

TIGHTENING THE CORPORATE BELT

How Spend Control software enables dramatic reductions to your indirect cost base.

Seven practical ways to cut costs, backed by real-life examples from across the Public, Commercial and NfP sectors.



PROACTIS
THE SPEND CONTROL COMPANY

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Introduction

In today’s challenging economic climate, executives of Commercial and Public organisations are battling to drive down costs, battening down the corporate hatches in readiness for a rough ride.

In such times, few have the stomach for significant IT implementation projects. But Spend Control, more than any other initiative, has risen to the top of the organisational “must-do” list, offering a compelling return on investment with the opportunity to drive down indirect expenditure.

This paper offers seven practical examples of ways to cut costs with a Spend Control initiative. Use it as a checklist for planning your corporate Spend Control program. Understand the issues, and discover some real-life examples of organisations that have already succeeded at seizing control of corporate spend.

Accounts Payable Optimisation

Even in many of the world's largest and most sophisticated companies, the Accounts Payable function remains dependent on paper, emails, and the patience of an army of processing clerks.

With staff struggling to keep on top of the mountain of inbound supplier invoices and with few supplier invoices matching effortlessly to purchase orders and receipts documentation, Accounts Payable presents perhaps the most obvious and immediate source of Spend Control-related cost savings.

Savings in Accounts Payable manifest themselves in two different ways: (1) direct savings, through headcount reduction and the avoidance of using temporary staff during peak times; and (2) indirect savings by freeing up time from operational staff who tend to become involved in invoice reconciliation and approval issues.

Here are some practical examples, supported by both anecdotal and numerical evidence:-

1. Streamline the supplier invoice approval process

Staff in Accounts Payable spend an inordinate amount of their time trying to reconcile invoices with purchase orders and goods received notes. Often no such paperwork exists, leaving the AP staff to email and call around the organisation to investigate whether the goods or services were even ordered, whether they were satisfactorily received, and whether the invoice details, such as pricing, quantity and payment terms, match up to what was expected.

By implementing a streamlined Purchase-to-Pay process, much of this manual work can be automated. Where staff are encouraged to use a Spend Control application to manage the Request-to-Pay process, software automatically matches invoices to orders and receipt information, thus leaving the Accounts Payable staff free to oversee the process and manage only the exceptions.

Good Spend Control software will also incorporate invoice troubleshooting functionality, further automating the process by inviting originators to get involved in managing discrepancies between invoices, orders and goods received information. This strips further work out of the Accounts Payable process, streamlining the grunt work and eliminating the guesswork from invoice matching.

Case Study:

A major emergency services Authority employed some six people at its central purchase ledger department, dedicated purely to the process of reconciling supplier invoices and getting them ready for payment. This core team had been supported for the previous four years by a further three temporary staff, making nine FTEs in the central purchase ledger function alone. Furthermore, the organisation had some 28 additional admin staff working in local stations across the region, all spending in excess of 75% of their time on supporting the invoice approval process.

By streamlining its Purchase-to-Pay process with a Spend Control initiative, the Authority was able to dispense of the services of the temporary staff in its central team, saving some £90,000 per annum. In addition to this saving, the 28 administrative staff were freed from invoice-related duties and were redeployed on supporting front line policing activities. The Authority suggests that this move alone, is equivalent to a £840k annual investment in its front line services.

Accounts Payable Optimisation continued

2. Automate the inward paper processes

With the working day of the typical AP clerk based on wading through a weighed-down in-tray of supplier invoices, the possibility to automate the invoice registration process is attractive. The process of receiving and registering supplier invoices is a laborious and unrewarding task, with a typical Accounts Payable Clerk capable of processing some 4,500 invoices each year. Add to this the tasks of entering and checking staff expense claims and reconciling purchase card statements, and it is clear to see that the typical Accounts Payable function is overworked, over-staff and therefore overloaded with cost.

Most Spend Control software will now offer companies a plethora of ways of automating the inward invoice process. Some examples include:-

- eInvoicing technology allows capable suppliers to send invoice details in the form of XML files, usually via a secure Internet channel, directly into your Purchase Ledger or P2P system.
- PO Flip technology invites suppliers to log into a secure Supplier Portal to access details of purchase orders placed on them. The portal offers them a chance to review and download order details, before a simple one-click process to “flip” the order back around into an invoice which is routed directly into your P2P or Accounts Payable system. This avoids the need for a person to manually enter the details, at the same time eliminating any chance of error or discrepancy between what was ordered, and what the supplier billed.
- OCR (optical character recognition) technology is often used to support a Spend Control initiative, scanning physical paper-based invoices and intelligently interpreting their contents into equivalent electronic records. OCR-based invoice scanning processes are often astoundingly successful, with some 75-80% of invoices being accurately interpreted first time and success rates increasing to the high 90% within the first few weeks of operation.
- Self-Billing technology enables you to create self-invoices for particular suppliers, based on agreements you have in place or ordered raised and receipted. Suppliers can be given the option of approving self-invoices, or simply receiving notification. Self-billing saves time and expense for both the buyer and the supplier, and forms the basis of a trusted open-book accounting process.

Accounts Payable Optimisation *continued*

These technologies obviate the need for staff to manually enter invoice details from a piece of paper, effectively eliminating 1 FTE from the AP team for every 4,500 invoices automated. When those invoices represent the more complicated, lengthy or troublesome invoices, the saving is even greater. Other AP processes to benefit from the removal of paper, include:-

- **Purchasing Cards:** The last few years have seen a sharp increase in the use of corporate purchasing cards, seen by many as a way of streamlining the purchase and payment of low value purchases across a distributed workforce. But, the controls required around approval and verifying purchase card statements have often translated into a laborious paper-based process too. Spend Control technology often incorporates tools for receiving purchase card statements electronically, publishing details around the organisation to the individual card holders for online approval before automating the posting into an AP system.
- **Supplier Account Visibility:** Much of the Purchase Ledger team's working day is spent fielding calls from suppliers who are chasing payment, or seeking clarity on expected payment dates or invoice statuses. Supplier Account Visibility offers suppliers a controlled view of where their invoice sits in your registration and approval process, whether any discrepancies have been identified or disputes raised, and when payment is scheduled or has been made. By offering this "open window" to selected suppliers, it is possible to remove administrative workload from the Purchase Ledger team, at the same time building supplier relations based on trust and openness.

Case Study:

A large European publishing company employed 12 Purchase Ledger staff, many of whom were fully occupied processing invoices received from freelance journalists, contributors and self-employed photographers. Whilst such "suppliers" are small and rarely well organised when it comes to billing and administration, they are critical to the successful operation of a company reliant on interesting and fresh content to fill the pages of its many publications. The process of deciphering often handwritten invoices, seeking editorial approval for payment, then matching such invoices to budget codes, was a laborious task for the company's Purchase Ledger team.

After deploying a successful PO Flip solution as part of its wider Spend Control initiative, the company was able to offer its contributors access to a web-based Supplier Portal for the management of billing processes. Editorial staff would raise an order for the content, which would be automatically routed to the contributor via the Supplier Portal. Contributors would then have the ability to reverse the order around into an invoice in the publisher's accounts system, saving the contributors a great deal of hassle and removing the need for Purchase Ledger staff to decipher, register, approve and code the invoice. After a successful roll-out of PO Flip technology this particular company claims to have reduced its AP costs by as much as 70%. Interestingly the company has been able to promote the use of the Supplier Portal to its contributors as a benefit to them, which has had the effect of driving loyalty to the company. As a result they claim the edge over certain competitive publications when it comes to sourcing the best stories and images from its contributors.

Accounts Payable Optimisation continued

3. Automation of invoice coding

A sound Spend Control programme, incorporating Purchase-to-Pay, eInvoicing or related technologies, also goes a long way to removing the confusion surrounding the coding of suppliers' invoices. It is important to ensure invoices are accurately coded, in order to track spend against budget, analyse spend across different categories and provide meaningful management accounts. However without a Spend Control programme in place, few companies employ anything more than a "hit or miss" approach.

The idea of Purchase-to-Pay is that coding should be automated so that it is accurately set early in the purchase cycle. A good solution should be able to code a draft requisition or purchase order, based on who is requesting, what they are buying, which department or project they are buying for, etc. This task should be completely eradicated from the Purchase Ledger department to ensure that costs and commitments are captured early in the cycle, and coded accurately to enable meaningful analysis.

This can help organisations save money in the following ways:-

1. Yet further reductions to the workload of the Accounts Payable team, means that further headcount savings or redeployment of the workforce is likely;
2. Tightening the coding process makes month-end management accounting much simpler, eliminating the need for accountants to collate spreadsheets of different commitments and accruals with details of costs, all in the hope that the codes have been accurately guess by AP. Again, this reduction in effort means that savings, whether cashable or soft, are possible.

Case Study:

The CFO of a large music publishing company reported that each of his budget holders spent half a day each month producing actual vs budget reports, and that he personally spent one to two days each month with those people reviewing and analysing the reports, before rolling them up to the company accounts.

His budget holders were Heads of Department or Record Label Managers – highly paid people, some with few accounting skills, and each with a "day job" to do in addition to this administrative method of financial control.

Following the implementation of a successful Spend Control initiative at this company, the coding of commitments, accruals and actual was automated, which in itself removed effort from AP and ensured guaranteed accuracy. However the real gain made was the automation of the budget holders' reporting based on the clear view of the organisation's cost pipeline that was now made possible by the fresh approach to coding. Every budget holder had access to real-time dashboards reviewing spend vs actual, which were rolled-up to the CFO in a consolidated dashboard. This is an example of highly paid creative people having 'stolen time' returned to them. Such savings are difficult to quantify in real terms, but as an accounting exercise the CFO at this particular company estimated that some £750k worth of executive and management time was being saved – in his case so that his people could sit back and listen to music!

Category Spend Reduction

Many large companies have, over the last decade, come to realise that the role of Procurement in their organisation should be taken seriously. Even when it comes to indirect expenditure – spend on the goods and services that support the business operation, rather than raw materials or goods for resale – they realise that careful negotiation of supplier contracts can drive some dramatic cost reductions.

Equally, a good proportion of mid-to-large size companies have taken the decision that they don't want to invest in professional Procurement people. But the opportunity for such organisations remains – the opportunity to drive down the indirect costs of the organisation by organising suppliers better.

Here we explore three ways in which companies are cutting the amount of money they spend across particular categories, with the help of Spend Control programmes:-

4. Leverage aggregated spend

So many large companies fail to take advantage of their purchasing power. By allowing staff to buy what they want, from whomever they way, the opportunity to leverage negotiated prices is lost. Furthermore, by not controlling the use of suppliers, the negotiating position with potential new suppliers is vastly weakened.

Many organisations are now turning to Spend Control initiatives to help enforce a preferred supply policy. Staff are encouraged to buy everything from preferred suppliers, enabling major costs savings in the following different ways:-

- Companies have negotiated cheaper prices, or more favourable terms, with preferred suppliers;
- Companies may wish to negotiate more favourable deals with suppliers, but without a Spend Control strategy have no way of guaranteeing that other suppliers will not be used by staff.

Most Spend Control software is tuned to make it easy for staff to buy from the right suppliers. Easier, in fact, than picking up the phone to their 'old favourite', and easier than jumping in the car and driving to the computer shop to buy a new mouse for their PC. Ease-of-use is critical in such situations, and this is one of the fundamental reasons why accounting systems rarely make the grade as true Spend Control systems – their complex nature puts too much friction between the end user and the right supplier choice.

Category Spend Reduction *continued*

Proactis Group has been engaged in many before-and-after exercises over the years, analysing how Spend Control solutions have helped to drive down actual spend with different types of suppliers. Clearly the actual cost savings will result only from a focus on renegotiating deals with suppliers after a Spend Control solution is in place, however the following table offers an indication of what is possible across some different indirect purchase categories. This is another real-life example of savings that have actually been achieved; coming from a major investment bank which implemented a Spend Control solution with Proactis Group in 2005.

Category	Reduction in Spend
Temporary staff	10%
Printed stationery	5%
Office furniture	5%
Buildings maintenance	5%
Internal postage and couriers	5%
Legal services	2.5%
Catering	0.5%
IT hardware, training & desktop software	10%
Utilities	0.25%
Telecoms (Mobiles & Internet)	1%

In the example of the investment bank used in the above table, the return on investment was compelling. Based on these savings alone, and ignoring the staff headcount reductions and other types of savings that were made possible, the Spend Control project yielded the following return on investment based on an assumed cost of capital of 8%:-

Solution Cost (£)	108,600
Net Present Value (£)	269,354
Internal Rate of Return %	294.4
Payback (months)	9.5
Value Add (Economic) %	286.4

Category Spend Reduction *continued*

5. Early settlement discounts

Some organisations choose to use the implementation of a Spend Control solution to exploit early payment discounts offered by suppliers. This is common practice in the Public and Not-for-Profit Sectors, and with interest rates unusually low, it is becoming increasingly popular with cash-rich Commercial Sector businesses too.

In the past organisations have struggled to take advantage of early settlement discounts because of a poorly managed Purchase-to-Pay cycle. Often, the process of receiving, registering, coding, approving, posting and paying a supplier's invoices takes longer than a 30 day payment term itself, so the fact is that organisations are simply unable to pay suppliers early.

By automating the invoice receipt and registration process with AP optimisation initiatives it is possible to take days out of the time-to-payable cycle. Furthermore, by using Purchase-to-Pay technology to automate the reconciliation of invoices to goods inward records and purchase orders, businesses can eliminate the need for lengthy approval cycles and reduce the time-to-payable cycle often by weeks. And finally, by streamlining the resolution of invoice discrepancies using troubleshooting technology such as that offered by PROACTIS P2P, the number of invoices on hold can be vastly cut. All of these improvements mean it is possible to pay suppliers within days of receiving their invoices, should you choose to do so, taking advantage of any early payment discounts on offer.

Early settlement discounts are offered by many different types of suppliers, but are most often made available by suppliers of stationery, office equipment and printing, to name but a few examples. Discounts on offer can range, but typical numbers lie between 2% and 5%.

Case Study:

A major European retailer was able to negotiate early payment discounts with a number of its larger indirect category suppliers following the implementation of a Spend Control solution. The retailer selected 20 of its larger indirect suppliers to attend a seminar at their head office, where the P2P program was explained and the ability to pay selected suppliers early was outlined. The retailer introduced a dual strategy with these suppliers: Standard payment terms offered would rise from 30 days to 60 days across the board, with an alternative offer of 15 days in place for those suppliers willing to offer early settlement discounts. With nearly every supplier signing up to the new initiative and agreeing discounts between 1.5% and 8%, the actual savings yielded by this exercise were equivalent to £26,250 per month.

Tip: Often new negotiations are not necessary to exploit early settlement discounts. Review the terms you currently have in place with different indirect suppliers and you will most likely notice that some have offered such reductions upfront.

Category Spend Reduction *continued*

6. Visibility equals accountability

Many cost-reduction opportunities are lost by big businesses simply because of ignorance, and a lack of focus on what is achievable. Few business managers can tap into meaningful, up-to-date analysis of what is being spent, by whom and on what, and this makes it impossible to identify the source of inefficiencies or overspending.



Leading Spend Control solutions include tools to analyse current spend data, monitor transactions and trends in real time, and make this available to business managers to support their decision-making. The example above shows a budget holder's dashboard, highlighting not just actual spend against a budget, but examining the entire cost pipeline (including accruals, hard commitments and soft commitments made against that budget).

Driving transparency throughout the purchasing cycle is essential to establishing a culture of cost-consciousness and tapping into major cost-saving opportunities. Spend Control helps in the following ways:-

- Budget holders, when presented with real-time data such as spend against budget, and the budget cost pipeline, can be encouraged to become more accountable for their budgets. All of a sudden, the excuse of naivety (due to poor management information) is no longer acceptable and budget holders find a new sense of responsibility for deciding what is spent against their budget line. This in itself can have the effect of eliminating unnecessary spend from pockets of the business.
- Buyers, whether they are specialist Procurement staff or category specialists like IT Managers, can tap into a wealth of supplier performance data and real-life trend analysis prior to engaging in negotiations with potential new or established suppliers. In the past, many have relied on data provided by their suppliers to tell them what has been spent and on what. With a good Spend Visibility platform, this information is made instantly available giving you the upper hand when driving new deals with key suppliers.
- The demands on management accountants when compiling month-end reports can be drastically cut following the implementation of a Spend Control solution. The automation of key reporting requirements such as accruals reporting, spend against budget and audit exceptions cuts lots of time out of reporting processes making headcount reductions or staff redeployment possible.

Case Study:

As part of a major Spend Control implementation a major chain of health clubs published real-time spend vs actual data to the managers of its 100+ leisure clubs around Europe. As part of the same initiative, regional maintenance managers were presented with real-time analysis of the maintenance spend for their clubs, tracking budgeted spend versus actual and commitments. The group's financial controller, on reviewing the project, reported feedback from both club managers and maintenance engineers that the programme had made them more cost-conscious and budget aware, and as different regions were switched onto the new system the group reported an average 7% drop in maintenance spend.

Supplier Relationship Management

7. Outsource compliance management... to your suppliers

Every organisation needs to gather a wealth of information from its suppliers. Whether it is basic account-related information such as bank details, health and safety accreditations for contractors, or financial health information from mission-critical vendors, the process of collecting, reviewing and maintaining up-to-date supplier information is a costly one.

For many organisations the answer is simply not to bother. For others, where the price of failing to comply is simply too high, the answer is an army of administrative staff tasked with writing to suppliers and manually setting about the process of gathering data.

Spend Control software offers an attractive alternative, allowing businesses to comply with information-gathering demands without instilling costly administrative processes. By implementing effective Supplier Relationship Management software, it is possible to effectively “outsource” the information gathering task to your suppliers themselves.

A secure portal is used to invite suppliers through an accreditation process, asking them to upload and attach key information which can be reviewed in detail, or by spot-checks, at a later date by your staff. This kind of supplier self-certification removes the costs of manually gathering data, and enables Procurement staff to focus on the tasks of reviewing data, and using it to enhance the quality of the organisation’s supply base.

Case Study:

Following a series of fatal accidents amongst its sub-contractor workforce, a large highway construction firm was forced to review its processes for checking contractor health and safety accreditation and training standards. With around 3,000 independent contractors working for the firm at any one time, this quickly became a mammoth task and a dedicated supplier accreditation team was put in place to manage the process of obtaining, reviewing and updating critical supplier documentation.

Prior to the implementation of a Supplier Relationship Management (SRM) solution, the firm had established its team using one full-time manager and seven temporary administrative workers, at an annual cost of around £215,000. Once the supplier portal was established and the initial supplier invitation process completed (taking around four and a half months), this team was reduced to just two permanent employees who focused their time on monitoring and controlling the SRM process. This equated to an annual saving, after implementation, of £165,000 and produced a payback in just ten months.

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About Proactis Group

Proactis Group is a world leader in the development of Spend Control and eProcurement software applications, with around 300 major corporate customers in over 70 countries, spanning the Commercial, Public and Not-for-Profit sectors.

The company's flagship application suite, PROACTIS Spend Control & eProcurement, offers customers a compelling value proposition:-

Control: Ensure that all purchases are properly approved, checked for available budget and directed towards the appropriate suppliers, without creating additional administration;

Visibility: Drive transparency throughout the non-payroll cost base, make staff and budget holders accountable for their spend and track how suppliers perform against their promises;

Cost Savings: Streamline administrative processes to remove unnecessary cost, and use proven purchasing technology to reduce spend with key suppliers.

Proactis Group markets, sells and delivers the PROACTIS application suite both directly and through a network of Accredited Solution Providers around the world. Direct operations in the UK, Europe and the USA, supported by partners across 18 different countries, gives the Proactis Group a scaleable, effective model for the successful delivery of its software.