

Procure to Pay – 3 Quick Hits

Our research shows that the majority of companies can make significant improvements in the Procure to Pay area. So where do you start? We suggest beginning with small projects that can be accomplished in a few months and have immediate payback. Below is a synopsis of three such projects:

Automate invoice processing for the top 3 vendors

Relevant KPI: % of invoices manually entered:

- Median companies 78%
- Top Performers 26%

1. Identify the 3 vendors that are sending the most manual invoices each month
2. Calculate the annual cost savings as follows:

Annual manual invoice volume	
- Vendor A	15,000
- Vendor B	12,000
- Vendor C	10,000
Total Invoice transaction volume	37,000
Multiply by the potential savings per transaction*	\$3.79
Total savings	\$140,230

3. Contact the vendors to establish either an electronic protocol (EDI, point to point interface etc) or consolidate the number of invoices that they send
4. Build, test and deploy the electronic solution, or validate the vendor is no sending one invoice per month (or per week)
5. Adjust staffing levels to process fewer manual invoices
6. Repeat steps 1 though 5 with the next 3 vendors

Do what the Europeans do; pay your US vendors electronically

Relevant KPI: % of payments made electronically:

- Median companies 24%
- Top Performers 95%

1. Identify high volume vendors to create pilot program
2. Calculate the annual cost savings as follows:

# of payments by check annualized	750,000
Multiply by the potential savings per transaction **	\$1.20
Total savings	\$900,000

3. Contact the vendors to request their electronic banking information
4. Verify and load the vendor banking information
5. Build, test and deploy the electronic solution
6. Adjust staffing levels to process fewer manual checks
7. Repeat steps 1 though 6 with all vendors and ensure the process to set up a new vendor requires electronic banking information capture

Increase the usage of Procurement Cards for Small Value Purchases

Relevant KPI: % of non-purchase order invoices less than \$1,000:

- Median companies 67%
- Top Performers 27%

1. Identify the number of non-PO Invoices less than \$1,000
2. Estimate an expected % that can move to procurement cards using the top performers as a guideline
3. Calculate the annual cost savings as follows:

Annual manual invoice volume less than \$1,000K without a PO	580,000
Top Performing companies % of manual invoices less than \$1000	27%
Potential invoice transactions eliminated	423,400
Multiply by potential savings per transaction*	\$3.79
Total savings	\$1,604,686

4. Research and Select a Procurement-Card provider
5. Update policy and procedure documents
6. Deploy program to business unit, company, etc.
7. Manage deployment through adoption
8. Adjust staffing levels to process fewer manual invoices

9. Repeat steps 6 to 8 until the procurement card is fully deployed and adopted throughout the company

Summary

With a few focused changes, a company can quickly reduce the manual effort within an AP department and produce meaningful cost savings. The AP department, in conjunction with IT, can implement the first two changes without impacting the rest of the company, meaning the change management activities can be more closely managed. With the right skill set, AP personnel being freed from manual process can drive each project.

*Savings per Invoice

3c InSight calculated the potential savings per invoice transaction using information from a APQC 2010 briefing paper entitled "[Understanding the Total Cost of Payables](#)." 3c InSight calculated the savings between the median performing companies \$7.75 per invoice to the top performing companies \$3.96 per invoice.

**Savings per Check

3c InSight calculated the potential savings of moving from checks to electronic payments by using data provided by The Accounts Payable Network in a frequently asked question entitled "[Dollar savings of ACH versus checks](#)." The Accounts Payable Network calculates that a check costs an organization between \$1.25 and \$2.00, where as the cost to process an ACH transaction ranges from \$0.40 and \$0.80. 3c InSight calculated the difference between the two highest values (\$2.00 and \$0.80).