Don’t miss The Strategic Opportunity of S2P implementation

Addressing S2P (Source-to-Pay) is necessary for organizations today in order to reduce transaction costs, but that alone is not enough to drive real cost reductions and bottom line profitability. To derive the maximum benefit, organizations need to seize the opportunity created by the disruption of a S2P implementation to radically transform the way in which procurement is carried out throughout the organization. This paper provides suggestions on how to make the most of the opportunity created by a S2P implementation and makes recommendations on how to maximize the benefits.
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Introduction

Reducing transaction costs, improving efficiency, getting the best deal, having greater spend visibility, and ensuring greater contract compliance are among the common business case justifications for a new Procurement Platform Solution. In fact, they are among the reasons why businesses have engaged with us for the delivery of that solution – clients gain the benefit of lessons learnt from previous implementations. So why would we suggest that there may be a missed opportunity in S2P implementation? Put simply, while a S2P system is fundamental in every organization’s pursuit of reducing transaction costs, it is not enough to drive real cost reductions and bottom line profitability. To maximize the benefits, organizations need to use the disruption of a S2P implementation to radically transform the way in which procurement is carried out throughout the organization, with procurement, in this case, referring to the manner in which all non-pay spend is carried out.

That the S2P implementation will be disruptive is certain; however, that disruption provides a wonderful, one-off opportunity to roll out wider procurement transformation. What’s more, we honestly believe that S2P implementation without wider procurement transformation is likely to prove costly in the long run.

The typical approach to S2P implementation

Let’s look at a typical example. An organization has realized that the Accounts Payable process is largely administrative and has many standardized processes. A business case is developed, recognizing that the automation of the process will reduce errors, speed it up and reduce transaction costs by a figure between 20% and 30%. Besides, these are savings that have been achieved time and time again. It is compelling. It is attractive. It is a ‘must do’. We do not advocate ‘ripping up’ this business case. Instead, we make a case for taking a wider perspective, recognizing that S2P can be an enabler for making a stepped change and for introducing best practice procurement throughout the organization. This elevates it from being a mere operational issue; on the contrary, it becomes a strategic opportunity.

However, before we discuss that, let’s consider the traditional view of S2P implementation. The traditional view is that S2P is the automation of an administrative process. This is correct. It will lead to transaction cost reductions. But automating an existing process implies that all the required information needs will be available. In Figure 1, we highlight some of the information needs that a S2P system will require.

![Figure 1: S2P information needs](image-url)
S2P information needs

A S2P system requires access to information to work effectively. This section discusses the information needs relevant to the purchasing process.

Requisitioning

The first stage of the purchasing process is the raising of the requisition electronically. The person raising the requisition needs to be aware of the purchasing procedures and monetary thresholds within which they have authority. The Procurement Policy also needs to be relevant since it will address wider issues applicable to all spending, and will take into account what the organization stands for and its rules on behaviour. Finally, the requisitioner needs to be conscious of the organization’s Procurement Strategy; for example, whether or not their requisitioning should keep in mind organizational practices pertaining to Corporate Social Responsibility (CSR), Vendor Rationalization, lowest price etc.

Purchase Order

Of course, the person approving the requisition and its conversion into an electronic Purchase Order also needs to be aware of the policy, strategy and procedures, but the decision to award the Purchase Order to a particular supplier becomes a major concern. The existing catalogue will provide details of what is currently ‘on contract’ – information that flows from the Contracts Register. The Contracts Register will also provide access to the Terms and Conditions applicable; for example, when should delivery be expected, what is the contract duration, what are the renewal dates and so on.

On occasions when an existing contract is not in place, the Policy and Procedures will provide information on how to issue a Request for Price, how many offers should be invited, etc. The Approved List/Preferred Supplier database will also shape decisions regarding invitations to submit bids, the organization’s plans for delisting and vendor ratings. Failure to take these into consideration is a major reason why organizations issue RFPs to current suppliers who are providing unacceptable service or to those who are scheduled for delisting.

Delivery

Ideally, delivery should be as close as possible to the point of use and ideally, the requisitioner. They need to be able to confirm that the delivery is consistent with the ‘5 Rights’, namely, right price, right place, right quality, right time and the right supplier. The requisitioner also needs to be able to follow up with the vendor/supplier when delivery is not as expected. To complete these operational activities, they need access to the relevant contract information. The actual supplier performance then needs to be fed into the vendor rating system.

Accounts Payable

Finally, assuming that the Purchase Order has been ‘signed-off’ as received to an acceptable quality, the Invoice is then matched with the Purchase Order, electronic Delivery Note, agreed price, any settlement discounts, etc. The Terms and Conditions of the contract as well as the Contracts Register need to be accessible.

The financial coding system and the creditors’ payments then provide the key input into the spend analysis, which is at the crux of strategic procurement decision-making.
The missed opportunity

More often than not, S2P implementation is driven by a motivation to streamline and automate the Accounts Payable function, with transaction cost reduction in the Purchasing and Accounts Payable administration being the focus. However, we believe that while the administrative costs need be reduced, much more could be achieved, and potentially longer-term costs avoided, if a more strategic perspective were taken. Unfortunately, the involvement of certain strategic procurement units is not always recognized as being fundamental to the success of a S2P implementation and as a result, their inputs are not sought. This is potentially a serious mistake and Procurement needs to ensure that this opportunity is utilized for procurement improvement.

Our starting position is that the focus should not just be on automating the existing process – the ‘as is’. Instead the disruption should be used as a procurement transformation opportunity.

It is an opportunity to:

- revisit policy, strategy, procedures, and structure; introduce best practice strategic procurement; demonstrate to the market that you should be treated as a preferred customer; convince the market to make the necessary financial investments

Automating existing processes may sound sensible, but it is far better to take a long-term perspective. Implementing a new IT system and then having to change it again in the short to medium-term is expensive – while staff and suppliers can understand managed change, their patience will quickly be exhausted if you subsequently want to make changes that, in their view, could have been predicted.

So, it is prudent to clearly define the manner in which procurement would be carried out in the future and design the implementation to reflect the future ‘to be’ state. This will require agreement on future Procurement Strategy. The Procurement Strategy will need to clearly include whether you intend to increase or reduce your vendor base.

Your S2P system will not work in isolation of supplier engagement. However, for suppliers to invest in the ability to communicate with your S2P system, a reassurance that they will remain your supplier for some time, will be required. Equally, if suppliers are to be the main provider of catalogue content, they need to be aware of its ‘template’ needs. So, introduce your new vendor base approach along with your S2P implementation instead of afterwards.

But determining which suppliers need to be on-boarded to the S2P system as a result of existing contractual commitments necessitates a single, well-maintained Contracts Register. We have already discussed the need for a S2P interface with a Contracts Register – a good question to ask is “Do we have a single Contracts Register?” If not, now is the time to consolidate and standardize the register, take control of its management and also link it with the vendor base strategy.

You also need to think about the corporate approach to structure. Should you be moving to a centralized, decentralized, or hybrid structure? If the S2P implementation does not reflect the new structure, you will incur greater cost and disruption later when you need to make the shift. It is, therefore, much better and more cost-effective to design a new structure and implement the S2P to embed the new structure.
As the new S2P system is a change management opportunity, this is the time to take the lead on vendor rating and on the strategic ownership of the supply base. This is also the time to revise Procurement Policy and Procedures. It is also the ideal opportunity to introduce a new common procurement vocabulary that will ensure that coding is consistent and that a comprehensive Spend Analysis is completed. Being equipped with Spend Data – perhaps for the first time – is also the right time to introduce Category Management approaches and reap real cash savings. These strategic initiatives all need to be introduced within a new Procurement Strategy but equally, they need to be reflected in the P2P implementation.

S2P is just one procurement application – the Procurement Strategy should set out all other applications that will be rolled out and when, and those responsible for designing the S2P need to know which linkages need to be factored in and when.

The new S2P implementation will require training – both for use and associated workflows. That training should not be delivered in isolation; instead it should be part of communicating the new strategy and perceived best practice. That training also needs to reflect new roles, remits, responsibilities and relationships.

S2P implementation, therefore, needs to be seen as a strategic procurement opportunity to introduce more effective approaches as opposed to making existing processes more efficient.

Conclusions

The decision to introduce a S2P system is generally led by those responsible for the Accounts Payable function. It is concerned with the business case of reducing administrative transaction costs. However, S2P needs to be recognized as a strategic procurement opportunity – an opportunity for procurement transformation in strategy, structure, systems, and skills. This also provides scope for introducing best practice strategic procurement techniques.

We urge those considering the implementation of a new S2P system to take a wider and more strategic perspective. With this in mind, the next section sets out our recommendations.
Recommendations

1. View S2P as an opportunity to strategically transform how procurement is carried out throughout the organization;
2. Consolidate contracts into a single Contracts Register and confirm who owns the supply base;
3. Refresh the existing Procurement Strategy, prior to setting about S2P implementation – design the implementation to embed and reflect the new strategy;
4. In determining the new Procurement Strategy, be clear about your approach towards the future market – there are clear benefits to be had from addressing vendor rationalisation in parallel with S2P implementation;
5. Do not implement a S2P without first challenging the existing structure. Ensure the implementation reflects your desired future organizational structure for procuring, then clarify the ownership of new roles, remits, responsibilities and relationships;
6. Make sure procedures reflect a new way of doing business, not just in terms of how the P2P process will operate, but in terms of the most effective approach;
7. S2P just one part of an eProcurement Strategy portfolio – be clear about which other applications will be used by procurement and ensure that the S2P system design reflects the integrated whole;
8. Staff will need to be trained in the new S2P operating system. Ensure that training goes beyond the operation of the S2P system and includes raising awareness of and gaining commitment to the new policy, strategy, practices and procedures;
9. S2P should be viewed as a change management initiative. Support it with a communications strategy and clear leadership from the organization’s leadership;
10. Don’t miss the strategic opportunity of S2P implementation.

Figure 2: Grasping the strategic procurement opportunity.
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