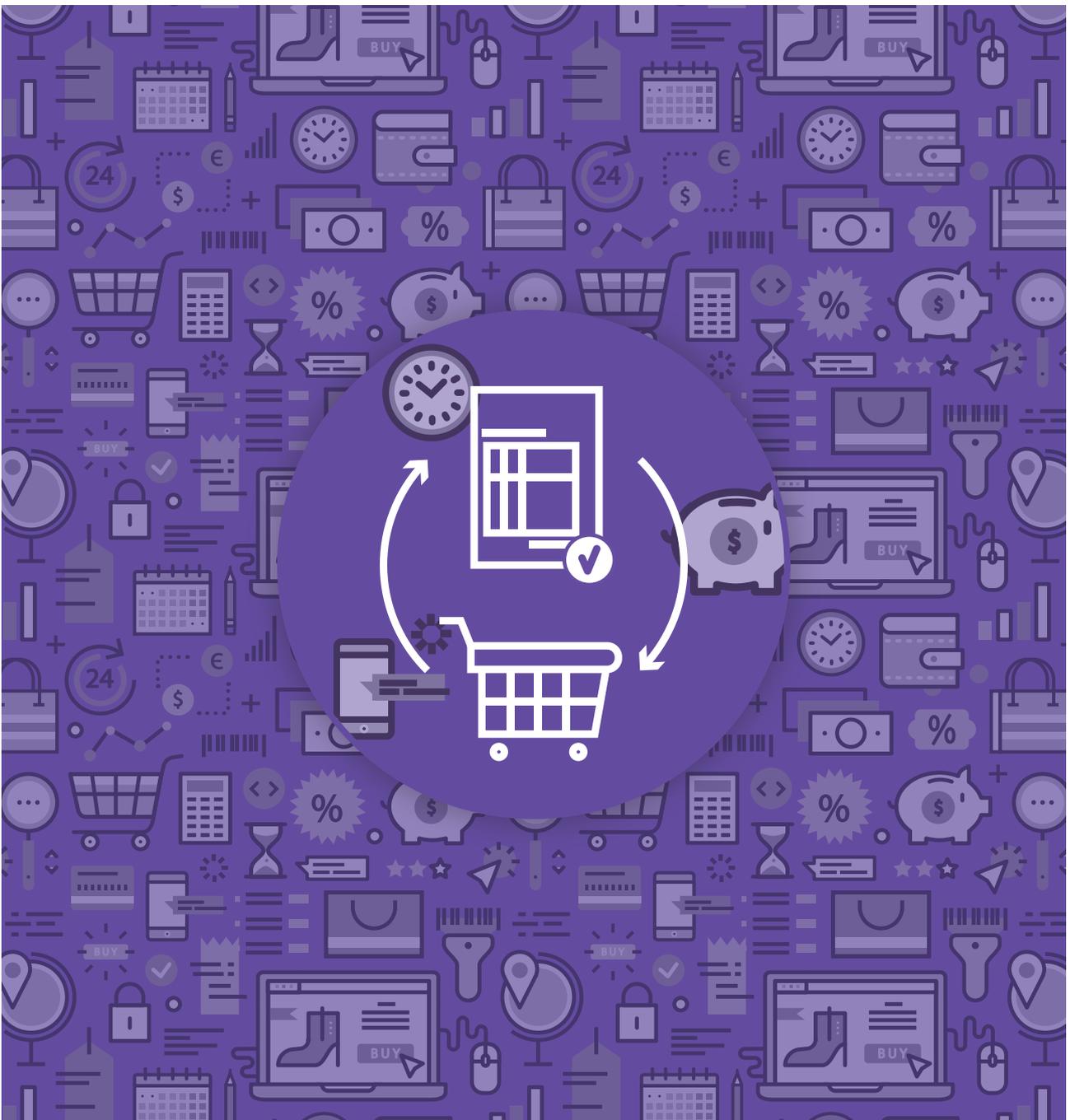


How purchase automation delivers



How purchase automation delivers

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| Raising purchase orders for everything you buy | 4 | It is important to recognise these savings are also sustainable on an on-going basis. Whilst every organisation looks to achieve “best value”, all too often each saving exercise will diminish in value over time as the old “bad habits” creep back into the purchasing process. This limits the savings achieved as too much resource is required to “keep spinning the existing plates”, inhibiting the organisation from expanding the disciplines and maximising the savings achieved. |
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Cost savings

So how does purchase automation enable an organisation to save money?

In reality, many purchase automation software applications that focus on simple purchase order automation and purchase invoice approval automation do not have the functionality to generate savings. They are designed for organisations to address the perceived pain points of a slow and paper intensive system and will address only that issue.

To make significant and sustainable savings requires a broader and deeper level of functionality and applications that offer this are usually referred to as Purchase to Pay (P2P) or "Spend Control" solutions.

The issue is that as soon as an organisation has automated basic purchasing processes, it becomes very clear that the obvious next step is to take advantage of the control over purchasing to reduce costs – but the automation application becomes a dead end.

If there was little difference in costs between a purchasing automation solution and a full Spend Control solution, the decision becomes very easy on which represents the best option.

Term contract management

Few organisations have a single repository of every term contract agreement across the business. There is often no formal process to ensure that every contract is reviewed and competitive quotations received prior to the termination date. The result is a contract will automatically renew at whatever price the supplier decides.

Automation delivers:

- A single term contract repository (with all associated documentation).
- Triggers activity to ensure competitive quotes are received and reviewed in good time.
- Enables an informed decision to be made prior to the termination date.
- Best value is achieved.

As important, the process to achieve alternative quotations is extremely quick to perform and easy to manage.

How much would be saved if this process took place every time on every relevant agreement?

Quotation requests

It is likely that the current process of requesting alternative quotes reflects the preference of the individual that does it and there is rarely a means of policing the process.

Automation provides the ability to:

- Formalise the process.
- Set spending limits against which competitive quotations are required.
- Sends formal quotation requests (with all relevant information embedded).
- Captures and tracks the potential supplier's responses.

Once received, the preferred supplier is selected against the agreed terms and submitted for approval, including the documentation relating to all responses.

The approver can then make an informed decision.

As time passes, automation provides an extremely detailed (line by line) analysis of the organisational spend and the associated prices paid. This information is easily extracted and provides the basis for alternative supplier review. It is a fact that the more detailed a competitive pricing request, the more competitive the responses received as each supplier can make a fully informed decision on how much they would like your business.

If all purchases over a given value went through this process, how much would be saved?

Raising purchase orders for everything you buy

How good is your purchasing process?

Do you currently have a formal purchasing process that:

- Creates a request to purchase.
- That always goes through the appropriate approval process.
- Is always checked against the correct available budget.
- Includes alternative quotes when required.
- On final approval, creates a formal purchase order document.
- Tracks all purchase orders to deliver commitment accounting and accurate cashflow forecasting.

Most organisations do have a process, but in most cases less than 50% of purchases have a formal purchase order.

The result is that the finance department has no idea of financial commitments (often until the purchase invoice is approved and posted to the accounts). Without a formal record of the purchase, the person that approves the purchase invoice has no practical means of validating the pricing from the supplier is accurate.

If every relevant purchase automatically goes through the correct approval process, not only does this provide commitment accounting and automated real time budget control, it also means that every purchase invoice is automatically reconciled to the purchase order. Every discrepancy is identified and the appropriate credit note requested.

Your expectation should be an initial significant growth in credit notes as your suppliers learn to bill accurately against your purchase orders. As time passes, the vast majority of purchase invoice will reflect the purchase order, saving both money and time.

These are long term savings, as overcharging small amounts is a common business practice.

Using Preferred Suppliers:

A common challenge is ensuring all staff make use of preferred suppliers where advantageous pricing has already been agreed. The inability to enforce which supplier is used is usually reflected by having numerous suppliers that offer similar goods and services simply because different departments and locations purchasing reflects an individual's preference.

Automation enables:

The availability of suppliers to be automatically controlled and maintained with minimal effort.

Adding more preferred suppliers as time passes as the system ensures that each relationship is automatically maintained.

The purchasing process is simplified through the ability to utilise comprehensive supplier catalogues that can be very easily maintained.

Catalogues always reflect what has been agreed and makes use of the system both easy and fast for

the user.

The result is an ever growing number of suppliers that receive formal purchase orders at the preferred prices and purchase invoices that reflect the correct costs.

The savings potential is significant because it removes maverick spend and enables a systematic and enforced growth in purchasing "under management".

Preventing budget overspend

The delivery of commitment accounting through a formal order processing system also delivers automated budget control. The system tracks purchasing commitments, reversed to accruals on receipting and reversed / expensed on purchase invoice approval.

Automation delivers:

- Realtime budget information including both soft and hard commitments.
- Informs the user and approver if a purchase request exceed the available budget.
- Changes the associated workflow for more senior management approval for critical out of budget purchases.

Automation also enables more informed purchasing decisions. A request for purchase can also be included within the budget headroom calculation (as a soft commitment), so the user is aware when

the requested spend, if all approved, would exceed the available budget. Armed with the information, the priorities are approved.

Removing all budget overspend (without senior management approval) is a real saving as it will directly impact the bottom line. As important, it also removes

the labour intensive and painful process of trying to provide and maintain accurate budget availability through each month.

Purchase invoice approval

In the ideal world, the current manual systems should ensure that a copy of the purchase order is always attached to the delivery note (if relevant) and attached to the purchase invoice prior to being sent for approval. This provides the approver with the information they need to approve payment.

For businesses where this discipline is in place, they are only too aware of the amount of resources and effort the process takes. For most businesses, it is left to the budget holder to take responsibility to ensure the goods and services have been received and the pricing of the invoice is correct. In many organisations, smaller items of spend are approved if it looks about right, as it is simply not practical to find all the associated information prior to approval for payment.

If every purchase invoice approval always reflected the purchase order to the penny, how much would the organisation save?

Savings summary

The problem with a manual system is that too much of the process is simply aimed at getting the supplier paid in a timely manner and monthly accounts produced. Reducing costs is the responsibility of each budget holder, usually working independently from everyone else.

Automation provides the platform to evolve the purchasing process to become focused on reducing costs, with the confidence that each step forward is not only maintained, but automatically enforced.

It is clear that some of the savings will be greater than others, but given the volume of transactions being processed, a lot of small savings becomes a substantial number and the overall savings value continues to grow as time passes.

If these savings added up to perhaps just one or two per cent of your discretionary spend, then the automation will usually pay for itself in a lot less than a single year.

After that, the savings are either reflected in the bottom line profit and cashflow or re-invested in the growth and development of the business.

Productivity savings

The first thing to recognise is that replicating the benefits of purchase automation in an equivalent manual system is going to require a small army to maintain, which is why most manual systems have their inherent weaknesses.

Purchase automation not only provides a significantly improved process and the associated cash saving potential, but usually also takes less time than the current manual system.

In the past, individual productivity savings were downgraded in importance and value as the argument was always that it did not save real money unless it reduced headcount. Today's environment is different as businesses deal with the tough trading conditions – pretty much everyone is extremely busy so anything that makes each of us more productive (especially reducing basic admin tasks) is valuable.

Productivity gains can be achieved in a significant number of areas, this document just addresses the main ones:

Spend visibility

- Every individual that needs to know about the exact status of a purchasing transaction can simply look it up 24x7 from any device. It cuts out every communication that currently takes place.
- Every historic transaction is immediately available for reference and can be “duplicated”, then amended as required for repeat purchasing.
- All budget holders can see the exact status of budget headroom moment by moment and can stop all other means of tracking this.
- Month end accruals are correct at any given moment in time and are fully reconciled with the accounting software by default, reducing the time required to close the accounts at month end.
- The system is creating a complete record of every purchasing transaction at a detailed line level which is available on demand. This “spend category management” information is invaluable in requesting competitive quotations and tenders. For most manual systems, the only means of creating this information is to look at every purchase invoice received by each supplier and copy the information into another document.

Speed of process

- Automation saves time across the board, whether in generating quotation requests, raising requisitions, the approval process to raise a purchase order, the speed of receipting and in particular, the speed of purchase invoice capture and approval.
- EDI/Electronic purchase invoice capture and processing has become affordable and easy to execute. Instead of dealing with bits of paper, purchase invoices can be scanned and interpreted, delivered electronically into the purchasing automation software, automatically reconciled against the relevant purchase order and dropped into the appropriate workflow for approval – without any staff intervention. Consider the resource savings available from this one aspect of automation.
- Whilst the productivity savings may only be a minute or two for each part of the process (although for some processes it is considerably more), when multiplied by the volume of purchase transactions, the time saved becomes very considerable across the organisation.

Control

- The ability to enforce purchasing procedures that are reproduced automatically every time delivers best practice without constant management intervention.
- This enables thereach of “Spend under management” to continually be incrementally increased, improving the savings achieved.

Productivity summary

A simple review of the time saved through automation will highlight productivity savings that are often equivalent to many months or even years across the entire organisations.

If the time saved is applied to increasing the level of “Spend under management” and lowering the level of spend that requires alternative quotations, the level of savings achieved will grow accordingly.

Conclusions

All too often, a proposal to the board for a purchase automation solution will fail to be approved as the benefits are rarely fully understood, it is perceived that the current process “works” and there are other competing projects for the same funds.

It is only when the objectives and requirements of the automation process include the real opportunity to systematically reduce costs (that more than cover the cost of automation) are these projects approved.

Purchase automation has its own benefits, but it is only when those benefits are combined with “Spend Control” does the proposition become totally compelling. It represents a step change for a business that will take organisations out of the “dark ages” of a paper intensive manual process bereft of any meaningful spend information and into the brave new world of Spend Control to deliver the systematic and ongoing reduction of costs.

There are two final points to consider:

- If you are considering automating your purchasing process, be sure to expand your requirements to include how the solution will save you money
- It really is not a matter of if your organisation will automate the purchasing process; it is just a matter of when.

The benefits of Spend Control are so significant that every business that receives over 1,500 purchase invoices a year will save more time and more money than the cost of automation.

COMPLEAT

Compleat Software is a leading provider of powerful spend management solutions for SMEs that eliminates paper and unites finance, procurement and budget holders, providing an accurate, real-time picture of company finances. Offering the next generation of purchasing and budget management automation at an affordable cost, its P2P software comprises solutions for e-invoicing, purchase invoice approval, purchase order and receipting, employee expenses, contract management, and report generation. For further information about our capabilities please visit and to learn how we empower results for clients, please visit our website.

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