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GETTING SOURCE-TO-PAY RIGHT:

Seven Sins to Avoid

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EXECUTIVE SUMMARY

Source to Pay (S2P) is gaining increased interest as a strategic financial management discipline. CFOs recognize that effective S2P processes can enhance decision support, business transparency and auditability, improve risk management and business agility and achieve cost savings.

This attention at the C-level of financial management reflects the evolution of S2P from a tactical efficiency and cost-takeout tool to a broader view that addresses other critical financial objectives. That said, many enterprises have to date achieved only limited benefits from their S2P function, largely due to a constrained view of the function.

This ISG white paper outlines the guiding principles and key objectives of an effective Source-to-Pay function and examines the trends shaping the evolution of S2P from a tactical to a strategic enabler. By identifying seven common pitfalls enterprises experience when implementing and managing S2P, and by explaining how to avoid them, we seek to help CPOs maximize the benefits of S2P within their organizations.

Characteristics and Objectives

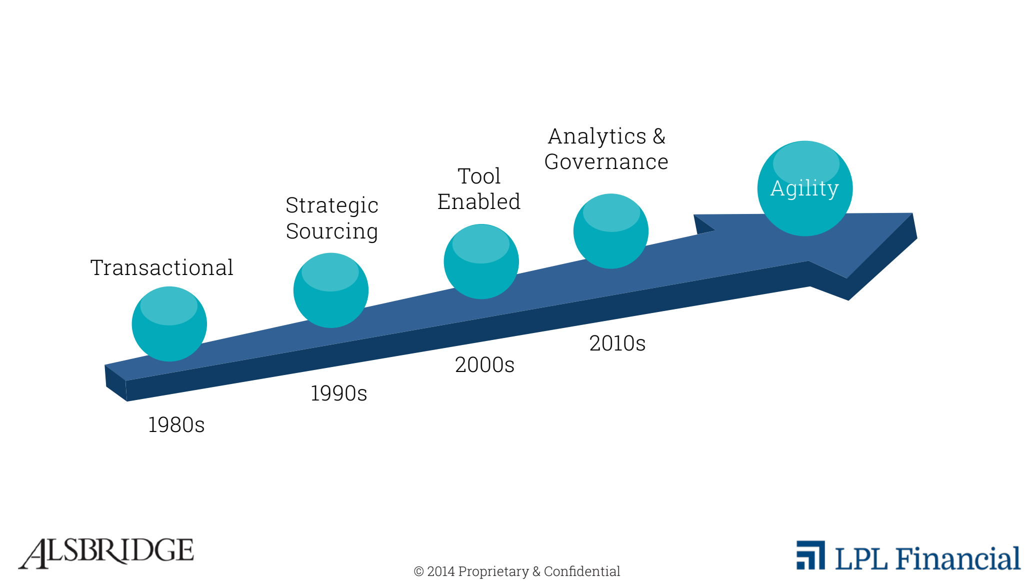
S2P comprises a wide range of sourcing and financial management activities, including purchasing, accounts payable and analysis of enterprise spend, contract negotiation and administration, vendor management and risk management, and related Corporate Social Responsibility (CSR) activities.

The depth and range of these activities translate into an enterprise-wide mandate to ensure and demonstrate that the right things are purchased at the right price, in the right way. Achieving this objective requires that decisions are based on the best data and insights, at the appropriate levels, with clear accountability and full transparency, and that processes are in place to manage obligations, commitments and risks.

When effectively implemented, a S2P framework enables rather than shackle the organization, and results in a more agile business that competes more effectively in a fast-moving economy. In this context, cost savings remains an important objective, but is balanced to avoid the risk of “cost saving” the company into the ground.

Evolving Role

Traditional Roles Within Procurement are Changing



S2P frameworks were traditionally used to expose maverick or misaligned spending that was driving up costs, creating risks and reducing profitability. The logic was to drive spend consolidation and enable volume sourcing with fewer suppliers and rationalized “standards,” thereby lowering pricing and reducing aggregated spend.

Under this model, exceptions to standard suppliers and specifications are viewed with suspicion and are difficult to implement. The same logic that constrains users from buying a fancy pen is applied by default to very different business requirements. Moreover, the constraints are applied by purchasing professionals who don't truly understand the business objectives or context driving the request. In the past, POs were issued on paper to lobbies full of salespersons. In today's markets, quick online searches can provide end users with a level of market data and pricing transparency that wasn't available to the purchasing professionals who designed the original processes – original processes that continue to be in place but are now far from optimal.

Indeed, the very nature of economies through aggregation has changed as connectivity and analytics have enabled virtual aggregation. Automation provides transparency into end-user actions and the ability to provide near immediate feedback when associates don't act in the best interest of the company. Given the objectives of enhancing decision support, business transparency and auditability, improving risk management and business agility and achieving cost savings, a redefined S2P approach (as described in the table below) can significantly outperform a 2000's era design.

Traditional	Emerging	Benefit
Rules-Based	Principles-Based	Greater agility and flexibility to respond to new information and business models while maintaining principles of transparency, competition, value maximization and risk mitigation.
Centralization	Transparency & Principles-based Governance Increased business centrism	Analytics enables preservation of sourcing principles with higher levels of responsiveness to unique business needs and reduces need to force-fit requirements.
Category Sourcing Experts	Category Sourcing Technology	Software captures more market data, freeing up category experts to become more strategic.
Prescriptive Requirements	Value Discovery	Buying based on yesterday's specifications produces lower value options. Processes must capture differentiating capabilities that define business value. Level playing fields rarely exist in business. Gaining knowledge and analyzing ROI is preferable to a cost-takeout model.
Long Contract Negotiation Cycles	Diminished & Refocused Negotiations	Long negotiations for fast-changing, innovative technology diminish the value of that technology. By the time the contract is done, technology has changed.
"Level" Playing Field	Candor & Market Making	A "Level" playing field only truly fits a selection among commodities. Rather, define business objectives and compare solutions.
Proscribed Communication	Managed & Facilitated Communication	Poor procurement communication leaves providers guessing and increases the risk priced into their solutions. Innovation requires context.

Traditional	Emerging	Benefit
Cost-Savings Based Analysis based on TCO	Value-based Business Case	A cost-savings mindset often destroys value, as it defines value based on a procurement view rather than a business view, and frequently results in provision of cheaper but sub-optimal solutions. While the company spends less money, growth can suffer.
Process Compliance	Process Simplification	Compliance is necessary to ensure transparency and prevent waste, but current compliance-oriented processes often hamstring businesses from moving quickly. Analytics and social software drive transparency and responsiveness, so control can be balanced with understanding and responsiveness.
hilVendor Compliance	Supplier Management	Critical and strategic suppliers add greater value and reduce risk if managed at a strategic level with appropriate processes and communication. It's not about getting the vendor to "obey," but about maximizing the value of the provider relationship.

Seven Sins of S2P Design

Despite the evolving role of S2P, enterprises still revert to old approaches when contracting for S2P provider solutions. These seven common pitfalls should be avoided when selecting, contracting and managing a S2P solution.

1. Business Case Model based on Cost vs. Value
2. "Analytics" Limited to Spend Analytics
3. P2P Solutions masked as S2P
4. Too Much Focus on Savings
5. Traditional Sourcing Design
6. Poor Definitions of "Realized Savings"
7. Poorly Designed Customer Care

1. **Business Case Model based on Cost vs. Value:** Many CPOs today aren't taking advantage of emerging technology platforms such as Business Process as a Service (BPaaS), cloud, analytics and robotics. Client-side sponsors continue to rely on traditional cost-based business cases to justify their projects, and as a result fail to convey the full breadth and scale of the potential benefits that can be achieved through innovation.

2. **"Analytics" limited to Spend Analytics:** Traditional S2P providers have invested in spend analytics tools and capabilities, but often do not collaborate with the analytics organizations elsewhere in their companies. S2P analytics should include risk and performance, as well as customer-focused analytics to enable S2P to better identify and satisfy the business objectives of internal stakeholders.

3. **P2P Solutions masked as S2P:** Sourcing as a competency comprises domain knowledge, analytics, communication and change management. However, some service providers continue to mis-brand their largely transactional offerings as S2P. Because these broader skills are in short supply, client organization must interview deeply – at an account-specific level – to ensure their provider has the requisite "sourcing" resources.

4. **Too Much Focus on Savings:** This outdated paradigm reflects old procurement thinking. While savings is always important, and while realized savings is the only kind of savings that matters, an over-focus on savings can drive behaviors that hamstring the business, and can lead to questionable accounting methods that undermine the credibility of the solution. Be realistic. Plenty of savings can be had, but if it sounds too good to be true…

5. **Traditional Sourcing Design:** As discussed above, a sourcing program focused on procurement objectives rather than the overall strategic objectives of the business will fall short of its potential. Traditional approaches that include an arms-length approach to communication, limited collaboration and extended contracting cycles will increasingly be perceived as anachronistic, tone-deaf and unresponsive.

6. **Poor Definitions of "Realized Savings".** Realized savings demonstrate that invoices were paid for items delivered at the savings expected, and provide clear transparency into purchases made through other channels and how those purchases impact the savings benefit. Realized savings requires a holistic full-cycle management approach and cannot be based upon predictions or assumptions on spend levels. Transparency is essential when structuring the contract to incent the right behavior by all parties, and to avoid creating unworkable financial incentives that drive unnatural behavior.

7. **Poorly Designed Customer Care.** The S2P model requires a well-designed intake and "triage" mechanism to assign prioritization and direct the user to the correct channel and process, and to provide transparency and a realistic, tracked commitment for fulfillment of the request. Social media and analytics can be applied to help ensure that the S2P framework is enabling the success of the business, and to identify and resolve bottlenecks and other issues.

CPOs that adopt a more strategic approach to the procurement function and avoid the "Seven Sins" of outdated thinking will be more effective at getting the CFO's attention. Specifically, a strategic approach will drive improved participation and utilization, better transparency into obligations, risks and trends and a clearer focus on value metrics rather than suspicious "savings." Bottom line: higher levels of satisfaction and true enablement of the business.

ABOUT THE AUTHOR

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Bill is a recognized industry thought leader and has played an active role in helping to create professional standards and best practices. His areas of expertise include procurement, sourcing strategies, governance, change management, merger Integration and global contracting. Before joining ISG, Bill led IBM's Sourcing Managed Services portfolio of more than 30 external customers. In this role Bill had global responsibility for leading the client sourcing team comprised of consulting managers, sourcing consultants and global category strategy leaders.

Bill's professional affiliations include four years on the Board of Directors of the International Association for Contract and Commercial Management (IACCM). In this role he was instrumental in establishing numerous research and standards initiatives including the Contracting Capability Model, Commercial Contracting Best Practices and regular academic symposia. He has also served on the Board of Advisors for the Sourcing Interest Group (SIG) and as a member of the Society for Information Management (SIM) IT Procurement Working Group.

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