Purchase-to-Pay Performance Study Results

Complimentary Research | February 2022

The Hackett Group®

World Class Defined and Enabled

The performance study measures P2P from an end-to-end process and service delivery model perspective

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	P-card Management		

Purchasing Operations

Accounts Payable

SERVICE DELIVERY MODEL COMPONENTS

STUDY METHODOLOGY

- The study covers a 12-month time period
- Respondents represented a wide range of industries across various geographies
- The Hackett Group utilizes a rolling sample of companies and presents new benchmarks every 2 years
- Labor, outsourcing, technology/systems and overhead costs across all sub processes were included
- All third-party vendor spend, and transactions are included (payments for areas such as salaries, taxes, and product logistics are excluded)

While P2P organizations have improved the user experience there still exists a gap in creating a consumer-like experience across the end-to-end process

P2P USER EXPERIENCE (OVERALL)

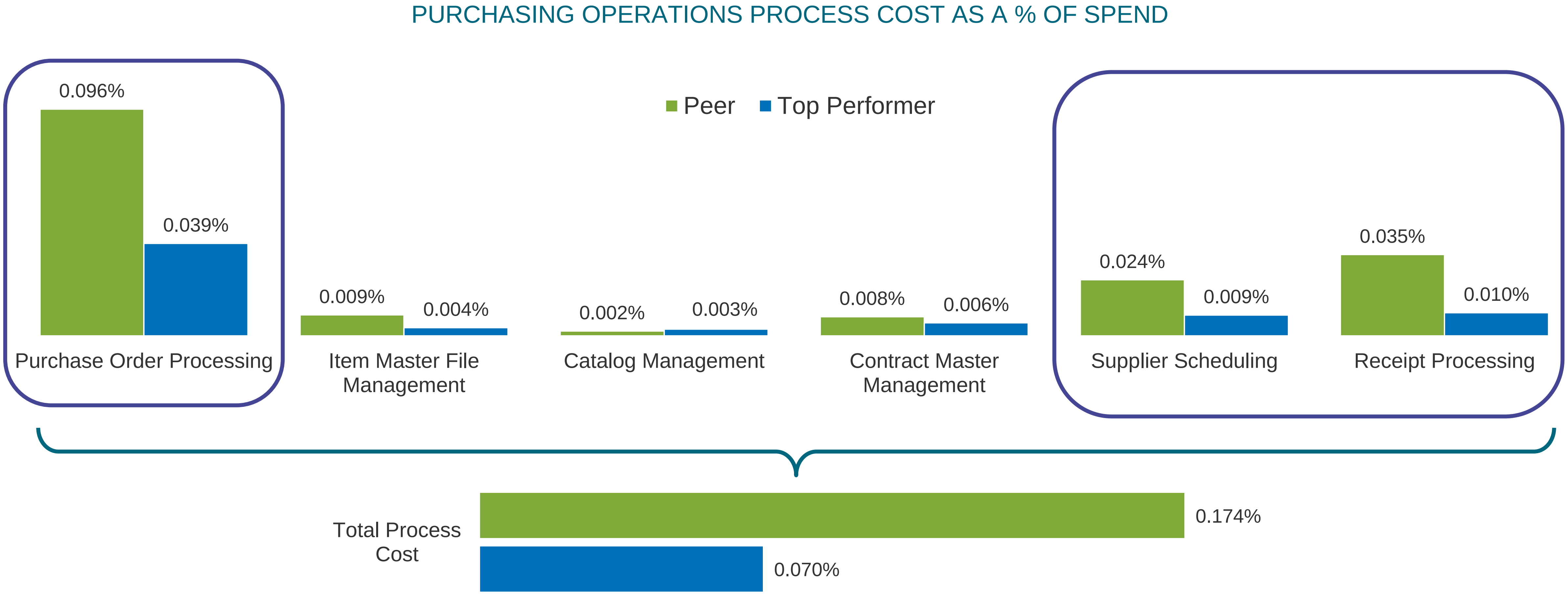
15%	The tool(s) are clunky and not user-friendly resulting in many complaints
20%	Long learning curve to get used to it, with many requests for support from new users
45%	Some parts of the process have consumer like use experience, but not end to end
15%	Consumer-like user experience

How would your stakeholders describe their user experience?

TOP PERFORMER

- Top Performer have a performance edge over peers when it comes to customer perceptions (60% some parts of the process have consumer like use experience, 20% consumer-like user experience)

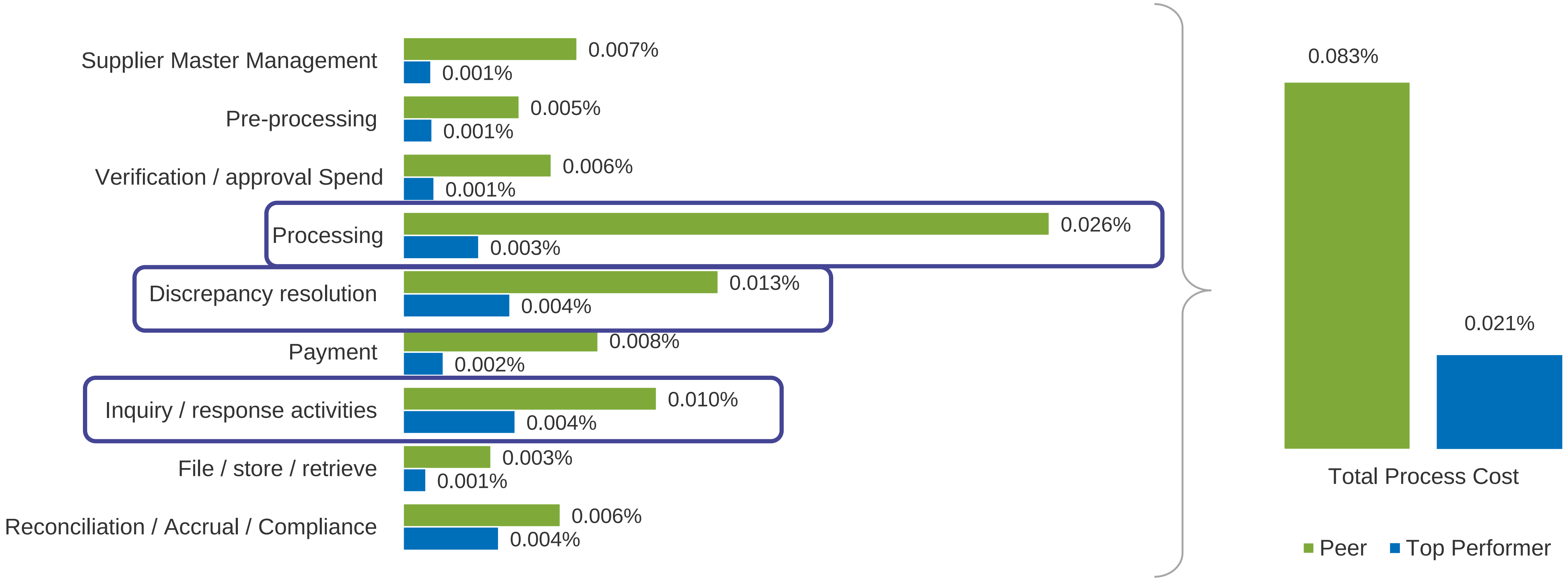
Cost-to-spend ratios provide a useful summary benchmark of the relative structural efficiency of the organization



Purchasing Operations process cost (labor + outsourcing) as a percent of total spend (direct + indirect). Includes Supply Data Management (Item, Catalog, Contract), Req & PO Processing, Supplier Scheduling, and Receipt Processing. Supplier Master Data Management process (i.e.,VMF) is excluded here and reported under AP.

Cost-to-spend ratios provide a useful summary benchmark of the relative structural efficiency of the organization

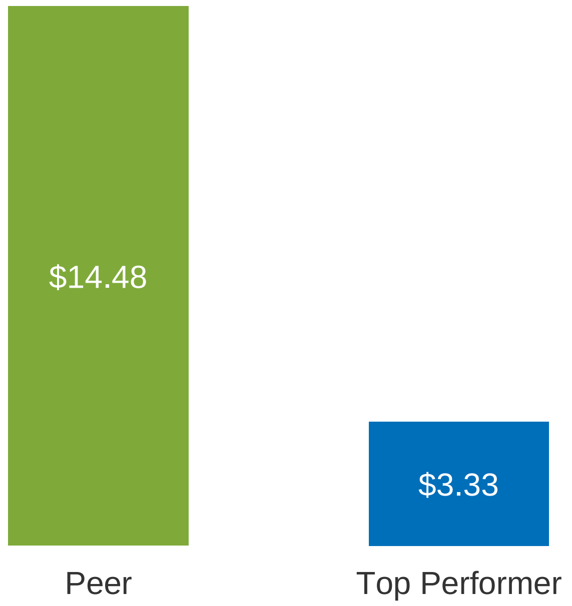
ACCOUNTS PAYABLE PROCESS COST AS A % OF SPEND



Accounts Payable process cost (labor + outsourcing) as a percent of total spend (direct + indirect).

Cost-per-transaction is a primary comparative indicator of process and service efficiency across industries

PROCESS COST PER ORDER



Req. & Purchase Order Processing process cost (labor + outsourcing) divided by the number of purchase order and order/blanket release transactions processed annually. 'Purchase orders' relate to ad-hoc purchases only, whereas 'order/blanket releases' are the number of releases (e.g., call-offs, delivery orders placed) against a blanket agreement. Blanket orders, blanket contracts, change orders, etc. are excluded from the transaction count.

PROCESS COST PER RECEIPT

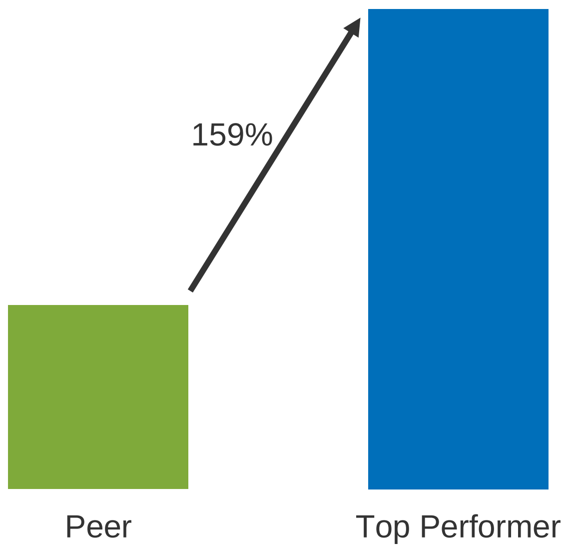
Receipt Processing process cost (labor + outsourcing) divided by the total number of receipts processed annually. Includes both materials and services.

PROCESS COST PER INVOICE

Accounts Payable process cost (labor + outsourcing) divided by the number of invoices processed annually. For this metric, 'invoices' includes paper, electronics, and invoiceless ERS transactions. Transactions placed on a p-card without submission of an invoice by the supplier are excluded.

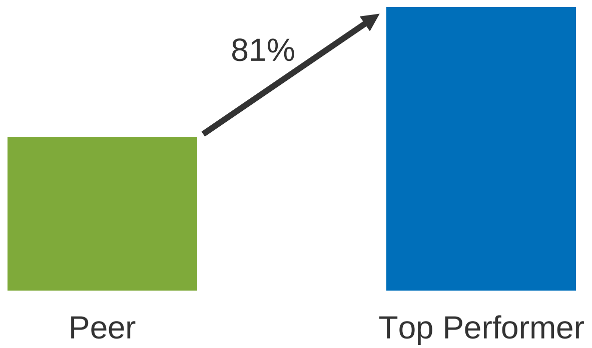
Catalog-based and "touchless" buying technology empower end-users and accelerate the Requisition-to-PO process

"NO TOUCH" ORDERS



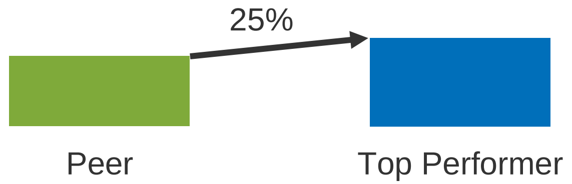
Percent of purchase orders and releases requiring no (or minimal) intervention from a buyer to turn the requisition into an order and disseminate to the supplier (e.g., orders based on e-catalogs, auto-generated orders based on auto-replenishment systems)

INDIRECT E-CATALOG TRANSACTIONS



Percent of indirect line items ordered through an electronic catalog (either internal online or supplier online catalog)

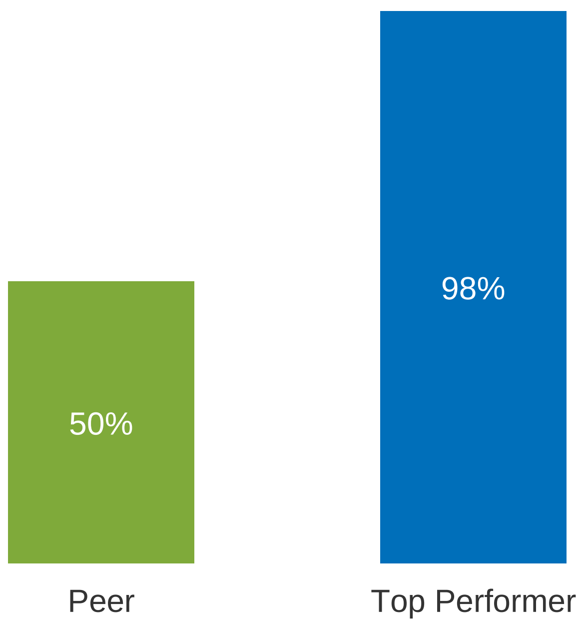
INDIRECT E-CATALOG SPEND



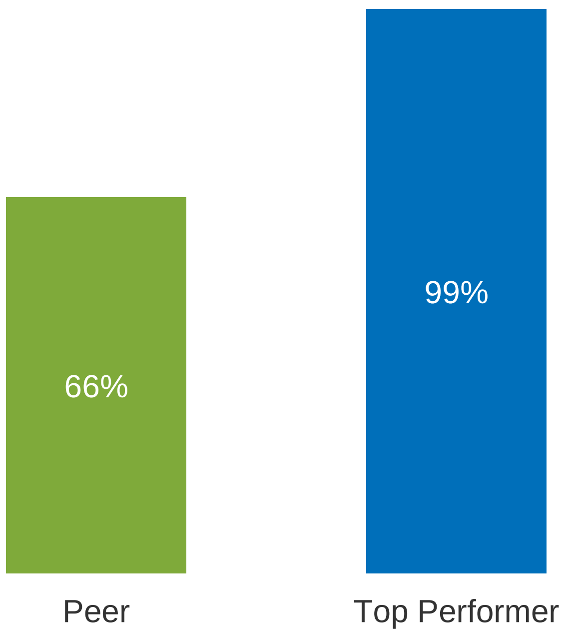
Percent of indirect spend ordered through an electronic catalog (either internal online or supplier online catalog)

Catalog-based and “touchless” buying technology empower end-users and accelerate the Requisition-to-PO process

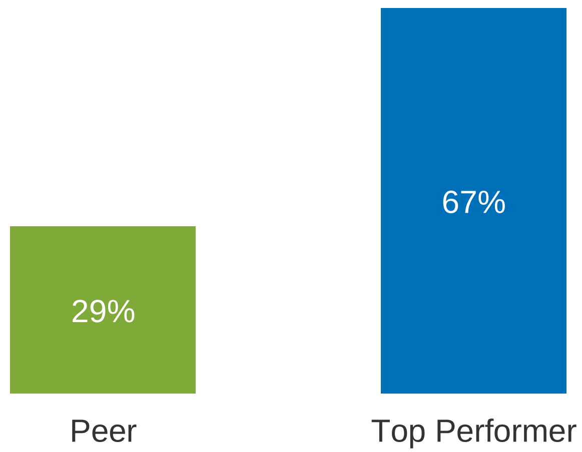
ELECTRONIC PURCHASE ORDERS



ELECTRONIC PO CHANGE ORDERS



ELECTRONIC ORDER / BLANKET RELEASES



Purchase orders and Order/blanket releases are considered electronic if they are disseminated to the supplier via EDI, Internet, or auto-fax (email is not electronic)

Straight through processing is a key target for many organizations and Top Performers already process 83% of invoices purely through electronic means

PERCENT OF INVOICES LEVERAGING STRAIGHT THROUGH PROCESSING

Overall	Peer	Top Performer
48%	30%	83%

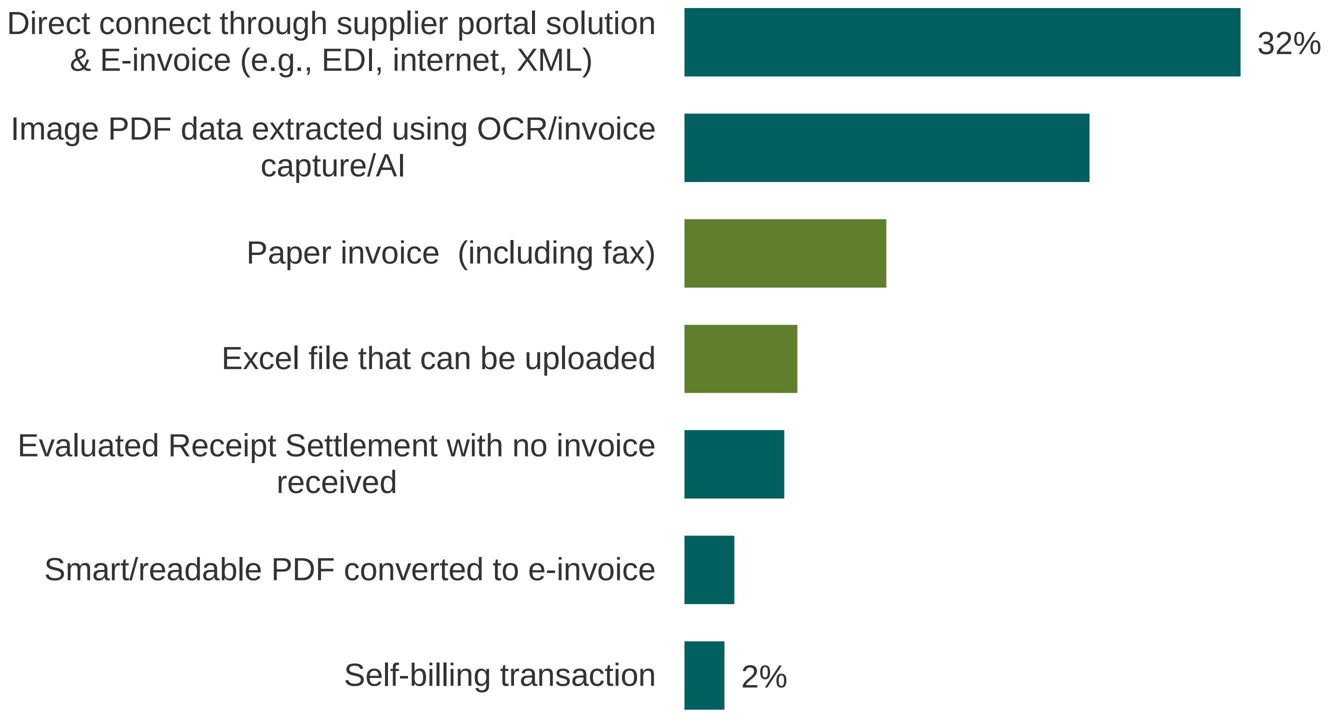
DEFINITION

- Straight-through, or “touchless,” processing is defined as an invoice being received, approved, and payment scheduled without any manual intervention.

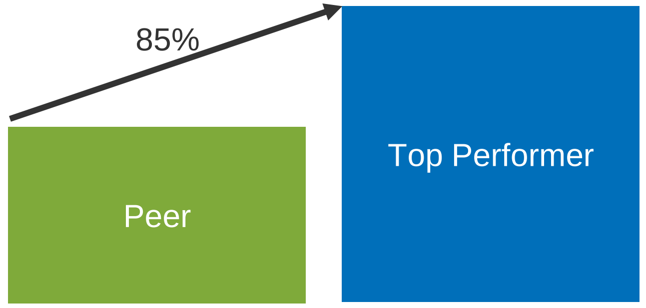
Percent of invoices leveraging straight through processing (i.e., touchless processing from receipt through posting/booking)

More integrated and web-based solutions for invoice connectivity help lay the groundwork for greater digitalization of supplier relationships

PRIMARY SUPPLIER CONNECTIVITY METHOD FOR INVOICES (OVERALL)



ADVANCED CONNECTIVITY METHODS

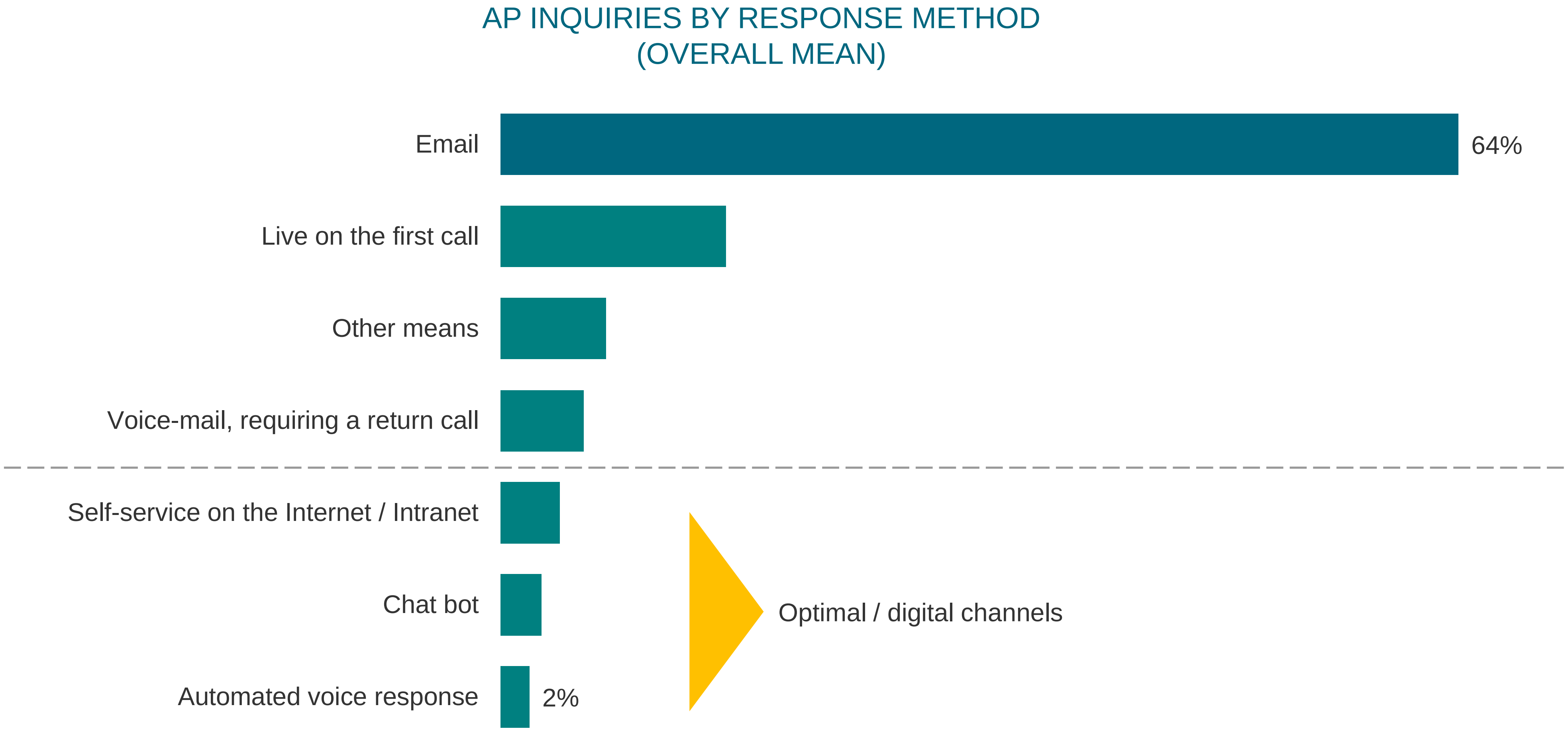


DEFINITION

- Advanced connectivity methods: Direct connect through supplier portal solution, E-invoice (e.g., EDI, internet, XML), Smart/readable PDF converted to e-invoice, Evaluated Receipt Settlement with no invoice received, Self-billing transaction

Totals do not sum to 100%; excludes “other”.

Self-service inquiry solutions improve efficiency, satisfaction, and responsiveness for customers, but digital channels are still underutilized



Channel strategy requires a mix of buy/pay methods that balance spend control with process efficiency, organizations should work to minimize non-PO spend

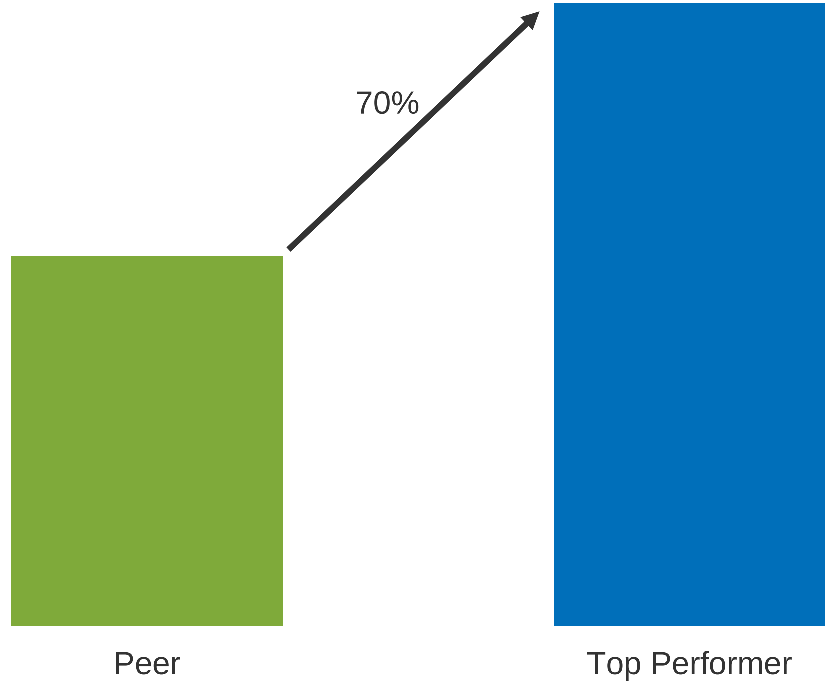
#	Method					% OF LINE ITEM	% OF SPEND
1	Three-Way Match	Purchase Order	Receipt	Invoice (match)	Pay (supplier)	>30%	>30%
2	Assumed Receipt	Purchase Order		Invoice (match)	Pay (supplier)	<10%	<10%
3	ERS	Purchase Order	Receipt		Pay (supplier)	<10%	<10%
4	Recurring Invoice	Contract		Invoice (no approval)	Pay (supplier)	<10%	<10%
5	Purchase Card (no invoice received)	P-Card (plastic / virtual)		Statement (approval)	Pay (card provider)	<10%	<10%
6	Travel Card / Expense Report	Travel Purchase		Report (approval)	Pay (employee)	<10%	<10%
7	Invoice Only			Invoice (approval)	Pay (supplier)	10 – 30%	10 – 30%

OVERALL MEAN

Percent of invoice line items and spend approved for payment by method. Totals do not sum to 100%; excludes "other" and p-card based on approved invoice.

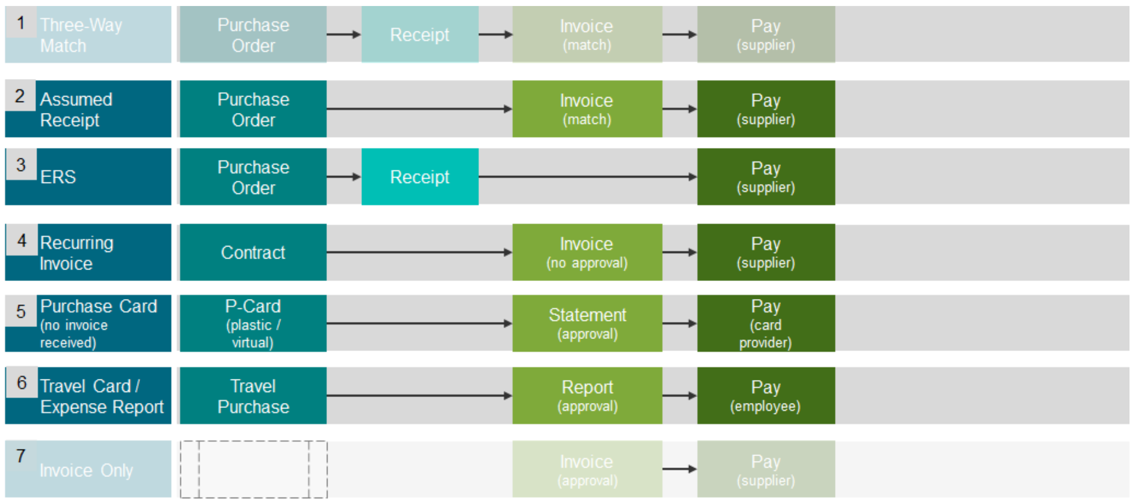
Top Performers process 68% more line items through ‘optimal channels’ versus peer

PERCENT OF TRANSACTIONS THROUGH OPTIMAL CHANNELS



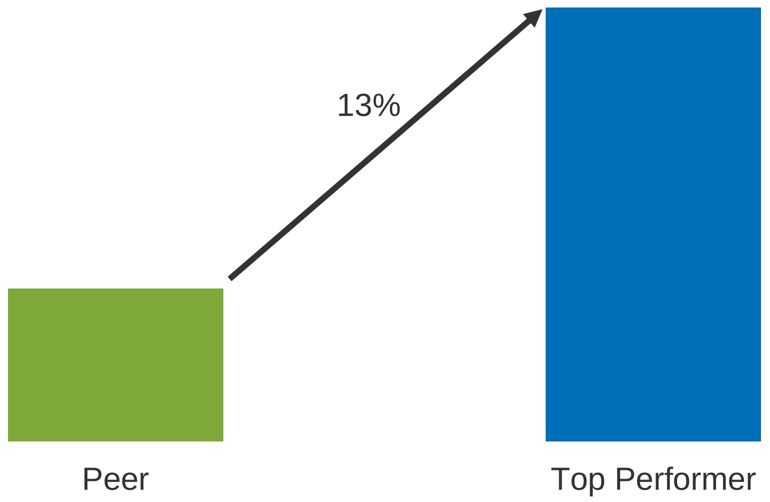
DEFINITION

- Optimal Channels: ERS, Assumed Receipt, Recurring Invoice, P-Card, Travel Card (cost / efficiency focus)



First-pass yield is a key indicator of end-to-end process quality and root cause analysis can pinpoint key reasons for match failure and drive improvements

FIRST-PASS MATCH RATE

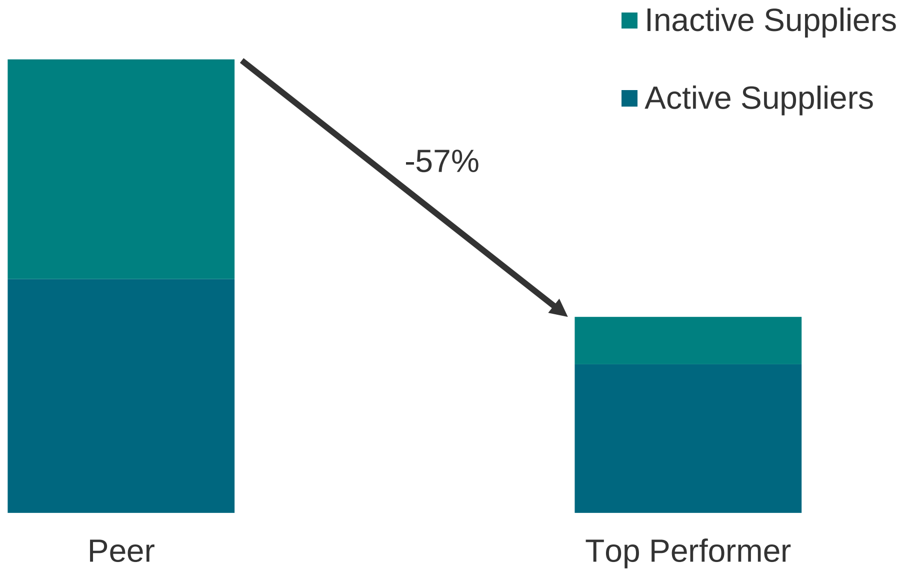


Overall first-pass match rate percentage for PO-based invoices. This is the number of entire invoices successfully matched to the PO on the first attempt as a percent of total attempted matches of invoices to POs. A successful first pass match occurs when all required documents are available and the data on the invoice matches the data on the PO (and the receipt if applicable), automatically and without any intervention or rework. Includes all PO invoices e.g., 3-Way-Match (PO, invoice, receipt) or 2-way-Match (PO, invoice for assumed receipt). Only invoices without a PO are excluded from the metric. If the PO and invoice match automatically without needing changes, it should be counted as a first pass match. If the match does not automatically occur, it should not be considered.

TOP-3 REASONS FOR FIRST-PASS MATCH FAILURE

A more concentrated supply base and cleaner supplier master file enable organizations to negotiate better pricing and reduce purchasing errors

SUPPLIERS PER BILLION ($) OF TOTAL SPEND

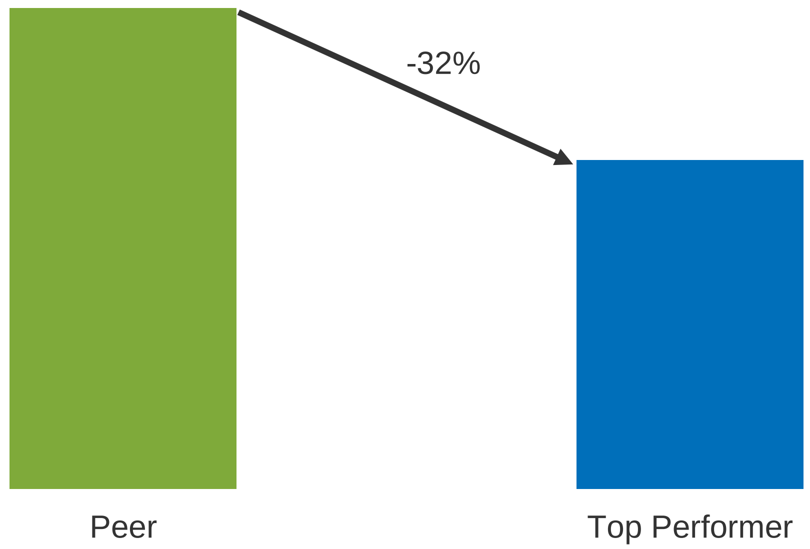


52%	**76%**

% OF ACTIVE RECORDS IN THE SUPPLIER MASTER FILE

Suppliers in the supplier master file divided by total spend (direct + indirect), in billions of reported currency. 'Active' means any third-party with whom the company has made a payment to for the purchase of materials or services during the benchmark period or last 12 months. Suppliers that have multiple pay-to addresses are counted as one supplier. Internal employees in the supplier master file are excluded.

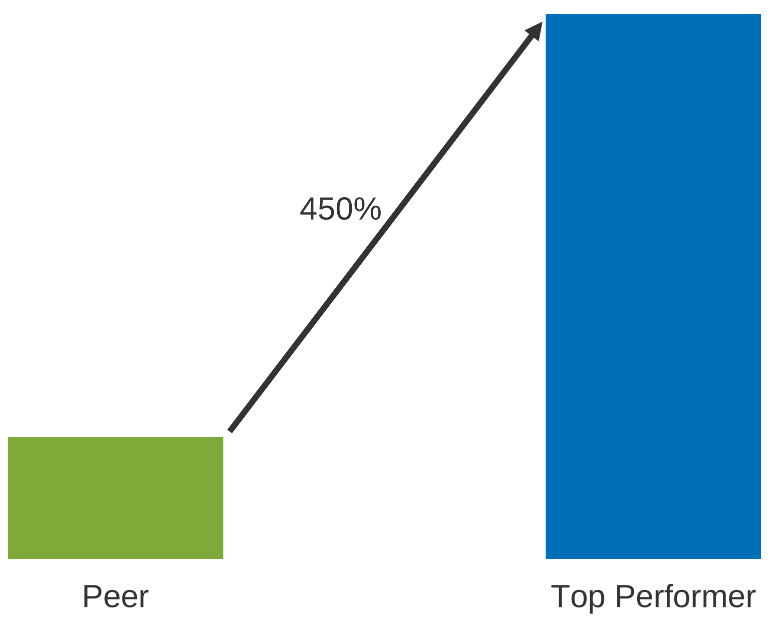
ACTIVE SUPPLIERS THAT COMPRISE THE TOP 80% OF SPEND



Percent of all active suppliers (when sorted from highest to lowest by spend or volume) that represent the top 80% of spend or volume. 'Active' means any third-party with whom the company has made a payment to for the purchase of materials or services during the benchmark period or last 12 months. Suppliers that have multiple pay-to addresses are counted as one supplier. Internal employees in the supplier master file are excluded.

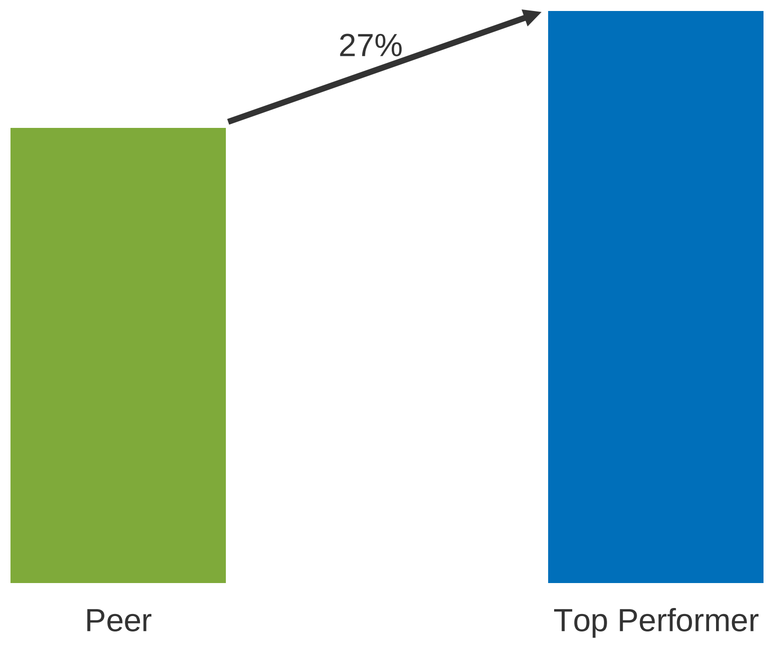
Payment discounts, negotiated by procurement and executed by payables, require end-to-end collaboration to deliver savings

EARLY PAYMENT DISCOUNTS TAKEN AS A % OF SPEND



Value of early-payment discounts actually taken as a percent of total spend (direct + indirect). Excludes companies not using early-pay discounts.

EARLY PAYMENT DISCOUNTS TAKEN AS A % OF AVAILABLE DISCOUNTS



Value of early-payment discounts actually taken as a percent of early-payment discounts available. Excludes companies not using early-pay discounts.

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