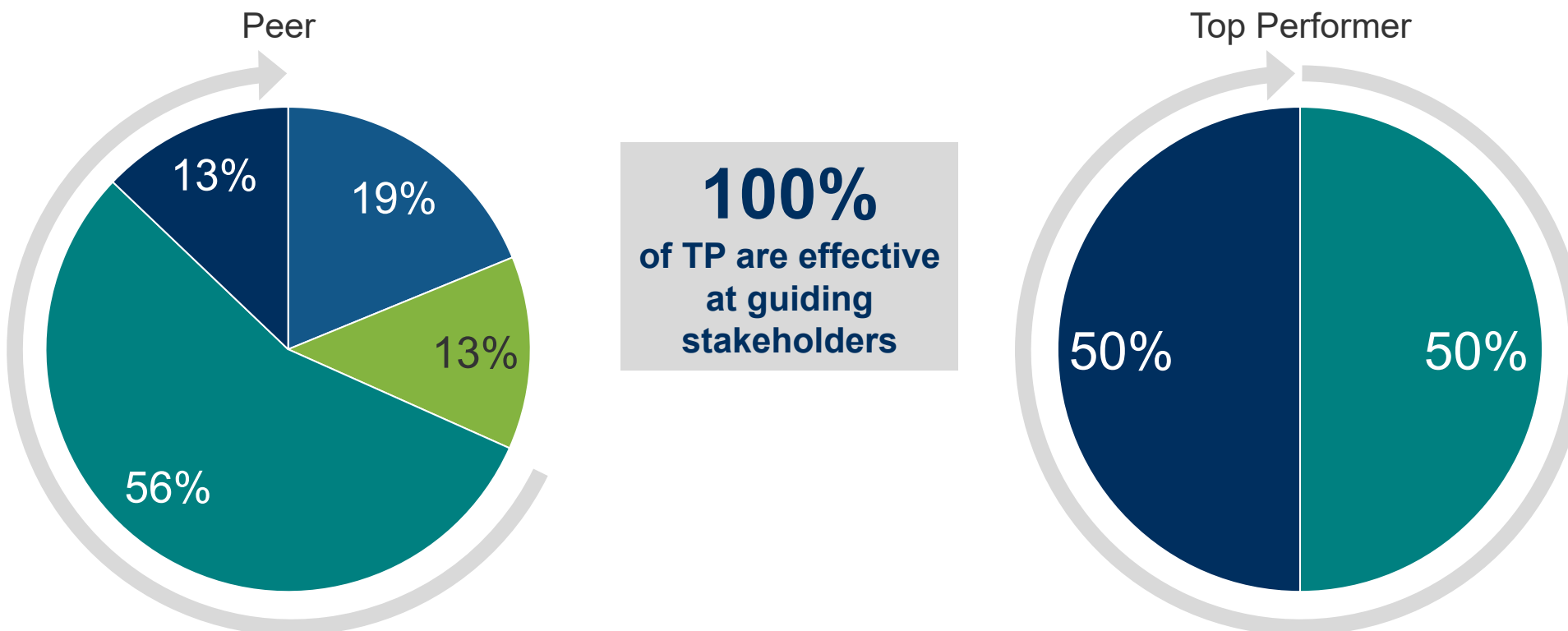
■ No standard buy/pay channels have been established   ■ Not effective

■ Mostly effective with gaps in some categories or buying channels   ■ Very effective

Source: 2019 P2P Study, The Hackett Group

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Top Performers tend to have fewer inquiries and respond to them faster, however self service tool usage is still low across the board

| AP Inquires Received per 10,000 Invoices | Top Performers | **332** |
| | Peers | **561** |

Peer

- 40% — Not Tracked (or no case management system in place)
- 29% — Resolved in more than 24 hours
- 13% — Resolved within 24 hours
- 18% — Resolved on initial contact

Top Performer

- 29% — Not Tracked (or no case management system in place)
- 17% — Resolved in more than 24 hours
- 33% — Resolved within 24 hours
- 21% — Resolved on initial contact

Faster Support
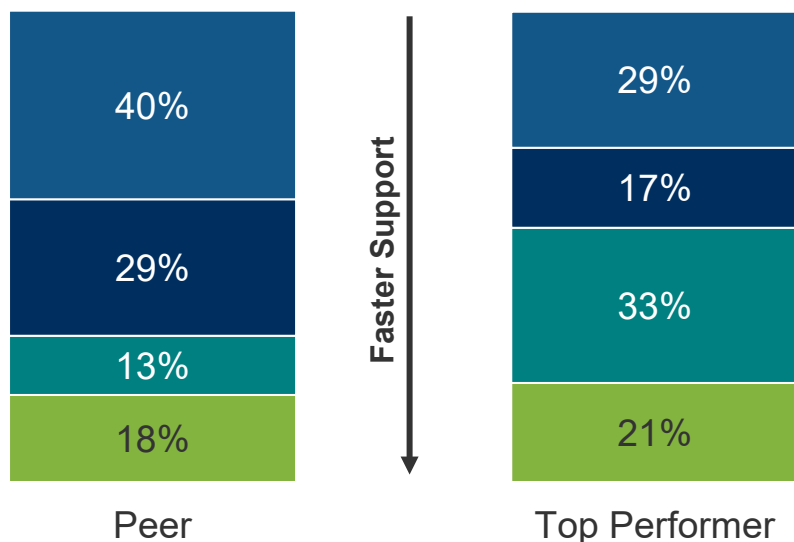
- ■ Not Tracked (or no case management system in place)
- ■ Resolved in more than 24 hours
- ■ Resolved within 24 hours
- ■ Resolved on initial contact

AP Inquiries by Response Method (for all participants)

- Email — 54%
- "Live" on the first call — 17%
- Self-service on the Internet / Intranet — 6%
- Automated voice response — 9%
- Voice-mail, requiring a return call — 6%
- Other means — 8%

■ Overall

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Source: 2019 P2P Study, The Hackett Group
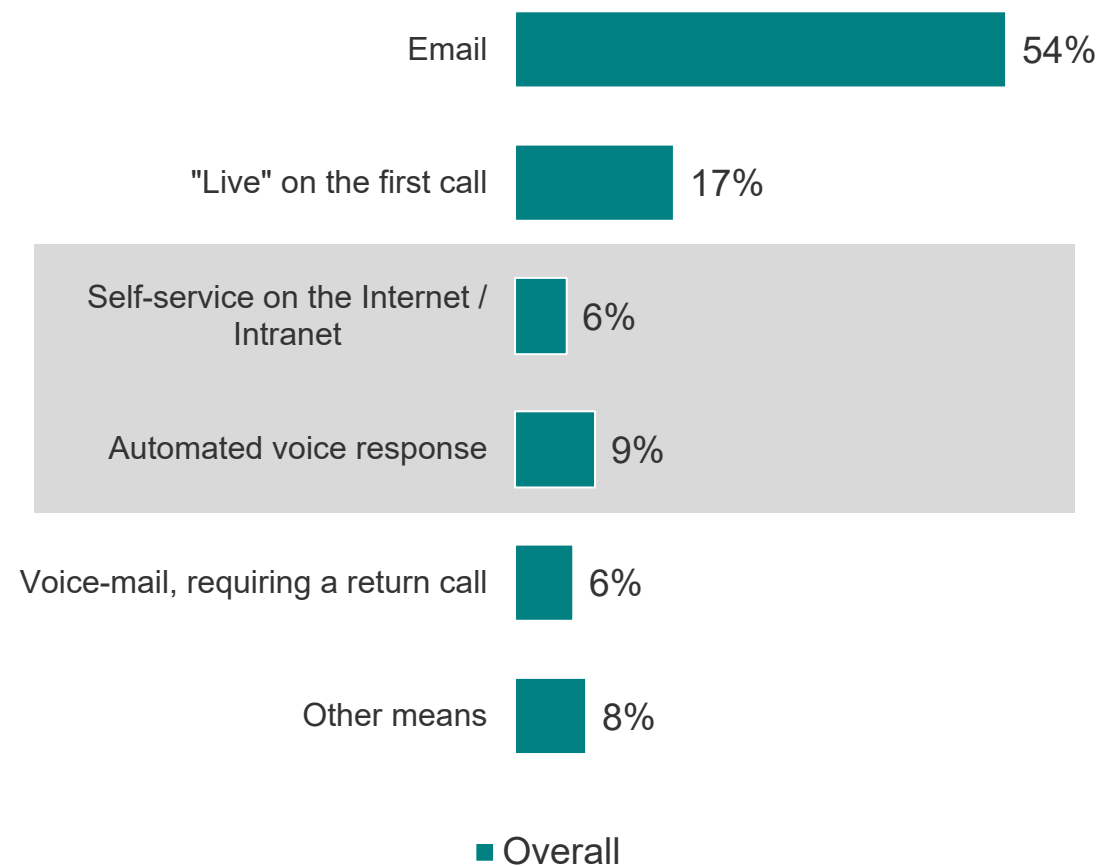
Digital Progress

- Automation
- Information
- Stakeholder Centricity
- **Agility**
- Talent

The most advantageous strategies enable agile operations

Business agility is "the ability to anticipate and swiftly respond to changes in the business environment". Agile business services functions enable enterprise agility through their ability to adapt and respond to change through fast decision-making and rapid execution.
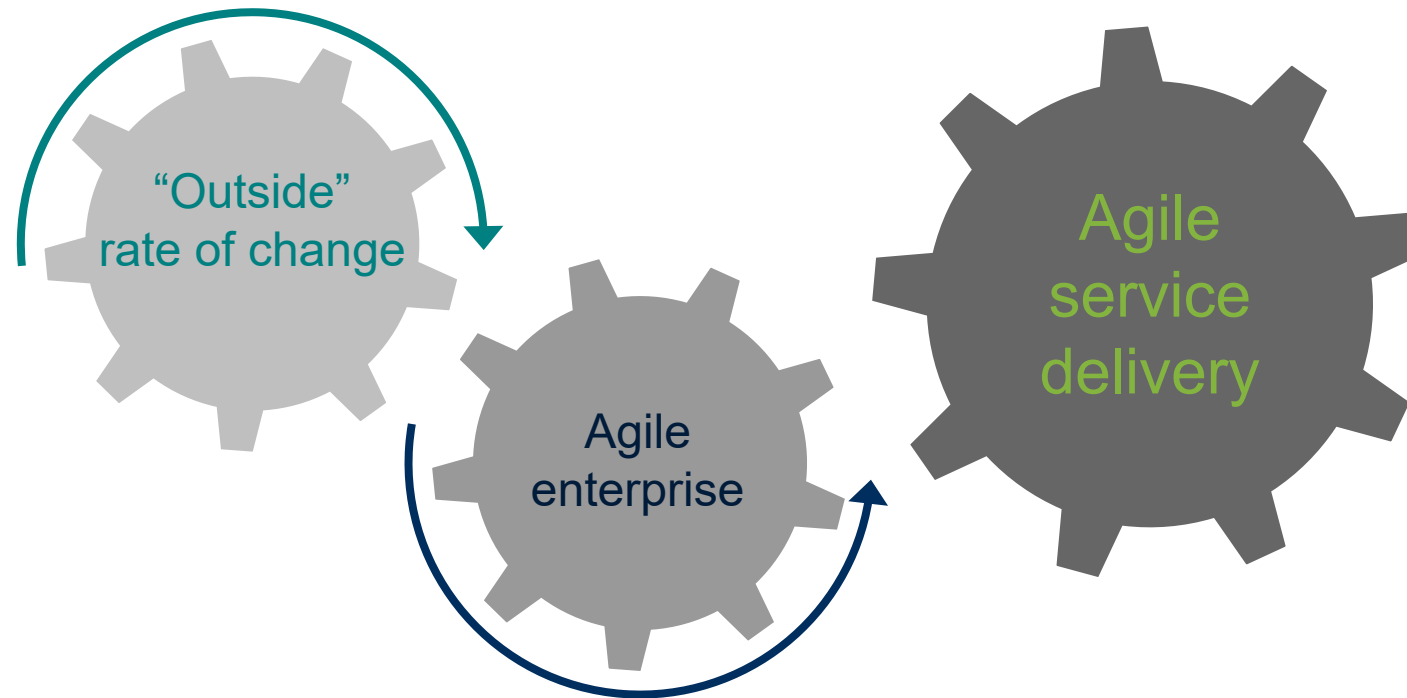
| 1 | Ability to identify, make and implement decisions quickly | 2 | Ability to detect and respond rapidly to changes in business demands and priorities | 3 | Ability to maintain or improve cost levels under volatile business conditions |

The characteristics and benefits of agile business operations can be measured in the P2P process

Customer-centric design

Key Benefits

- Greater customer satisfaction
- Better alignment with business
- Greater understanding of end-user requirements

Cross-functional, self-directed teams

- Motivated teams
- Faster cycles times
- Greater diversity in thinking
- Required expertise in the team

Incremental execution

- Manageable "chunks" of activity
- Improved focus
- Allow teams to "fail fast"
- More reactive to change

Improvement mindset

- Improved quality
- Decreased delivery times
- Increased productivity
- Improved employee morale

Data-driven decision making

- Consistency in approach
- Clear decision criteria
- Fast, confident decisions
- More proactivity, responsiveness

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Operational excellence demands quality across traditional silos to drive end-to-end compliance with policies and procedures

Top Performer Operational Measures

Purchasing Operations

Accounts Payable

Requisition & PO Processing	Invoice Pre-Processing	Invoice Processing	Supplier Payment
PO Creation Compliance Rate	**Invoice Acceptance Rate**	**First-Pass Match Rate**	**On-Time Payment Rate**
99%	**97%**	**87%**	**82%**
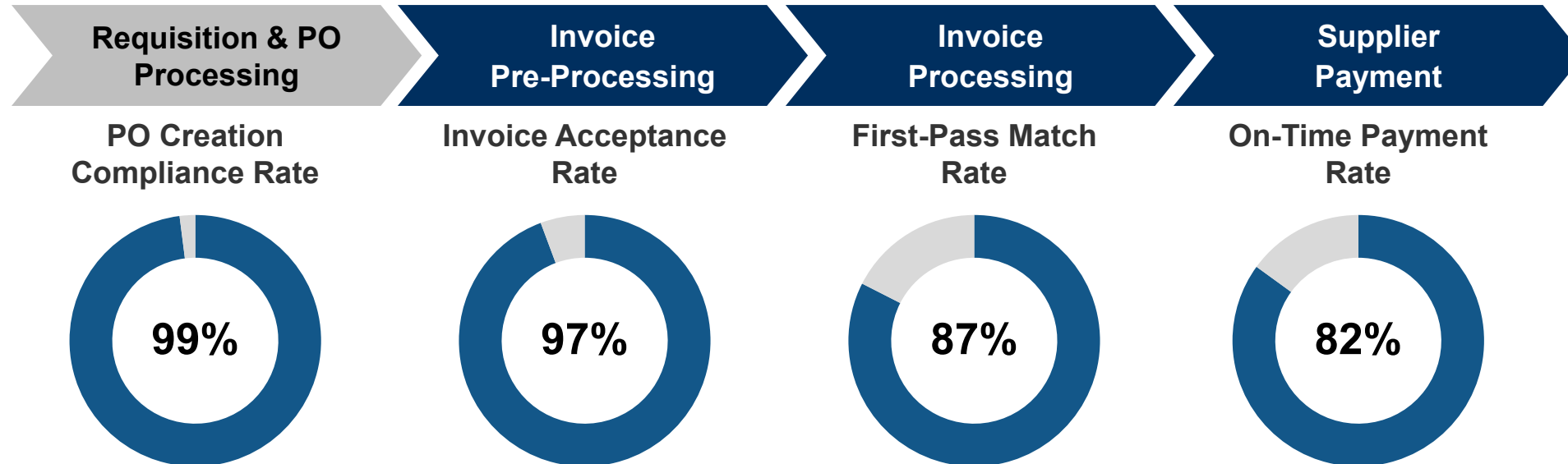
Cycle time reflects how automated / simplified processes are; faster P2P processing enables greater supply assurance and cash management

PO Processing Cycle Time
(in business hours)

2 hours

6 hours

Top Performer

■ Catalog Purchases ■ Ad-hoc Purchases
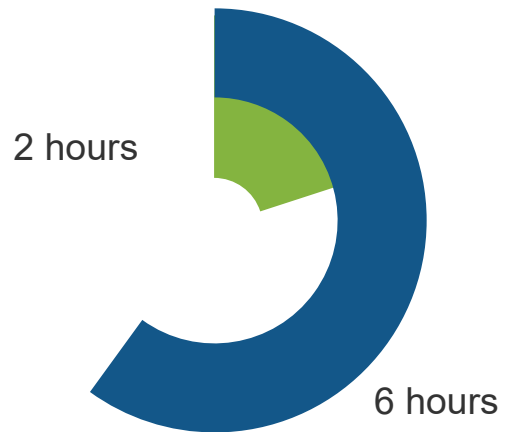
Invoice Processing Cycle Time
(in business days)

3 days

4 days

Top Performer

■ PO Invoices ■ Non-PO Invoices

Source: Purchase-to-Pay Study, The Hackett Group, 2019

The Hackett Group
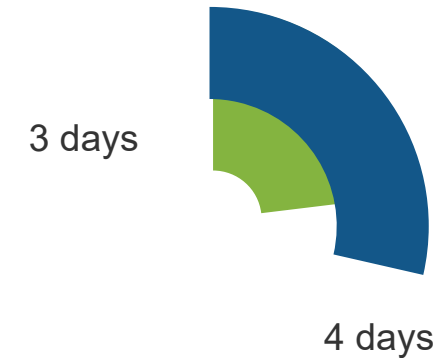
Discounts offer high savings potential, Top Performers are more likely to have a plan to capitalize on what has been negotiated

Organization's Strategy for Taking Early Payment Discounts

Intentional

Aggressively pursue ALL available discounts and focus on expanding the availability of discounts through supplier negotiations
- Peer: 11%
- Top Performer: 30%

Aggressively pursue ALL available discounts with little focus on expanding the availability of discounts
- Peer: 5%
- Top Performer: 30%

Take discounts when earned with no specific goal of taking ALL available discounts
- Peer: 16%
- Top Performer: 20%

Always take available discounts regardless if paid within discount term
- Peer: 0%
- Top Performer: 0%

Passive

Little focus on taking discounts
- Peer: 27%
- Top Performer: 0%

No defined strategy for taking discounts
- Peer: 41%
- Top Performer: 20%

■ Peer ■ Top Performer

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Digital Progress

- Automation
- Information
- Stakeholder Centricity
- Agility
- **Talent**

How has talent changed in your P2P process?

- Has the role of the buyer changed?

- Have AP teams changed in size and structure?

- Where do enablement roles sit?

- Are you shifting headcount into certain areas like inquiry support?

Thriving in the digitally enabled workforce will require these skills

Data Analysis and Modeling

Process data and extract relevant information

Knowledge of analytical tools and methodologies

Translates analyses into actionable plans

Business Acumen

Understand key business drivers

Knowledge of factors, priorities and business demands

Identify problems and prioritize alternatives

Strategic Mindset

Develop strategic frameworks and visions

Anticipates market changes

Address challenges and outline future direction

Agile and Insightful Business Enabler

Relationship Management and Collaboration

Advanced interpersonal skills

Positively influence decisions

Open and approachable

Creativity and Innovation

Create diverse and novel combinations of ideas

Create and recognize new patterns/categories

Curiosity, broad interests, constructive criticism

Agility and Change Orientation

Welcomes change

Comfortable with shifting priorities

Able to deal with ambiguity

Expect to roles emerge to address these critical P2P needs

- **Supplier Enablement**
- **Data Management and Analysis**
- **RPA Orchestration**

- **Inquiry Escalation**
- **Project Management**
- **Contract Management**

The Hackett Group

Training has increased across the board, especially for purchasing

Purchasing Operations Annual Training Hours Per FTE

Peer: 11	Top Performer: 36
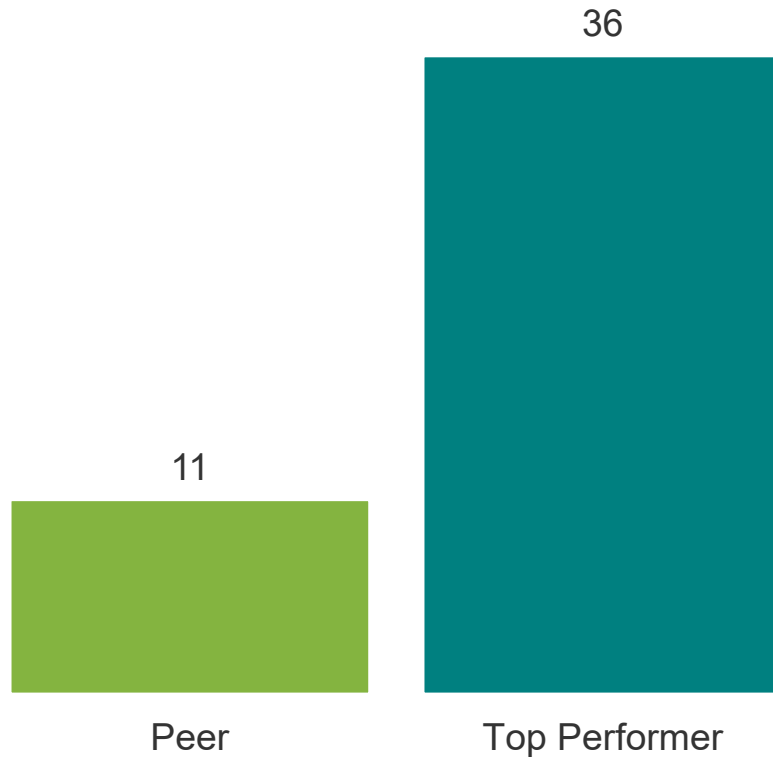
Accounts Payable Annual Training Hours Per FTE

Peer: 15	Top Performer: 29

The Hackett Group
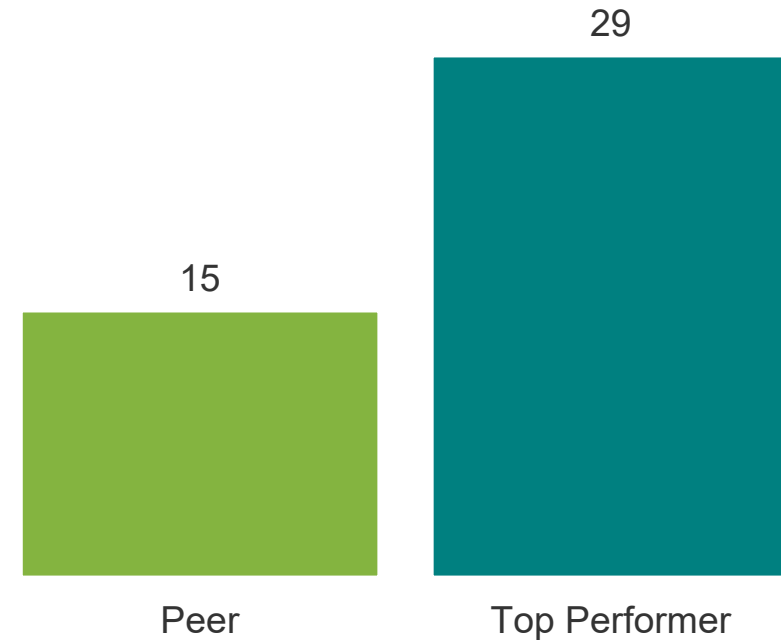
Summary: A significant gap still remains before P2P reaches an end state in digital transformation

- Even leaders still struggle with automation of core processes such as ordering and invoice receipt

- Until information is digitalized the lack of true spend visibility will hamper decision making skills and use of emerging technologies

- Cost structures in P2P have become fairly stagnant, at this point the focus should be on Experience and Effectiveness, the financial benefits will follow

- Talent needs will continue to shift as automation eliminates traditional roles new capabilities are needed, individuals will need to evolve their skills to meet the need

Our Guidance:

- Take a channel approach to each process, guiding users and down a path that is optimized for the risk control and efficiencies of the purchase

- Put the stakeholder at the center of the process, with technology, information, and agility designed in to improve the experience

- Think about how to support the transition of skills and talent with the range of training and sourcing options now available

- Agility is a key outcome and characteristic of the P2P process; select projects and KPIs with the intent of making faster and better informed decisions

The Hackett Group

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World Class Defined and Enabled

www.thehackettgroup.com

Statement of Confidentiality and Usage Restrictions

About Ivalua

Empowering Procurement to Realize it's Potential

ivalua

| Suppliers | AddOn Store | IVALUA OPEN ECOSYSTEM | 3rd Party Content | Ivalua Academy |

SOLUTIONS

| Supplier Management | Sourcing | Contract Management | Procurement | Invoicing | Strategy & Analytics |

PLATFORM

| Configuration | Workflow | Analytics | Collaboration | Integration | Documents |

Ivalua Procure-to-Pay Solution

A Simple, Flexible Solution to Empower Procurement, Users & Suppliers

Procurement

- Purchase Requisitions
- Purchase Orders
- Receiving
- Budget Tracking
- Services Procurement
- Planned Order Collaboration

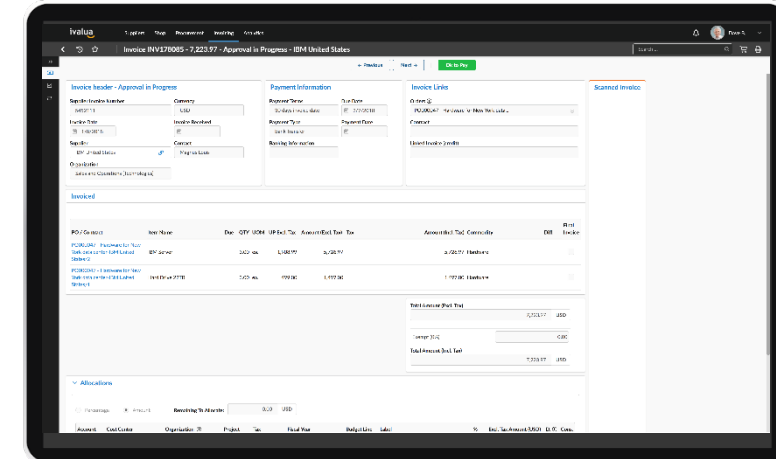Modern digital experience meets enterprise control
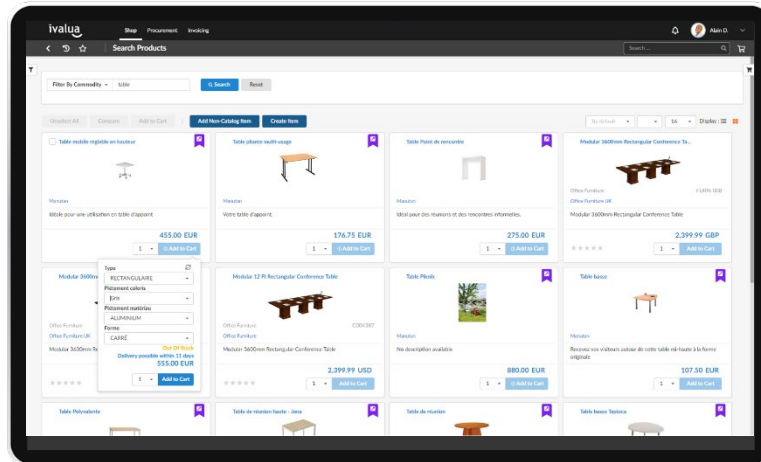
Invoicing

- eInvoicing
- Invoice Data Capture
- Accruals
- Expenses
- Early Payments

Electronic and efficient all the way

Procure-to-Pay Value, Accelerated

ivalua

Best practice P2P in 8-12 weeks

- ✓ Modern e-commerce experience

- ✓ Built-in best practices

- ✓ A solution that grows as your needs do

Realize Rapid Time to Value & Digitization

ivalua

Fannie Mae®

- 70,000 suppliers enabled (90%)
- 8,000 employees using Ivalua

> *Since the day the platform went live, we've had 100% employee adoption*
>
> **Jian Xu**
> **Director Of Procurement, Technology And Process Optimization**

CA CRÉDIT AGRICOLE

- ~60,000 supplier onboarded
- 70% increase in invoice processing efficiency

> *With Ivalua we have achieved 100% digitization across all procurement processes and have been able capture a tremendous amount of savings.*
>
> **Sylvie Robin Romet**
> **CPO**

maxim® healthcare services

- P2P live in 8 weeks
- More suppliers onboarded than in 7 years w/ previous provider

> *Our team believes they didn't even need to use the guides because the system was that easy to navigate.*
>
> **Cindy Searbrease**
> **Director Of Purchasing and AP**

Best-of-Breed Capabilities Across S2P
Drive Procurement excellence quickly

STRATEGIC SOURCING
2018

PROCURE-TO-PAY
2019

Questions

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