Defining and Expanding the Value Proposition of P2P

Management Issue
For Current Members of Hackett Process Advisory Programs

By Pierre Mitchell and Bryan DeGraw

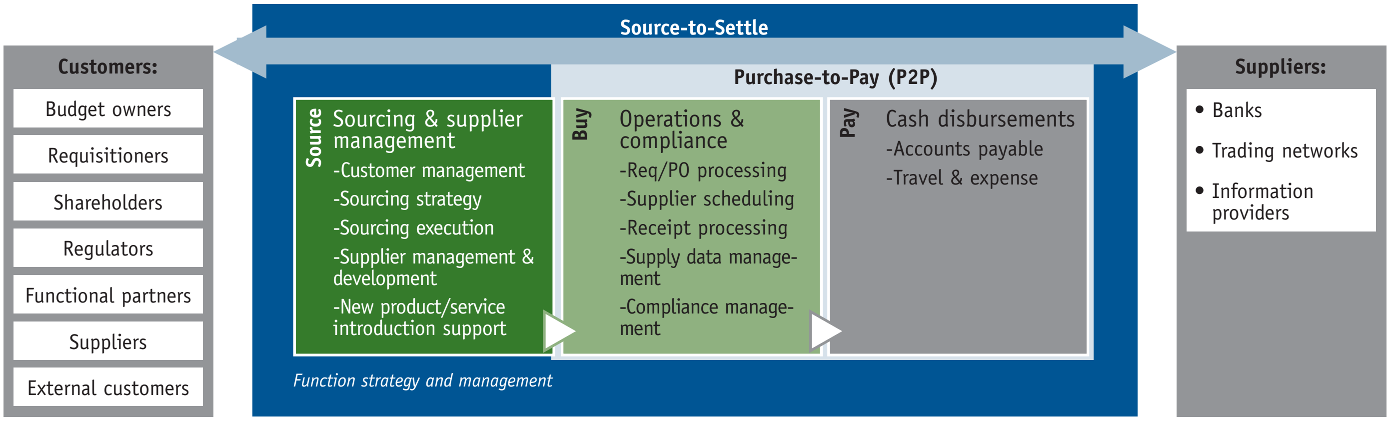
Executive Summary

A more broadly scoped P2P process encompassing the entire source-to-settle continuum can bring better alignment with stakeholders or customers and facilitate the planning and investment required to develop higher-value capabilities. Under this scenario, P2P activities and value contribution would extend from the end-customer all the way back to the supplier. Given today's tight operational budgets, these new capabilities can be funded with savings achieved from increasing the efficiency of routine transactional activities. Performance metrics for P2P's newly enhanced capabilities can evolve to formally codify the value of the function to enterprise goals such as customer satisfaction or working capital performance.

Introduction

As companies toil to extract more value from their operations, they are exploring the concept of global process ownership as a strategy for elevating the value of P2P activities. In Purchase-to-Pay Alignment: The Missing Link to Delivering on Spend Cost Reduction, we examined the impact of aligning the "buy" and "pay" processes. But this addresses only part of the picture. To thoroughly optimize P2P, process scope must be broadened to encompass the entire source-to-settle continuum **(Fig. 1)**. This extends from end-customer demand (usually internal, but potentially linked to external customers, as in the case of purchased finished goods) all the way back to the supplier.

FIG. 1 P2P: A cross-functional process that is part of a global, end-to-end, source-to-settle continuum



Source: The Hackett Group

A more broadly scoped process can bring better alignment with stakeholders or customers. Anyone with a stake in the P2P process is a customer of that process in some form, and may include:

- **Strategic sourcing:** As the sourcing group expands the stakeholder management concept beyond "whom you buy from" and "at what price" to include "how you buy," sourcing staff is measured on realized vs. negotiated savings. (Presently only 26% of companies are able to do this for indirect spend.) Transactional channel compliance is also tracked to ensure that proper buying channels are used. And, P2P processes are designed to balance control vs. efficiency and ease of use across the wide range of spend categories that exist.
- **Budget owners and requisitioners:** Identifying the best suppliers and deals is of little value if stakeholders cannot easily locate them or obtain help locating them when that help is needed. The P2P process starts with identifying the needs of stakeholders and then guiding them to the appropriate transactional channels (or alternatively, to sourcing groups) for sourcing and contracting. If a purchase is made via an unauthorized supply or transactional channel, it is not necessarily the user's fault; it might reflect a problem in the overall P2P process design.
- **Shareholders and regulators:** Although shareholders appreciate P2P process efficiency, they (along with regulators) are likely to consider regulatory compliance to be more important. This includes designating a separation of duties; having a Delegation of Authority policy in place; and ensuring both the security of intellectual property and that contractors using the P2P system are properly restricted and monitored.
- **Internal functional partners:** Procurement and AP cannot design the P2P system in a vacuum. Collaboration is required among their functional partners, such as IT, HR, travel, treasury, legal, internal audit and risk management. These organizations may function as "channels" to end-users (e.g., a contingent labor Center of Excellence run by HR), requirement generators (e.g., treasury requirements for DPO targets), or process-support partners (e.g., IT to support P2P automation).
- **External partners:** Suppliers are key process participants in P2P, making supplier connectivity strategies an essential part of any program to raise P2P's game. P2P should expand its circle of influence to suppliers and even external customers, for example delivering purchased finished goods to the customer by buying goods and services on behalf of the supplier.

Keep in mind that the stakeholders described above may have differing opinions about what constitutes an optimal P2P process, and their priorities may diverge from those of the procurement and AP organizations.

Finally, the investments required to fund the various capabilities that provide these P2P services must be considered simultaneously. P2P owners need to tailor service design to the needs of the major stakeholders as much as they can without

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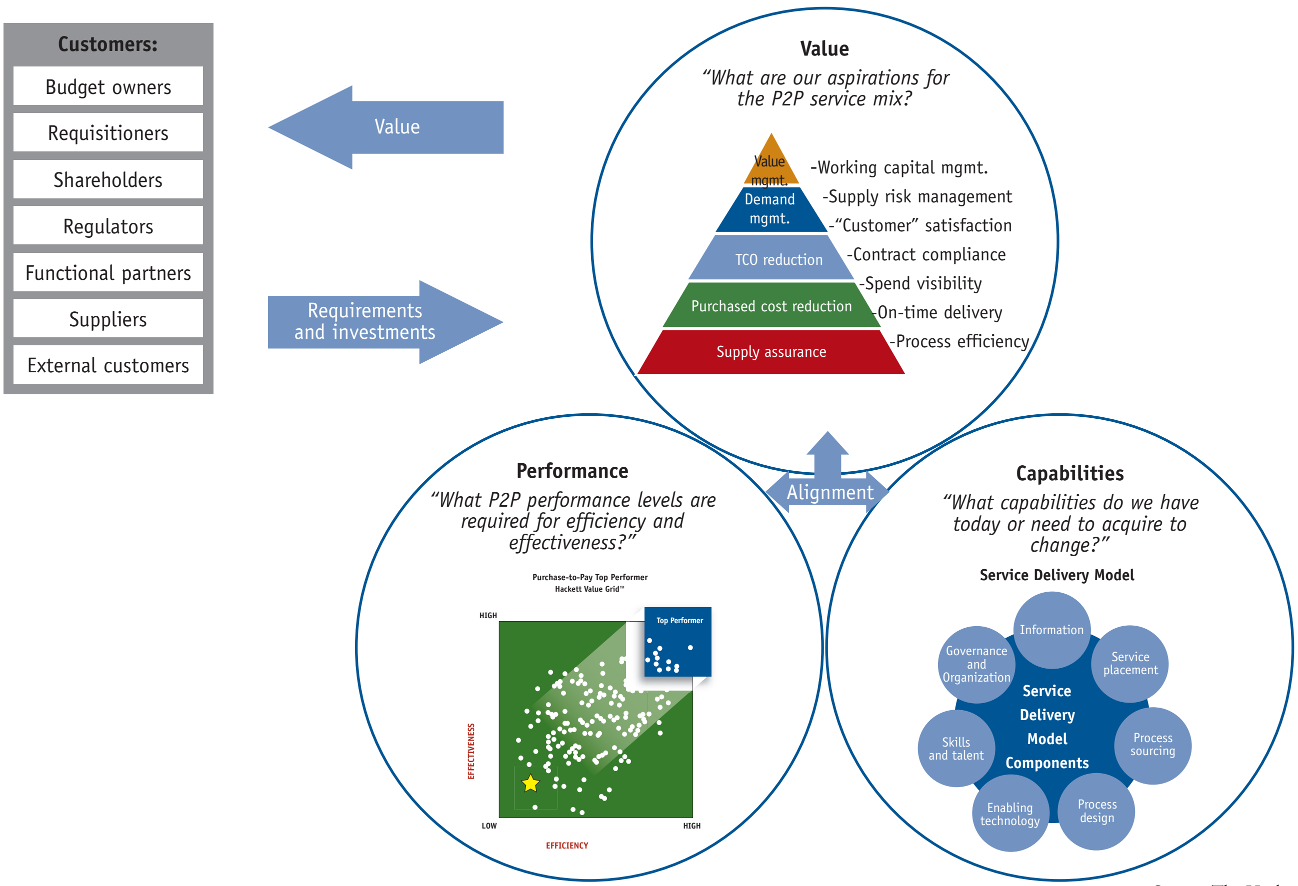
undue sacrifice of standardization. This reconciliation process should be considered annually as part of the planning and target-setting process with stakeholders, conducted alongside associated project investment justifications and overall budget setting. An e-procurement or e-invoicing project might have the potential to generate an ROI based on process efficiencies alone, and may require spend-related or working-capital-related benefits to justify the initiative. It is necessary to understand how to best align investment-funded capabilities with their expected impact on end-to-end process performance **(Fig. 2)**.

FIG. 2 Before measuring P2P performance, define its value proposition, then build and align capabilities to meet performance goals



Source: The Hackett Group

Fig. 2 illustrates The Hackett Group's Procurement Alignment Model and Procurement Value Evolution Framework, adapted from the source-to-settle viewpoint to the P2P perspective. The value-evolution pyramid at top depicts the way P2P evolves from a transactional accompaniment to the physical flow of inbound goods and services to a wider focus on purchased cost reductions, and from there toward a more customer-facing and strategic orientation. As each set of P2P services is funded and built, the P2P scorecard must be updated to reflect ROI expectations through appropriate KPIs.

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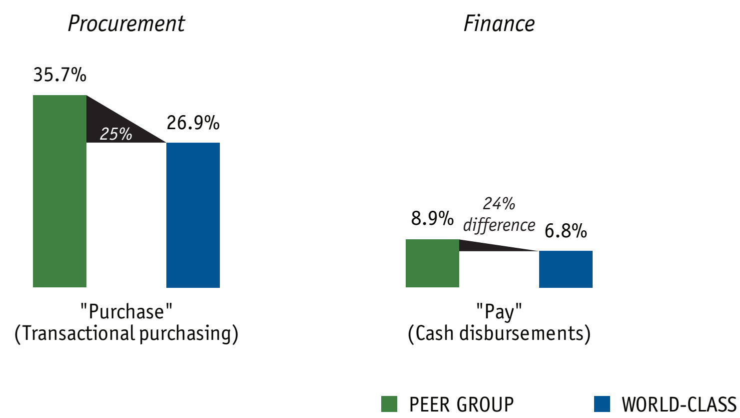
For many companies, the highest cost of P2P is the opportunity cost of time spent on transaction processing as opposed to higher-impact activities. World-class performers have figured this out, creating efficiency gains (reflected in their lower spend on transactional activities) that help fund capability building **(Fig. 3)**.

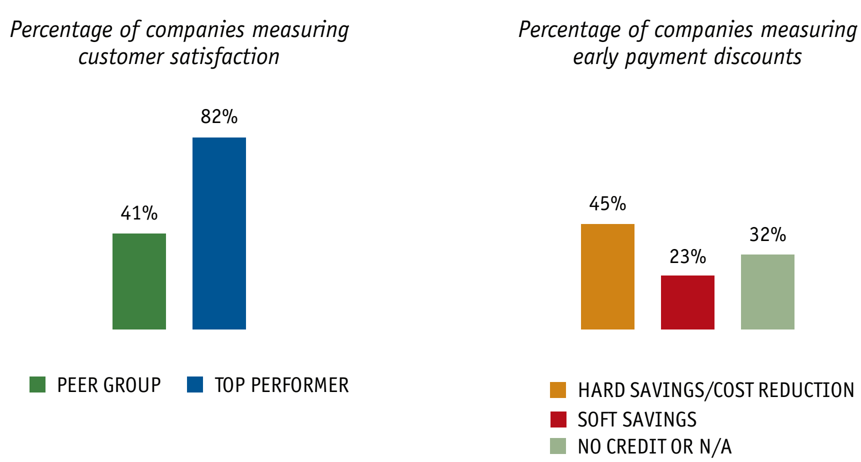
FIG. 3 P2P transactional process cost as a percentage of total process cost, 2010



Source: The Hackett Group, 2010

Once process-cost savings are reinvested into higher-value services, performance measures can evolve to formally codify the value of P2P to broader goals, such as customer satisfaction or working capital performance **(Fig. 4)**. Alignment actions should be deliberate and conducted annually to ensure that investments are being made in the capabilities that are tied explicitly to the P2P services (and associated metrics) that support a global source-to-settle process.[1]

FIG. 4 The P2P scorecard should reflect a broad value proposition such as customer satisfaction or working capital optimization



Source: L: The Hackett Group, 2009; R: Procurement Value Measurement and Spend Savings Visibility Study, 2010

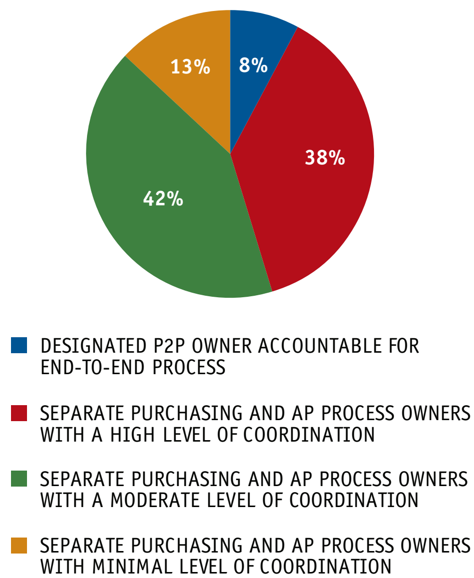
[1] For more information about this important topic, see "*Lessons from Leaders 2010, Part I: Defining Procurement's Value Contribution," Hackett Executive Insight, August 2010*

Looking Ahead

P2P-specific activities must be coordinated and aligned with enterprise transformational efforts such as ERP, business process outsourcing and leveraged services. For this to happen, the P2P Service Delivery Strategy must be designed to not only support P2P's performance goals, but also to accommodate organizational capabilities and initiatives. Hackett's Service Delivery Model (SDM) framework, illustrated on the next page, can be useful in planning the implementation of process performance improvements. For example, the Governance and Organization component of the SDM spells out the need for end-to-end process ownership. Current data shows that companies still have their work cut out for them in this regard: only 8% have true, end-to-end P2P process accountability **(Fig. 5)**.

FIG. 5 Degree of end-to-end P2P process ownership

(Percent of responses)



Source: The Hackett Group Purchase-to-Pay Performance Study, 2010

More broadly, the SDM helps organize process capabilities in a scalable manner across functions and even across all end-to-end global processes **(Fig. 6)**. For example, the "Governance and Organization" component for P2P also includes integrating to a broader source-to-settle process, ensuring that P2P global process ownership not only exists, but also serves the unique requirements of the particular spend category being purchased and paid for. Global process ownership for a source-to-settle process entails two key dimensions: process performance accountability (as just discussed) and also the control of the resources. "Control" does not necessarily imply direct headcount reporting, but it does include influence over the P2P services delivered through an integrated and accountable process – which is increasingly delivered through a transactional Center of Excellence.

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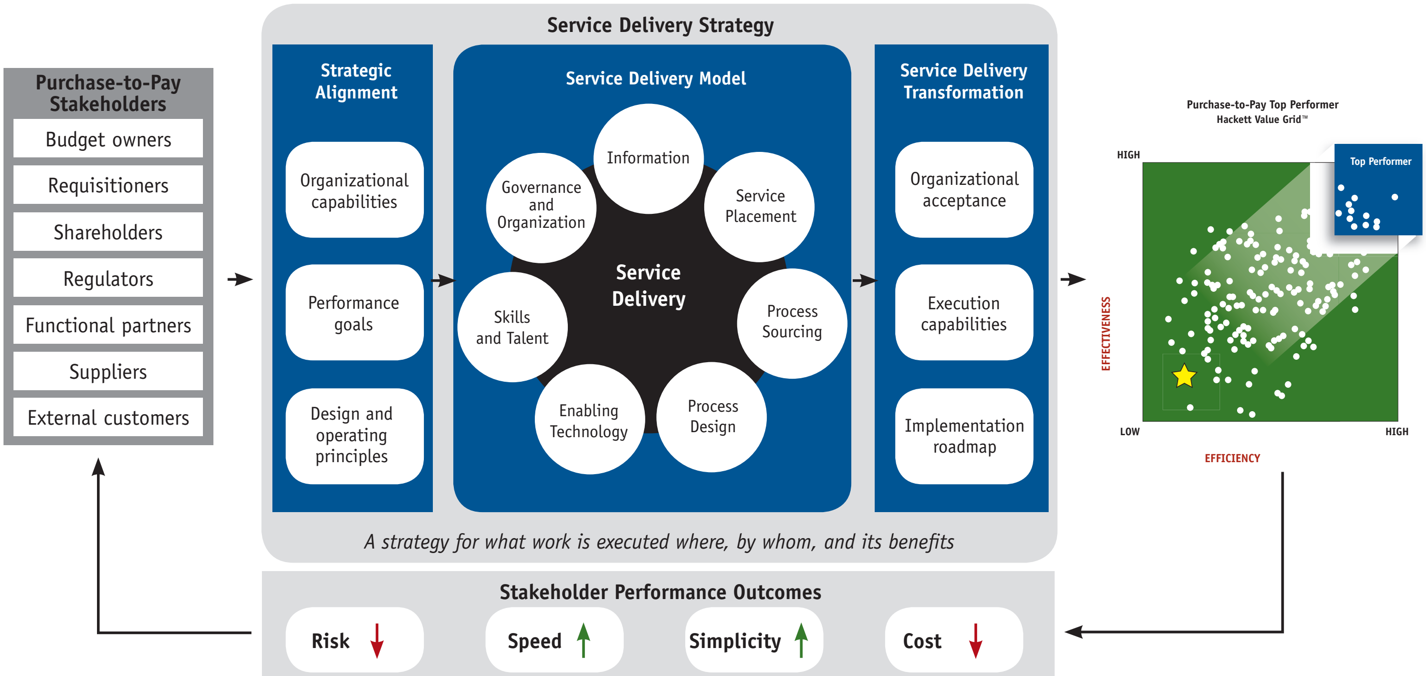
FIG. 6 The Hackett Group's Service Delivery Model framework can be used to ensure that P2P is strategically aligned, holistically designed and appropriately transformed



Source: The Hackett Group

World-class performers understand this and have far higher levels of process ownership compared to the peer group, in addition to higher adoption of organizational practices and capabilities in other SDM component areas.

In upcoming research, we will use the SDM and the release of Hackett's updated Procurement Capability Maturity Model (which includes P2P) to help Advisory Program members take stock of their capabilities to support their individual journey toward higher value and performance.

End-to-end global process ownership is a great way to begin managing the P2P process and associated "services" strategically and deliberately. In coming months, we will publish research exploring in more detail the various SDM components for P2P, but suffice it to say that elevating the value of all business services is needed now more than ever.

Related Hackett Research

"Optimizing Business Performance in a Volatile Recovery," June 2010

"Purchase-to-Pay Alignment: The Missing Link to Delivering on Spend Cost Reduction," August 2008

"Evolving the Value Proposition of Procurement: A Five-Stage Model," April 2007

About the Advisors

Pierre Mitchell

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Mr. Mitchell serves as both a senior research director and also an adjunct business advisor for The Hackett Group's Advisory Programs. He has over 20 years of industry and consulting experience within various processes and industries, specializing in process reengineering and the optimal application of best practices and specialized commercial technologies. Previously, he was vice president of research at AMR Research and a manager at Arthur D. Little, where he led numerous operations and systems transformations at Fortune 500 organizations. Industry positions include manufacturing project manager at The Timberland Company, materials manager at Krupp Companies and engineer at EG&G Torque Systems.

Bryan DeGraw

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In his current role, Mr. DeGraw conducts topical research, supports client inquiries, leads member webcasts and performs client briefings. He has 20 years of business experience, having worked in corporate management and in consulting, defining and transforming back-office finance and customer-facing business processes. He has extensive program management office experience that includes defining and documenting methodologies, creating project measurements, facilitating workshops and performing future-state training. In addition, he has advised corporate finance management regarding business plans, budgets and process/performance improvement. Mr. DeGraw's previous experience with The Hackett Group included managing and delivering finance, procurement, and complete SG&A benchmark projects for clients in both the public and private sectors.

About The Hackett Group

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 5,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 3,000 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

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