



Using a Procure-to-Pay Process Framework to Streamline Government Agencies' Operations

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ABSTRACT

Increasing budgetary pressures are placing strains on government agencies worldwide, prompting many to draw on private sector practices to implement new procurement strategies that will improve service performance levels and reduce costs. Using a Procure-to-Pay process framework or model based on public sector standards, best practices and peer experience can dramatically assist a government agency in improving its procurement processes.

This white paper describes Software AG's Procure-to-Pay (P2P) process framework and showcases the results that can be achieved from implementing the framework to optimize procurement processes. Discover how your agency can reduce operating costs while at the same time achieving end-to-end process visibility and control.

Introduction to Government Procurement

The procurement of goods and services by governments for their own purposes is a core element of the operation of governments because it secures the inputs that enable governments to deliver public services and fulfill their tasks. Government procurement is of considerable economic significance at both the domestic and international levels, accounting for a significant proportion of national GDP (often 10-15 percent).

Government agencies face many of the same challenges as private-sector companies when it comes to buying goods and services and both are similarly driven to save costs and maximize service delivery. But there are some key differences between the way governments and businesses do procurement. First, all government procurement must be done within a strict code of laws and rules. Second, governments typically need to purchase items and services in larger quantity than businesses, so they often demand more from vendors and suppliers. And while corporate purchasing has become supplier management and driven by business partnerships, government procurement remains dedicated to leveling the playing field between competitors by use of the sealed competitive bidding and awarding bids to the lowest bidder meeting specification. Government records are open and the prices revealed in the public arena. Thus, under public scrutiny, public purchasers must attempt to conserve the taxpayer's money in an open arena.

Procurement has a significant impact on the efficiency of the use of scarce public funds and, more generally, on public confidence in government and on good governance. The efficiency of government procurement processes, the attainment of value for money, public access to information on government contracts, and fair opportunities for suppliers to compete for government contracts are all essential requirements of an efficient government procurement system.

One of the main trends in government procurement is heavy use of e-Procurement¹ or electronic procurement. e-Procurement generally involves three main steps: the selection of a group of suppliers, the consolidation of purchases and the automation of procurement processes. By using only a few suppliers and leveraging purchasing power, better deals can be obtained on goods and services. And process automation allows for the completion of a procurement process in a matter of minutes instead of hours or days. Electronic procurement systems are effective because they involve a number of features that make purchasing simpler for governments. These systems usually support the creation of online catalogs containing goods from multiple suppliers, so that only one place must be consulted to find an item and place an order, instead of dozens. Many of the programs also offer several ways of communicating with selected suppliers (email, Electronic Data Interchange (EDI) and automated fax are the preferred options). And finally, e-Procurement automates most of the purchasing process, including approval and even payments. Systems can literally send purchase orders directly and automatically to all individuals who need to approve them, then once approved, they can be automatically sent to the vendor for fulfillment.

Many government agencies have been able to purchase goods and services much more quickly and cost effectively using e-Procurement. Once a government switches to an electronic and automated procurement system, they can begin seeing benefits immediately. The administrative costs per purchase are significantly reduced because most of the paperwork is handled by the programs running the system and not by public servant themselves. Also, since purchases are consolidated, it makes it easier for governments to keep track of their purchasing budgets and to track incoming deliveries since there are fewer transactions and suppliers to follow.

¹ e-Procurement is the business-to-business or business-to-consumer purchase and sale of supplies and services through the Internet as well as other information and networking systems, such as Electronic Data Interchange and Enterprise Resource Planning.

The Procure-to-Pay Process Overview

Procurement goes beyond purchasing; it is the acquisition of goods and/or services at the best possible total cost of ownership², in the right quantity and quality, at the right time, in the right place for the direct benefit or use of governments or businesses.

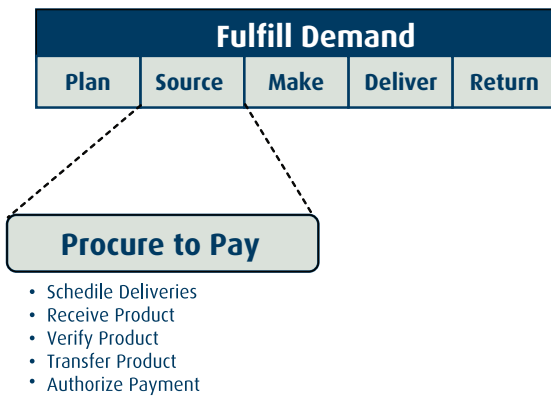
Direct procurement occurs in manufacturing settings. It encompasses all items that are part of finished products, such as raw material, components and parts and it is the focus in supply chain management. In contrast, indirect procurement activities concern “operating resources” that a government or business purchases to enable its operations and comprise a wide variety of goods and services (from office supplies through hardware to consulting services).

The Procure-to-Pay process (P2P) spans from the point where a purchase order, or other demand signal, is submitted to a supplier for fulfillment, to the eventual receipt, verification and put away (of the product) to payment for goods or services received. SCOR³ refers to this process as the source process within fulfill demand (Figure 1).

Software AG has created the Government Procure-to-Pay process framework to assist our government customers in their efforts to eliminate paper driven processes, streamline and monitor purchasing, automate approvals and – last but not least - cut costs. By leveraging our technology, public sector best practices and domain expertise, we have helped government organizations, like the U.S. Department of Defense, achieve maximum benefits from a holistic end-to-end process approach for managing procure-to-pay activities:

Project: EMALL, in the U.S. Department of Defense, is a big consumer of off-the-shelf finished goods (computer hardware and software, office supplies, food supplies, etc.) and uses the webMethods product suite as an integration platform to connect 30,000 vendors. This agency was able to reduce the cost per transaction from about \$140 to just \$11. And beyond the cost savings, EMALL makes available a broader selection of products and more alternatives.

Figure 1. Procure-to-Pay within the Supply Chain



² Total cost of ownership includes costs associated with ordering/ purchasing, delivery, repair, maintenance and disposal.

³ SCOR (Supply-Chain Operations Reference-model) is a process reference model that has been developed and endorsed by the Supply-Chain Council as the cross-industry standard diagnostic tool for supply-chain management. SCOR enables users to address, improve, and communicate supply-chain management practices within and between all interested parties. www.supply-chain.org

Procure-to-Pay Challenges

Fragmented government organizations, legacy tools and technology—not to mention non-uniform processes—prevent government agencies from optimizing spend leverage and procurement processes.

For the purposes of this white paper we have defined a simplified P2P flowchart (see Figures 2 and 3).

Figure 2 shows the flow of documents between the buyer (in this case, the government agency) and the supplier.

Figure 3 highlights the main pain points a government organization is confronted with in the Procure-to-Pay process:

Figure 2. Procure-to-Pay Document Flow

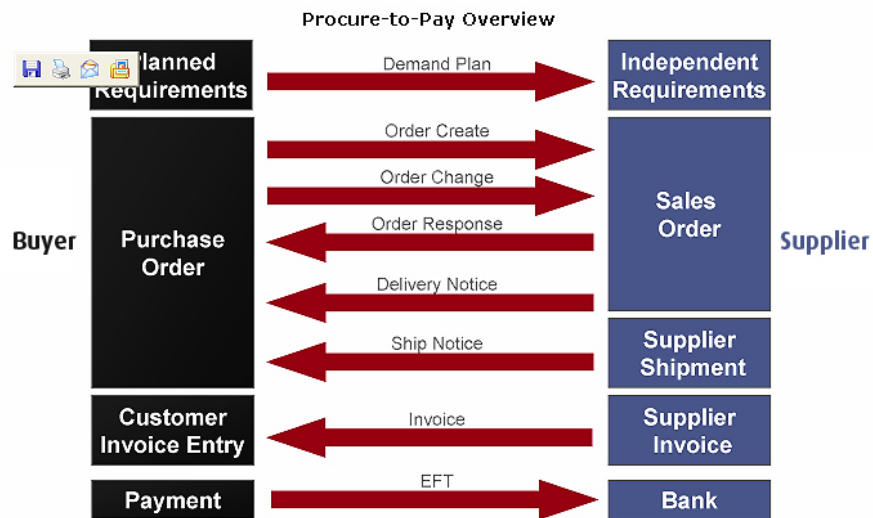
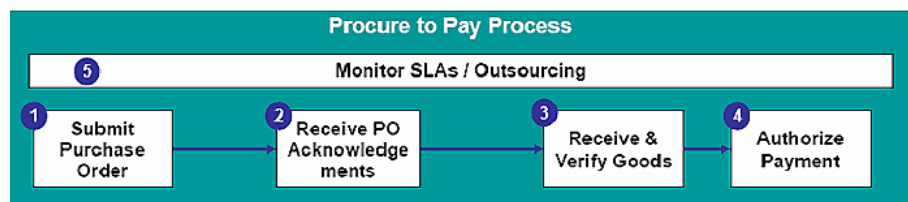


Figure 3. Procure-to-Pay Typical Pain Points



- ❶ Inefficient, error-prone purchasing process
- ❷ Minimal visibility of PO status
- ❸ Suppliers don't deliver the "perfect order"
- ❹ Delays in payment processing
- ❺ Ineffective SLA management with trading partners

1- Inefficient, error-prone purchasing process:

- How easy is the entire process to track? Users lack real-time, or “Just in Time,” visibility of the end-to-end P2P process, including visibility into spend vs. budget and jeopardy of late receipt of key goods.
- Is the overall procurement cycle time too long?
- Are the costs of PO (purchase orders) ordering too high?
- Are orders consistently placed with authorized vendors?
- Are purchase orders often out of compliance with other internal or external policies? P2P is one of the key processes subjected to compliance requirements.

2- Minimal visibility of PO status:

- Do suppliers provide quick, accurate acknowledgement of orders at various stages of fulfillment?
- Do you spend a significant amount of time manually monitoring the status of purchase orders via phone calls, emails, etc.?

3 - Suppliers don't deliver the “perfect order”

- What percentage of orders arrives when originally promised?
- What percentage of orders is received in full? Suppliers don't ship what was ordered / confirmed via substitutions, obsolescence or new product changes.
- What percentage of orders is returned for various reasons?
- Is all shipping documentation in order?

4 - Delays in payment processing.

- Is the timing of payments such that the agency can maximize cash flow, capture of volume discounts, etc.?
- Does the agency have excessive adjustments to account payables? There are errors in the transactional process, such as goods being received but for which no invoice has been generated, or vice versa.

5 - Ineffective SLA management with trading partners:

- Do you have sufficient visibility to outsourced manufacturing or other contract-based activities and do you have the means to monitor Service Level Agreements (SLAs)? There is insufficient control of SLAs with suppliers, with performance management happening well after the fact.
- Do you understand how agency behavior affects suppliers' ability to meet SLA's and vice versa?

While many enterprise systems claim that these elements are simply defined within their structural logic, the truth is that there are many opportunities for error and that without state-of-the-art tools for streamlining, managing and monitoring the Procure-to-Pay cycle, a government organization may be bearing significant costs due to non-compliance to system or process requirements.

In order to improve their Process-to-Pay processes, government organizations need to address the above mentioned challenges and transform their P2P processes to reduce transactional costs and shorten cycle times, enabling full visibility, as well as full monitoring and process automation.

Procure-to-Pay Process Framework Components

An effective P2P process framework is all about integration, standardization, process streamlining and visibility, because these allow a government agency to improve and increase transparency and accountability, achieve cost savings and simplify procedures. As with any large-scale IT project, a well-developed business case is critical to the success of P2P.

Investment costs can usually be justified by a reduction in transaction costs and related administrative costs. Improvements in the following areas can also be persuasive: transparency and accountability, efficiencies in work practice, value through strategic sourcing and contract compliance. The key is to match the justification with your agency's priorities and reform initiatives.

The Software AG Government P2P Process Framework includes:

Business Process Management capabilities

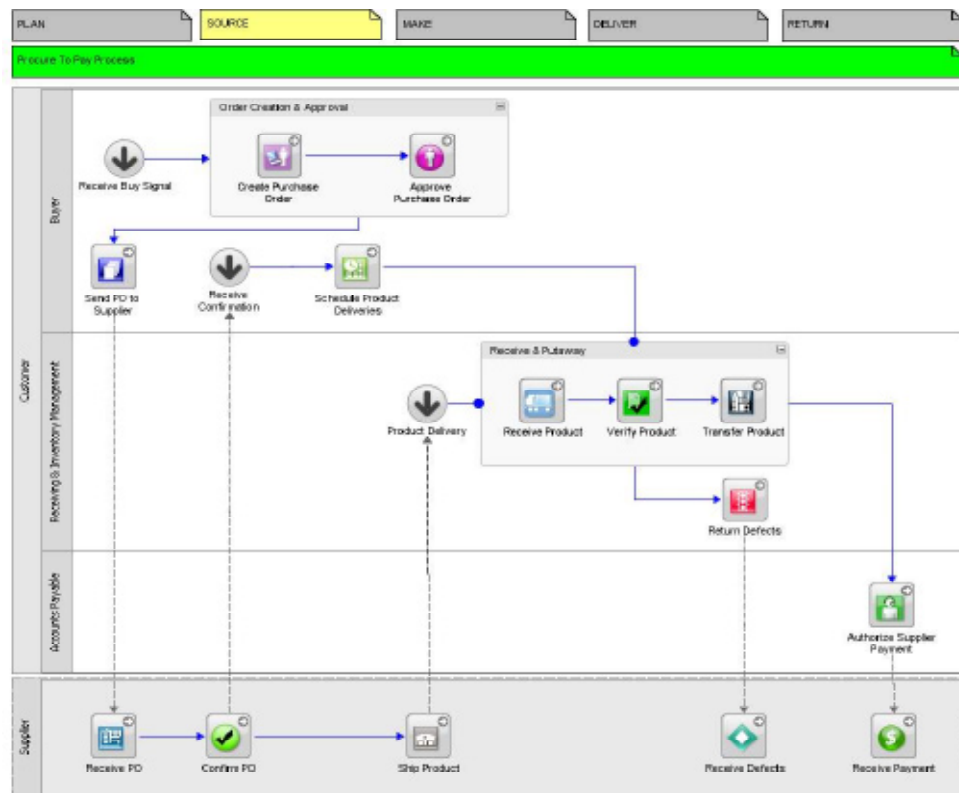
One of the biggest challenges for government agencies struggling with process improvement initiatives is that they do not know where to begin. Lack of visibility into business processes and lack of knowledge of their operations causes this uncertainty. To begin improving processes, you need to start by understanding the agency's as-is processes. A Business Process Management Suite (BPMS) allows a government organization to get clear insight into areas needing dramatic improvement, and rich, interactive interfaces quickly reveal the root cause of process problems. Before making any changes to current processes and systems, you can model and visualize the way new processes, process improvements and new resource allocations will operate when deployed, using rich, graphical simulation.

Process requirements usually do not fit neatly into pre-defined categories of system-centric, human-centric or document-centric. Since processes rely on

both systems and people for handling transactions, human-centric workflows must seamlessly integrate with system-centric processes and support the role played by people in processes. Greater operational efficiency can be achieved with automated system steps and guided human interactions throughout the process framework. Intuitive end-user interfaces provide all information needed for process participants to collaborate and perform the associated human tasks. Software AG's webMethods BPM Suite delivers truly seamless, end-to-end management of human tasks, automated system-based processes and rapid process application development within the same environment.

Built-in document management capabilities support the processing of purchase orders and fully integrated rules within the process allow for the automation of steps (i.e. defining the purchase allowance per user). And our technology delivers global P2P visibility, allowing your agency to track a purchase order from submission to a supplier, to the receipt of goods and services and the eventual payment.

Figure 4. Basic P2P Process Model in the webMethods Suite



Business Activity Monitoring (BAM) Capabilities

Once implemented, new P2P processes must be monitored on an ongoing basis to optimize performance, guarantee observance of agency's policies and compliance with SLAs. Business issues and opportunities can be discovered quickly by automatically identifying problems in real time, instead of after-the-fact analysis. And by monitoring end-to-end processes, your agency can identify deviances from the designed process in early process steps that on their own have no impact, but are likely to contribute to future process breakdowns. Based on this knowledge, our tool can predict and notify of process errors before they occur.

Benefits of Streamlined P2P Operations

Business Process Management

Streamlined processes and cost savings:

- Reduced overall P2P processing time: the overall processing time for purchase, reconciliation, and payment can decrease significantly as each step in the P2P process is made more efficient
- Automated reconciliation process: process automation is the key driver for an improved reconciliation process
- Reduced costs of processing invoices (accounts payables and buyer): as the number of paper invoices decreases, the number of resources needed to receive/sort mail, manually enter invoice information and produce/mail checks is lower, providing an opportunity to reduce or reallocate staff
- Increase purchasing efficiency by measuring, monitoring and tracking cycle times

Business Activity Monitoring (BAM)

Enhanced data management and increased controls:

- Availability of detailed data for spend analysis and decision-making:
 - The integration provides the ability to access all agency-wide spend data in one place.

- A comprehensive view of full spend activity by supplier enables improved vendor negotiations
- Access to total agency spend provides senior officials the ability to drill down to total spending by business unit and function. This can enhance decision-making and budgeting
- Enhanced compliance with buying policies and procedures:
 - Ensure regulatory compliance when your workflow process enforces procedures, approvals and segregation of duties
 - Reduce spend when you establish business rules that monitor and control maverick purchasing
 - Integration makes it easier to review payment activities, such as payment methods, and use of preferred suppliers and ensure they are in compliance with policies and procedures
 - Define specific SLA's with classes of suppliers or with individual suppliers
 - Provide alerts when SLA's are in jeopardy of being violated or when they have in fact been violated
- Streamlined reporting and data aggregation process:
 - A key driver of process improvement is the reduction of manual inputs
 - As systems integrate seamlessly, the improved information flow enhances the overall reporting system
 - As manual processes are eliminated, the time to accurately report data decreases, resulting in increased productivity, reporting flexibility and visibility

Procure-to-Pay Use Case

Following is one example of how the Software AG Process Framework can be applied to improve P2P processes in a government environment.

Consider Agency XYZ, a large government agency at the national level and a significant consumer of off-the-self goods (hardware, software, business supplies, etc.). With most of its procurement processes handled manually and with many vendors already operating online marketplaces, the agency does not have the means to connect into these marketplaces from its manual processes. The manual workflows make it also a very difficult task to ensure compliance with the agency's purchasing regulations and to reduce misuse and potential fraud. Agency XYZ decides to embark on a P2P initiative to create an electronic ordering system for its staff.

After an analysis of the current situation and the existing processes, the first step in this initiative is to replace the manual processes by improved, automated processes and procedures to reduce workflow inefficiencies. The implementation of "intelligent" technologies – like a BPM suite – can eliminate labor-intensive activities and ensure the high quality of operations. Less manual interaction and a lower number of errors and discrepancies translate into reduced costs of operations. And the use of standards-based technology permits connecting to the online marketplaces.

Once automated processes are in place, Agency XYZ can use the new technology to provide tracking and analysis of key control objectives at executive, management and technical levels within the agency. Business Activity Monitoring capabilities identify, monitor, reduce and / or eliminate transactional errors, misuse and potential fraud in the P2P process. And the integrated dashboard and audit capabilities vouch for procurement processes being compliant with agency's policies and spending limits.

On the IT side, applications spanning multiple business units can be integrated thanks to the use of web services. The IT department is also able to implement roles-based security to cater to a large multi-role organization (defining i.e. spending limits and approval rights on a user by user basis).

What are the benefits Agency XYZ can expect from this framework?

- Reduced operating costs
- Ability to track, research and drill down into potential problem areas without disrupting daily operations
- Ongoing process optimization
- Updated, real-time data of overall agency performance
- Compliance and alignment with Agency XYZ's political mandates

Next Steps for your P2P Process

Every element of the use case shared here illustrates the advantages of working with Software AG to make supply chain improvements. By leveraging the knowledge learned from experience, the Procure-to-Pay Process Framework can help guide and accelerate the solution, from selection and modeling of critical process flows, to guidance for root cause analysis and exception handling, and transactional activity management across multiple systems.

To learn how your organization can take the next steps with the Procure-to-Pay Process Framework and Software AG's business infrastructure software and services, contact Software AG and ask about our CustomerFirst Program.

For more information on the CustomerFirst Program, email customerfirst@softwareag.com

ABOUT THE AUTHOR

Conchi Garcia is Manager of Government Strategy for Software AG, where she is responsible for defining solution and go-to-market strategies for the government sector worldwide. Ms. Garcia has more than 8 years of experience in industry marketing and business consulting, with working experience at the international level and in several countries. Ms. Garcia holds a double degree in International Business and in Marketing & Sales from the University of California Los Angeles (UCLA).

ABOUT SOFTWARE AG PROCESS FRAMEWORKS

Software AG Process Frameworks are solution reference models designed to guide requirements discovery and definition, and enable users to build quickly and confidently upon Software AG's knowledge and experience base in key process areas such as order-to-cash. Built upon Software AG technology and practices, and informed by our collective customer experiences, the frameworks reflect a deep understanding of the subject process and the challenges companies face in improving the process.

The Process Framework artifacts use industry standards as a baseline and leverage Software AG's unique domain expertise to help accelerate the requirements discovery and definition process for our customers. For key process areas, Software AG Process Frameworks can assist with selection and modeling of critical process flows, definition of Key Process Indicators and metrics that allow measurement of progress on key success factors, and guidance for activity and task management, root cause analysis and exception handling.

The goal of the frameworks is to maximize our customers' efforts in addressing their process improvement strategies and to help them gain control over their performance in the challenge areas most critical to their business.

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ABOUT SOFTWARE AG

Software AG is the world's largest independent provider of Business Infrastructure Software. Our 4,000 global customers achieve measurable business results by modernizing and automating their IT systems and rapidly building new systems and processes to meet growing business demands.

Our industry-leading product portfolio includes best-in-class solutions for managing data, enabling service-oriented architecture, and improving business processes. By combining proven technology with industry expertise and best practices, our customers improve and differentiate their businesses – faster.

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