

Bridging the Gap Between Procurement and Finance

Andrew Bartolini
Founder & Chief Research Officer

February, 2022



REPORT SPONSORSHIP

The views and opinions in this report represent those of Ardent Partners at the time of publication. Sponsoring companies have had no measurable influence on the content and research in this report. The contents of this research report are the exclusive property of Ardent Partners. Please direct any comments or questions regarding the content and/or our research sponsorship policy to Ardent's Chief Research Officer, Andrew Bartolini, at abartolini@ardentpartners.com and/or 617.752.1620.

Sponsor:



Ivalua, a leading provider of cloud-based Spend Management Solutions, leverages a single, unified Source-to-Settle platform to bridge the organizational gaps between Finance and Procurement.

Positioned as a complete digital strategic payment solution, Ivalua's unique platform can establish baseline spend details, generate cash management agility, produce transaction visibility, give total control over the source-to-settle cycle, and provide supplier liquidity opportunities. Designed to operate as a unified, end-to-end system, the procurement-finance relationship can now work in tandem to determine the capabilities they need today and the flexibility to adapt to tomorrow.

Trusted by hundreds of the world's most admired brands and recognized as a leader by Gartner and other analysts, Ivalua's cross-discipline collaboration tools create a dual impact on organizational spend management and successful global supply chain sustainability. Learn more at www.ivalua.com/payments.

Sponsor Contact:

contact-payments@ivalua.com



Executive Summary

The massive shift to remote and hybrid work brought on by the pandemic has made it very clear that strong internal collaboration is essential to every business. For procurement, the pandemic has heightened its urgency to partner with finance, in general, and accounts payable ("AP"), specifically. And there is a tremendous opportunity to advance and improve performance by driving greater communication and collaboration across the two departments and layering greater intelligence into their core processes.

Supply management systems, which automate the full source-to-settle process, sit at the intersection of most procurement and AP processes and provide a great platform to bridge the gap between the two teams and unify their processes, priorities, and efforts. This report examines the value that a robust procurement-AP partnership can deliver to the enterprise as well as key internal and external stakeholders and the underlying strategies and systems that empower them.



Procurement Cannot Go It Alone in 2022

In 2022, no business enterprise can afford to go it alone – the stakes are simply too high. The level of competition and innovation that exists in today's market mandates that enterprises leverage their relationships to maximum effect. The decisions, operations, and performance of a business' suppliers have a direct, immediate, and potentially significant impact on its own results. Likewise, within the enterprise, all business functions must be aligned and focused on the same objectives. Business leaders must harness the collective strength and ability of their departments to optimize performance – they must row in unison.

Collaboration must become an operating principle for all business leaders. Fortunately, procurement is uniquely positioned to bring interdisciplinary groups together on collaborative projects and support and impact the lines of business and most business functions. CPOs understand that collaboration is a powerful strategy that can enhance savings opportunities and increase their level of influence both within the enterprise and across the supply base. Establishing procurement as a hub of collaboration and innovation should be

a top priority for every CPO this year. More specifically, amidst rising inflation, growing supply chain outages and disruptions, and broad market shifts, establishing strong relationships with strategic suppliers and internal business functions is now mission critical for procurement organizations around the world.

External Partners – Forging Strong Partnerships with Strategic Suppliers

In 2022, the average business' revenues and profits are more directly linked to its suppliers' performance than ever before. The pandemic has only served to underscore this reality as 58% of all CPOs said that the impact of supplier performance on results had increased during the pandemic. When it comes to managing supplier performances, procurement professionals are on the front lines. How well procurement manages its suppliers can have a huge and lasting impact on the overall success of the business. Last year, roughly half (49%) of all CPOs stated that their suppliers' performance had improved because of procurement's efforts in supplier relationship management.



The progressive procurement organizations that have invested time and resources in developing robust and holistic supplier management programs have seen a faster return on their investments over the past few years. These groups will also be better positioned to succeed in the post-pandemic world. The other procurement organizations have an opportunity to start the process of building a program this year. When they do, the programs they build should be based upon a few key principles that help define suppliers as true partners:

1. Suppliers are a source of knowledge and expertise. They are assets that can be leveraged to gain a competitive advantage.
2. In the world of competing supply chains, enterprise success is tied to that of the suppliers.
3. Collaboration with suppliers and an investment in their relationships are the key to creating value.
4. Complex supplier relationships require formalized governance and relationship management.

5. Successful programs manage relationships holistically and involve both direct and indirect suppliers.
6. The elimination of tactical, costly, and non-value-added activities helps position the buyer as a valuable “customer of choice.”

How organizations communicate, collaborate, and transact with their external trading partners and the enabling platforms that they utilize has taken on increasing importance to business operations during the pandemic (and beyond it).

Internal Partners – Procurement and Finance: A Bond that Keeps Winning

Procurement and finance/AP sit at the nexus of supplier relationships and are natural partners in the drive to forge strong supplier partnerships. If suppliers are viewed as a source of value, a vibrant procurement-finance partnership must exist to optimize it. Beyond supplier value, the two organizations are also natural allies in the battle for improved margins, reduced risk, and profitability. The procurement-finance relationship is also strengthened by the fact that the procurement



head (CPO) reports to the finance head (CFO) more frequently (32%) than any other role. Many of CPOs and CFOs have the experience of collaborating with their functional partners in tough times in the past. They have partnered to defend profit margins, ensure liquidity, and better navigate risk and market volatility.

Like the great recession, the pandemic has heightened the urgency for procurement to partner with finance by promoting better communication and collaboration among the two teams and layering greater intelligence into their core processes. Finance, too, benefits from the partnership because in 2022, many of an enterprise's best opportunities and top priorities play to the strengths and expertise of its procurement department. This is particularly true when procurement collaborates with accounts payable. For example, as top-line revenues stagnate or fall, cost containment, a major focus for any procurement department, gains in significance as a business lever for profitability. In fact, each group has forceful levers to pull that can help ensure resilience and liquidity. Strategies like extending supplier payment terms can provide valuable liquidity when other, traditional sources of

cash dry up. When pulled in unison, the impact can be dramatic.

The Source-to-Settle Process: Where the Rubber Hits the Road

While most procurement and finance teams are generally-aligned on objectives and focus in 2022, they are absolutely-joined at hip when it comes to the process of managing suppliers. The source-to-settle process which tracks the entire supplier relationship (and each individual transaction) including sourcing, contracts, orders, delivery, invoicing, and payment involves multiple internal and external stakeholders. The long-standing view is that the teams that should collaborate most directly are those focused on strategic sourcing and procure-to-pay. But, a successful source-to-settle workflow must look at the entire ecosystem that connects sourcing and procurement to accounts payable and treasury, as well as those working to source direct materials.

A truly holistic source-to-settle process touches all of these functions at some level, and it is because of this broad-based impact that each team needs to collaborate with every other one on its portion of the work. Imagine an orchestra playing a piece



of classical music. The woodwinds, brass, percussion, and strings must work in harmony in order to bring a classic composition to life. If the violinist and flutist play their parts to perfection, but the bass player in the back is not in rhythm, the audience hears a dissonant piece of music. So it is as well with all the processes that make up the source-to-settle workflow; if each one is not part of a coherent whole, then procurement teams run the risk of playing loud and conflicting notes that are heard across the entire enterprise and supply chain.

Seamless source-to-settle processes can capture and retain value efficiently and effectively in a repeatable and scalable way. A robust source-to-settle process also does more than simply manage supplier relationships. By linking sub-process areas like spend analysis with sourcing and eProcurement with accounts payable, the value created in one area is carried forward and often amplified within the next connected sub-process. For example, spend analysis can be used to help procurement departments understand the detailed scope of what and how money is spent with each supplier and help their sourcing teams pinpoint savings opportunities and financial trends across the entirety of enterprise spend. However,

it is only when this spend information is used to prioritize sourcing pipelines, structure sourcing events, identify suppliers, and negotiate contracts that real value is created.

Similarly, an invoice that is created or "flipped" from a system generated purchase order ("PO") is basically assured to match the original PO and therefore, has a significantly greater chance to be processed "straight-through." Likewise an invoice that can be processed and scheduled for payment in a touchless manner drives great efficiencies for the buying organization and great comfort for the supplier, who is more likely to be paid correctly and on-time.

In some organizations, there is a solid line drawn between direct and indirect categories and the teams they manage. This is a mistake. Historically the line separating the two organization was drawn because the two teams could not find a solution suite that could manage 100% of the spend. That is no longer the case as there are several solutions in the market today that enable procurement to manage direct and indirect spend within a single platform/suite.



Orchestrating Value with Strategic Payments

Today's leading supplier management programs are designed, developed, and primed to improve collaboration with internal and external stakeholders, enhance how procurement, AP, treasury, and other finance functions manage working capital and cash, and cultivate a "smart" environment in which the data and intelligence culled from AP processes and systems drives more educated and impactful decisions. To fully realize the opportunities available across the entire value chain, P2P transformation projects must address the full scope of operations which includes B2B payments.

The interest in B2B payments is at an all-time high as AP and finance leaders focus on transforming the way they pay their suppliers and once and for all leave the world of paper transactions behind. In fact, 53% of businesses plan to alter how and when suppliers are paid as a result of the pandemic. B2B payments are now seen by a majority of AP leaders as a core part of their operations and a major opportunity to drive more value. While the interest in this space has been growing over the past five years, the COVID-19 pandemic, which has placed

increased attention on cash management, has been a major accelerant.

Many CFOs, treasurers, and other finance leaders were forced to rethink not only how to manage and execute payments, but also how they can impact their suppliers' financial well-being. This has led to more enterprises than ever before to include ePayments in the scope of their AP transformation projects, with a focus on modernizing and updating previous payment strategies and adopting new technology to help maximize, not only their own cash management and organizational resiliency, but also to help ensure the solvency of their supply chains as well.

It Pays to Pay Electronically

B2B payments are now viewed in the context of the larger digital transformation that is occurring in businesses around the world. In the matter of a few years, digital transformation has evolved from a bleeding-edge concept to table stakes. For most organizations, it has become a "must-have" capability that requires the investment of human and IT resources to staff and drive a truly digital enterprise. Paper processes of all kinds are being recognized for what they are: inefficient, costly, time consuming, error-prone, and with a high risk

for fraud. A massive opportunity exists for buying organizations to reduce costs and improve efficiency, and in many cases, to generate new revenue streams. More specifically, it will be difficult to thrive in the future if a business continues to pay its suppliers using the exact same process (paper checks) that has been in place for decades.

The benefits achieved by those businesses that adopt ePayments include process efficiencies (achieved by a majority of all users), cost savings, and increased accuracy and control of payments. Individually, and in combination, these benefits help to make a compelling case for investment. Specifically, quantifiable savings and efficiency gains can help drive a solid ROI (“return on investment”) for the B2B transformation initiative as ePayments cost less on a per-transaction basis than paper checks.

Increased payment accuracy and better control can reduce errors and overpayments while also improving working capital management. Consider that sending a paper check to a supplier means the enterprise needs to depend on the postal system delivering the check in a timely fashion, and then has no visibility into when their suppliers receive, and ultimately, deposit the checks. This can result in a needless amount of uncertainty that can make it more difficult to forecast cash needs with the great precision. One real cost of uncertain cash flows is the need to take a more conservative approach to cash management which can limit yields. Electronic payments can reduce these concerns by enabling near real-time payment execution and settlement.

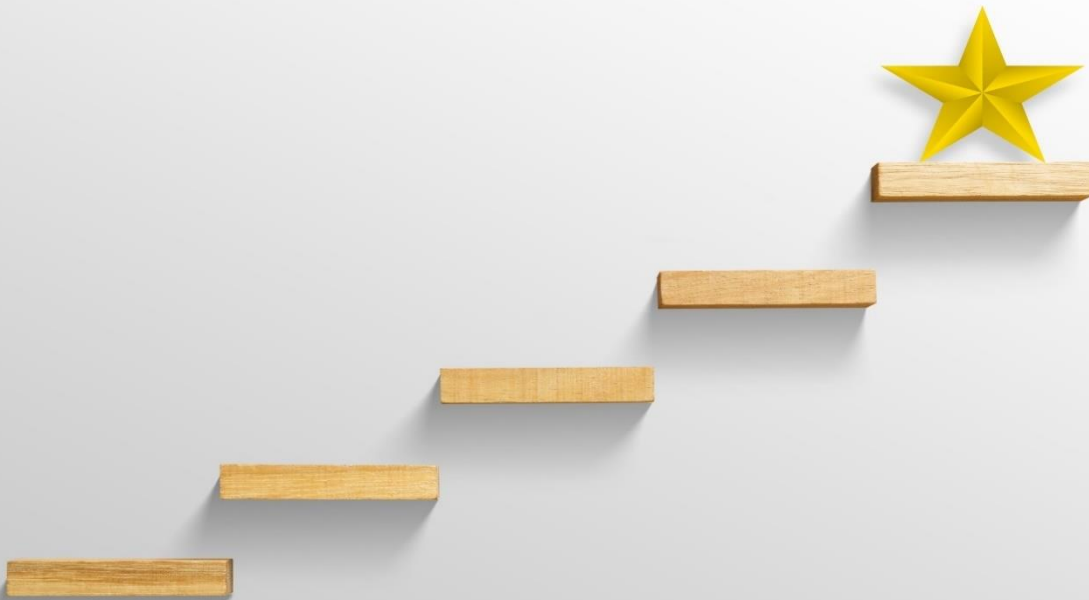
B2B payments are now seen by a majority of AP and finance leaders as a core part of their operations and a major opportunity to drive more value. Accordingly, procurement leaders must consider B2B payments a core part of their own digital transformation projects and partner with

finance to take advantage of ePayments’ ability to drive operational and financial benefits from this increasingly strategic operation.

Closing Major Gaps with Source-to-Settle Technology

Ardent Partners research has shown that enterprises that automate their source-to-settle processes with a solution suite or a tightly integrated, closed-loop system, generate significantly more value than those that do not. Solution suites have the potential to deliver greater value because they close the key process and visibility gaps that permit value leakage. For example:

- Enterprises that leverage their automated spend analysis directly into their eSourcing projects save, on average, between 23% – 42% more per project.
- Teams that connect their eSourcing and Contract solutions reduce their savings leakage by up to 38%.
- Best-in-Class enterprises use closed-loop P2P systems significantly more often and achieve compliance rates that are, on average, 26% higher than their peers.
- Linking and automating the P2P process can reduce invoice processing costs by up to 80%.
- Automating payments enables superior cash management agility and has allowed a majority of enterprises that have done so to capture more early payment discounts.
- More than 70% of these groups are better able to use payment system data to analyze cash flows and support forecasting and budgeting.



Another area where teams that automate the full source-to-settle process shine is with greatly-improved visibility into spend, process, suppliers, and liquidity. Visibility is critical to the overall success of the modern procurement function. The ability to develop agile competencies is dependent upon intelligence derived from robust reporting and analysis. Similarly, dynamic responses to new and challenging market pressures are improved when they are powered by deep visibility into a wide array of business processes and data. This is how technology can drive team performance to a higher level.

The adage that “cash is king,” could not be more relevant during the pandemic, where a renewed focus on liquidity and cash management has pulled procurement and finance into the hub of business operations and cash management. During tough times, businesses that can access their cash can leverage that liquidity to navigate through major storms. Using data-driven insights to better manage cash-on-hand and outstanding liabilities, and anticipate potential cash shortages or surpluses, can go a long way towards optimizing working capital, ensuring continuity, and aiding the overall viability of the enterprise. This is why a focus on B2B payments is required if procurement

and finance are to close the liquidity visibility gap. Together they can improve cash management with approaches such as supply chain finance, rebates on card spend, early payment discount capture, dynamic discounting, and the strategic planning of vendor payments.

A source-to-settle suite can also provide great value for suppliers who face very real, hard costs when managing a customer relationship across multiple systems or worse, manually. Eliminating the tactical/mundane aspects of the relationship is what will drive greater strategic convergence among trading partners. It falls largely to procurement and AP to ensure that there is a high level of connectivity, visibility, and collaboration across the supplier base which leads to stronger buyer-supplier relationships. The rate of enabled suppliers increases significantly when procurement and AP are operating on a common platform.

Additionally, rich remittance information (such as purchase order number, invoice number, payment amount, date, contract, etc.) allows suppliers to easily reconcile payments in their accounts receivable systems. This is another compelling benefit that can help drive supplier adoption of ePayments.

Strong Partners Can Deliver Big Benefits

The benefits that procurement and finance teams can generate from a robust partnership that is supported by a digital solution suite covering the full end-to-end supply management process are extensive. Beyond the quantified benefits noted above, the enterprises that successfully combine and automate their procurement and AP processes report a series of benefits including:

- Visibility that supports better decision-making for sourcing, ordering, and cash management.
- Better identification of sourcing opportunities through more accurate spend data via invoices and payments.
- Improved contract compliance and reduced maverick spend by linking invoices and payments to contracts.
- An ability to optimize working capital across the full process by developing proactive payment strategies and pursuing dynamic discounting opportunities.
- Greater efficiencies through automated order, invoice, and payment processing.
- Advanced order and payment management that supports greater complexity and nuance.
- Notably fewer invoice exceptions and significantly less time responding to supplier inquiries.
- Improved supplier relationships aided by an ability to pay suppliers on time (or early) and accurately as well as better data to support improved inquiry response times.
- Greater levels of supplier enablement by leveraging a 'one-time' on-boarding process for procurement and AP requirements.
- Improved supplier performance management extending from better visibility, communication, and collaboration.

Summary

A robust procurement and finance partnership that manages a holistic, automated source-to-settle process is clearly more than a nice-to-have – it is critically important to the health of the entire enterprise. A seamless source-to-settle process that includes B2B payments can capture and retain value efficiently and effectively in a repeatable and scalable way. And while there are certainly ways to find cost savings in the discrete areas that form a source-to-settle workflow, a lack of tight connections across departmental boundaries, technologies, and process flows, destroys value. Enterprises that fail to bridge the procurement-finance gap will inevitably find themselves losing ground to the competitors that have.



About the Author:

ANDREW BARTOLINI, FOUNDER & CHIEF RESEARCH OFFICER, ARDENT PARTNERS

With 23 years in the industry and 13 years leading the charge at Ardent Partners, Andrew Bartolini is a globally-recognized expert in sourcing, procurement, supply management, and accounts payable.

As the Chief Research Officer at Ardent Partners, Andrew oversees all research and client programs including the annual State of the Market and Metrics that Matter eBook Series', Technology Advisor Reports, Ardent's monthly webinar series, as well as its in-person and virtual CPO Rising Summits.

Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com) and the host of the industry's exciting new podcast, [Procurement Rising](#).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 525 times in nine different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their sourcing, procurement, supply management, and accounts payable operations and his research has been part of the Supply Chain Management curriculum at several US universities.

Industry Standard "Fine Print:"

The information contained herein has been obtained from sources believed to be reliable. Ardent Partners, Ltd. disclaims all warranties as to the accuracy, completeness, or adequacy of such information. Ardent Partners, Ltd. shall have no liability for errors, omissions, or inadequacies in the information contained herein or for interpretations thereof. The contents expressed herein represent Ardent Partners' best analysis at the time and are subject to change without notice.

© 2022 Ardent Partners, Ltd. All rights reserved. Reproduction and distribution of this publication in any form without prior written permission is forbidden. Solution providers and consultancies should take special note that Ardent Partners reserves the right to seek legal remedies including injunctions, impoundment, destruction, damages, and fees for any copyright infringement (which includes but is not limited to usage of any Ardent Partners content in company collateral, presentations, and websites) in accordance with the laws of the Commonwealth of Massachusetts and the United States

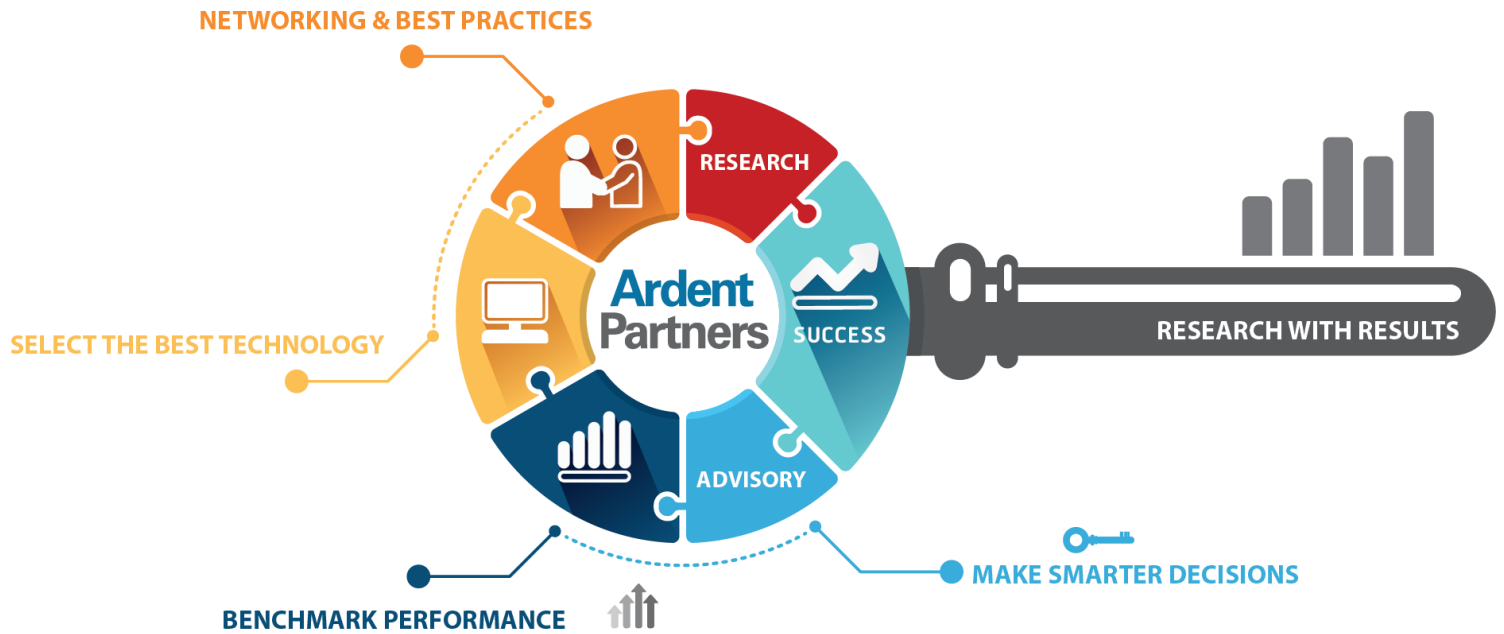
He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for several prominent spend management solution providers. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a "real-world" context for his research and writing.)

Andrew's post-MBA work started in management consulting and investment banking where he structured, managed, and advised on large capital market transactions. Andrew began his professional career running a homeless family shelter in Los Angeles. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

Partner with the Market Leader

As our name implies, Ardent Partners is passionate about our work. Our team is composed of senior executives with decades of experience managing successful projects. Our community is expansive, our influence is extensive, and our research is unrivaled. We deliver "Research with Results" - let us show you what we can do.



Ardent Partners

Since 2010, Ardent Partners has delivered Research with Results™ to business executives working in procurement, finance, and HR on multiple platforms and in multiple formats. Ardent advises clients and publishes research that helps business decision-makers understand:

- Industry best practices and how to improve performance
- Technology landscapes and how to select the best-fit solution(s) based upon their specific budget and unique business requirements

Ardent publishes a network of high-traffic sites, manages a large, global community of business executives, and hosts a series of exclusive in-person conferences and online events. Ardent also works with solution providers to expand their reach, improve their products, and increase sales.

Visit www.ardentpartners.com and contact us at sales@ardentpartners.com / 617.752.1728.