White Paper
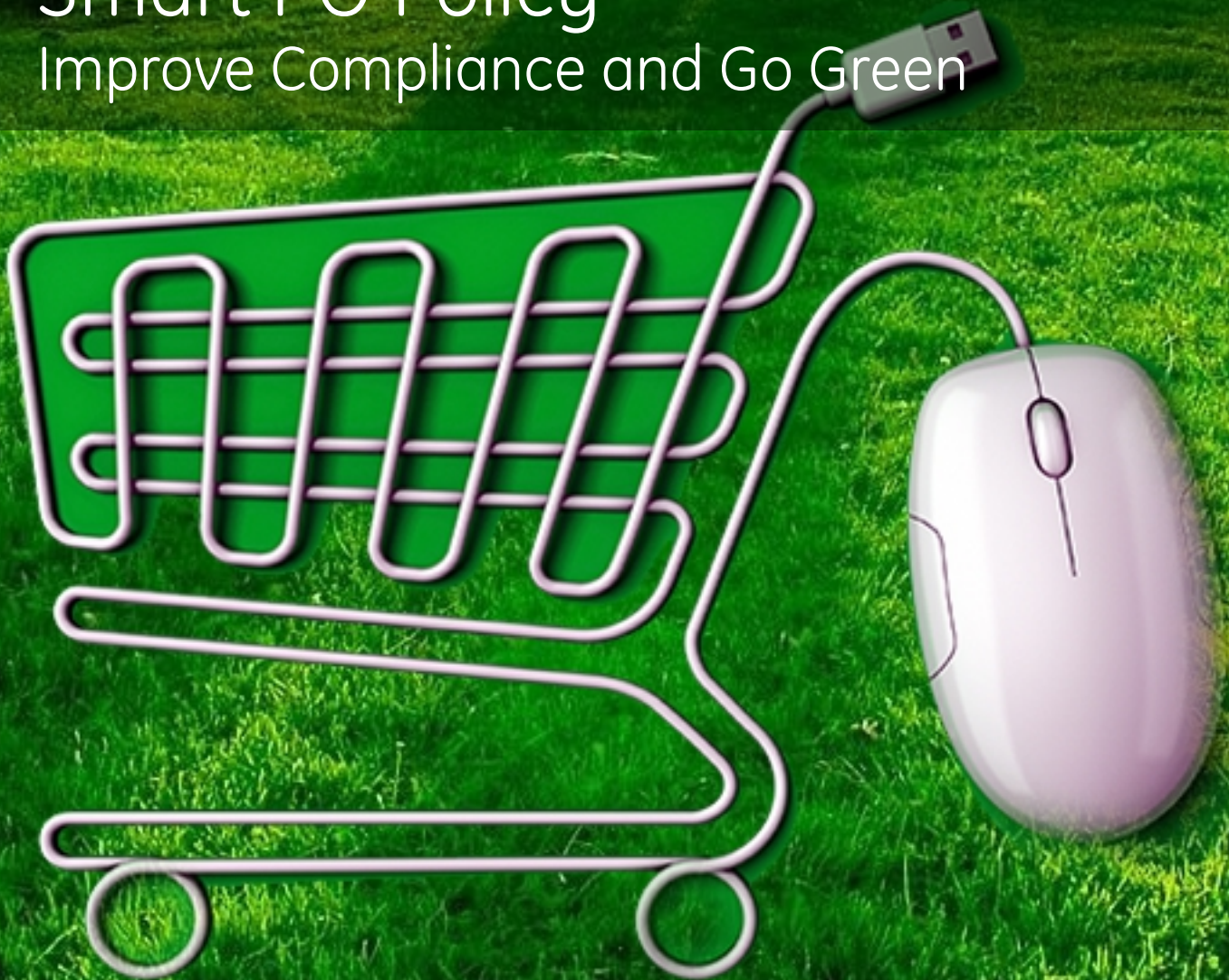
Smart PO Policy
Improve Compliance and Go Green

GEP®

Smart PO Policy: Improve Compliance and Go Green

In today's demanding economic environment of rapid change, there is constant pressure on organizations to drive greater efficiencies, compete more effectively, and be proactive. It is imperative for large companies to look for newer, smarter ways to manage spend and lower their costs through effective compliance management, while building more efficient and sustainable operations. Companies constantly try to overcome these challenges, developing strategies to rise above the operational constraints and achieve their goals of enhanced contract compliance, greater efficiencies and a greener environment.

This paper discusses the benefits of smart PO policy, which mandates Purchase Order (PO) use for nearly all invoices submitted by vendors. This enhances compliance and automates the document exchange process, which enables a company to go green.

Compliance Management, Post Strategic Sourcing

When developing strategies, procurement executives must ask themselves what new processes and technologies are needed to enhance contract compliance. The execution of a strategic sourcing process for indirect purchases leads to a contract with the selected vendors and sets the stage for the requisition-to-payment process. Indirect purchases include all goods and services other than those directly related to the production process, for example, Marketing, IT, Transportation, Warehousing, Capital, MRO and General/Professional Services.

The strategic sourcing process is typically followed by specific change management and communication activities to inform users about the new contract and new vendors. In a perfect world, users abide by the contract and submit POs for the purchase of goods and services from the selected vendors; however, the reality is usually quite different. Our experience with Fortune 500 companies shows us that many companies still lack a clear PO policy that is communicated, accessible and enforced. While enforcement and communication are strong on the direct purchasing side, indirect purchases don't garner as much attention.

Since the dawn of B2B integration, automation has been seen as one way of achieving higher levels of contract compliance. While automation can improve contract compliance, our experience suggests that a clear PO policy (governance) is an essential starting point and is yet to be embraced by most companies.

Purchases that do not require POs
Some high volume purchases are exceptions and may not be suited to the use of Pos, for example, telecom bills or high volume maintenance bills like fleet maintenance bills. Some purchases may be more suited to the use of a purchase card that may be set up for a user or a specific vendor, for example, purchases made from local caterers, subscriptions, or space reservation for events.

Clear PO Policy for Indirect Purchases

With all the focus on automation and controls within direct procurement, indirect purchases usually suffer lax oversight. Indirect purchases may not have standard approval requirements, nor set criteria for the use of POs. Our client experience with indirect purchasing processes at Fortune 500 companies indicates:

- Use of varying minimum thresholds, where POs are not required: Our experience indicates that minimum thresholds can be as high as $5,000 per transaction for indirect purchases (where POs are not mandated).
- Automated, recurring payments without POs: While in some cases, automated payments are acceptable (e.g., lease payments), in others, they could be just another means of quick payment with lack of sufficient controls.
- Handwritten payment authorizations on invoices: In such cases, no PO record is created and invoices are generated and paid per the instructions on the note.
- Purchase orders created after invoice receipt: This happens in cases where the purchasing group has limited internal visibility into the requirement. The purchasing group has to rely on the vendor invoice to enter the purchase order. Moreover, sometimes, invoices are sent to users rather than accounts payable, which is not advisable.

Use of POs for clear spend visibility

The use of POs provides a clear view of spend in each category and allows the purchasing organization to have good control over the vendor management process. Spend visibility is impaired when PO data at line item detail level is not available (e.g., item codes, quantities, UOM, pricing, etc). A real time, holistic view of spend management -- analysis of spend across all vendors and contracts in an enterprise -- provides the organization an integrated approach that enables effective risk management and eliminates time-consuming compliance tasks.

Contract compliance also suffers when there is no ability to verify the vendor used and price paid at the time of purchase. By the time the invoice shows up, the purchase is complete and there is no process to scrutinize payments for a potentially non-compliant purchase.

Compliance management solutions contribute to smart PO policies, which help companies to manage risk better, reduce spend and tie controls to efficient green business processes.

Automation for green compliance

The mandates for building a green environment, while enhancing operational efficiency, can be achieved through automation. B2B integration software can check invoices received to confirm the existence of a PO. In order to have an effective automation, it must be supported by robust processes.

- All invoices must be received directly by accounts payable.
- Those without POs should be rejected outright and sent back to the vendor; they need to obtain a PO number from the user.
- If the use of a new vendor is identified at the PO or invoice stage, procurement needs to get involved to approve their on-going use.

In the process of automating the document exchange process (POs and invoices), a company can go green and significantly reduce the use of paper, and enhance compliance to preferred vendors and contracts.

Compliance Assurance Solutions

Due to the cost and complexity involved in compliance, the key strategic question that arises is "How do businesses achieve compliance"? With Compliance Management solutions, organizations can drive a competitive advantage through a more streamlined enterprise.

Our compliance management solution suggests integrating a smart PO policy across all buying channels. It mandates the use of POs in most, but not all, cases, along with minor changes to procurement processes related to vendor maintenance to make the policy more effective. In addition, a comprehensive buying channel strategy and performance criteria are developed to manage purchasing transactions.

Unlocking the Value in Green

Organizations are looking to become environmentally and socially responsible. This can prove to be a potential opportunity to lower costs while overcoming operational barriers -- strengthening compliance and creating services that satisfy customer demands and create new markets.

Focus on going green extends well beyond the simple carbon footprint. It is a challenge to look beyond the carbon footprint, as any business activity, right from turning on the lights to running a financial transaction, involves the use of fuels or other non-renewable energy. We believe that large societal and economic shifts will drive the emergence of new, more sustainable business opportunities, leading the new "green and beyond" economy.

Smart PO Policy for Operational Efficiency

Refined compliance monitoring, coupled with advanced purchase-order techniques, can help improve efficiency and performance, while driving bottom-line cost reduction. PO policies provide internal control over expenses, payables, disbursements, contracts and vendor performance, while capitalizing on the benefits of ease of use, staff productivity, ROI and business intelligence. The policy simplifies transactions and streamlines the entire procurement-to-pay cycle, while strengthening compliance.

A smart PO policy forces all purchases to utilize prescribed buying channels. These buying channels include the use of purchase orders (including on-line catalogs), purchase and travel cards, recurring automated payments, etc. The policy sets the appropriate guidelines for the use of these buying channels and provides examples, limitations and appropriate thresholds. It also enhances the use of POs, minimizes one-off payments through check-writing that can be costly per transaction, and encourages the use of purchase cards in appropriate situations. Some additional process improvements required to enforce the new policy are:

1. Vendor Management for Smart POs:

Smart PO policy is more effective when certain improvements are incorporated in the vendor set-up process. When new vendors are added to the system, they may be accessible to all users and that may compromise contract compliance.

In most large organizations, the vendor set-up process may be dispersed. Several employees may be able to add vendors as needed. The vendor set-up process needs to be owned either by procurement or accounts payable (supported by procurement).

- If procurement owns the process, then some tax-related documentation will need to be collected and submitted to accounts payable.

- If accounts payable owns the process, then procurement needs to review and approve all new vendors. This allows a category manager to stop vendor proliferation at the source and understand new requirements of users.

2. PO Help Desk

A smart PO policy is enhanced through the use of a PO help desk to facilitate PO creation. Such a help desk is useful especially if users are not familiar with new PO policies, the vendor set-up process and the PO-creation process.

This help desk can also assist in standardizing and automating the PO-creation process and facilitate compliance with existing vendors.

Governance Improvement Through Use of POs

Pos provide the following benefits:
- Help realize cost savings using appropriate procurement policies
- Create a reviewable record of the purchase in the system – a key ingredient of any compliance program
- Facilitate a three-way match before invoice payments (PO, good receipt and invoice)
- Force review and approval of requisitions; without POs, informal approvals will come into play
- Facilitate the review of a new vendor (as a vendor must be available in the system or set-up before a PO may be issued)
- Help enforce vendor payment terms

The result is enhanced compliance on existing agreements through the use of prescribed buying channels, and minimized vendor proliferation.

Improve Compliance and Go Green

Changes in governance, processes and automation can lead to significant improvements in internal controls, standardization of processes and enhanced compliance regarding contracted vendors. Compliance management is a major area for leveraging the value in green. Designing and applying environment-friendly strategies at every stage of the supply chain process, starting from the supplier, to the manufacturer, to the transporter, to distribution and beyond will lead to business process efficiency and a green organization.

Benefits of Smart PO

Improved Governance
- All purchases follow the same policy (including approvals
- Clear executive signal to improve purchasing governance

Process Discipline
- Use of standardized processes
- Use of 3-Way match for nearly all purchases

Spend Visibility
- Obtain PO level line item detail data
- All purchases recorded in internal systems

Improved Payment Terms
- Improve financial cash flow forecasts
- Control payment terms

Vendor Compliance
- Issue POs only to approved vendors
- Limit vendor proliferation

Automated Transactions
- Use automated PO and invoice documents with vendors
- Eliminate paperjmanual transactions (internally/ externally)

Simple, proven compliance with smart PO policies is well within reach

GEP has supported smart PO policy projects for several clients and continues to focus on providing clients with efficient, optimized solutions that reduce usage of energy and carbon, while driving lower costs, improving compliance and leading to successful business outcomes.

The following case study demonstrates how the use of smart a PO process led to significant benefit for a CPG client:

GEP aims at contributing to enterprise-wide green initiatives by creating cost-efficient, green services that give rise to new profitable markets. By systematically managing electricity, energy and other non-renewable resources, we help organizations manage spend and lower costs through environment-friendly, efficient, and totally compliant business operations.

Moreover, GEP enables clients reduce their costs by refining and perfecting their supply chain practices. We offer advanced spend analysis, strategic sourcing services, and cost-effective procurement outsourcing.

We also provide cloud-based procurement technology that can dramatically streamline everyday operations, while building best practices into every process. We are about total procurement transformation.

Background and Approach

- Client engaged GEP to map current p2p process, develop future state and outsource all transactional P2P processes
- GEP put an onsite transition team and completed transition in a 6-week timeframe
- Assumed full transaction responsibilities across all categories after 6-week transition phase
- Trained a cross-skilled team comprised both on-site and off-site (India-based) team members
- Developed tailored process maps and Standard Operating Procedures for each category
- Re-designed processes to automate and shift low-touch activities off-shore
- Baselined current performance levels against industry best-in-class standards
- Developed robust SLAs and reporting dashboards
- Placed strong focus on continual process improvement and strategic sourcing

Results Achieved

- 35% reduction in headcount
- > 40% reduction in operating costs by aligning salaries to market rates and shifting to hybrid (on-site, off-site) operating model
- Dramat ically improved performance measured against clear targets
  - 90% of Requisitions converted to PO's within same business day
  - 90% of blocked invoices cleared within 7 days
  - Significant ly improved On-Time/In-Full (OTIF) metrics with only 5% of deliveries greater than 30 days late
- Reduced maverick spending through improved reporting and by reducing off-PO purchases

GEP

GEP helps global enterprises operate more efficiently and effectively, gain competitive advantage, boost profitability, and maximize business and shareholder value.

Fresh thinking, innovative products, unrivaled domain and subject expertise, and smart, passionate people – this is how GEP creates and delivers unified business solutions of unprecedented scale, power and effectiveness.

With 14 offices and operations centers in Europe, Asia and the Americas, Clark, New Jersey-based GEP helps enterprises worldwide realize their strategic, operational and financial objectives.

Recently named Best Supplier at the EPIC Procurement Excellence Awards, GEP is frequently honored as an innovator and leading provider of source-to-pay procurement software by top industry and technology analysts, such as Forrester, Gartner, Spend Matters, Paystream and Ardent Partners. GEP also earns top honors in consulting and managed services from the industry's leading research firms, professional associations and journals, including Everest Group on its PEAK Matrices of Procurement Services Providers and Supply Chain Services Providers; NelsonHall on its NEAT Matrix of Global Procurement BPO Service Providers; HfS in its Blueprint Report on Procurement-as-a-Service; and ALM Intelligence in its Vanguard Reports on both Procurement Consulting and Supply Chain Consulting.

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100 Walnut Avenue, Clark, NJ 07066 | P 732.382.6565 | info@gep.com | www.gep.com

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