
UNIT 2 **OUTSOURCING OF PROCURE TO PAY: REASONS AND ENABLERS**

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2.0 **OBJECTIVES**

After studying this unit, learner should be able to:

- explain why Procure to Pay (P2P) processes are outsourced
- describe the technologies and tools which enable the outsourcing of P2P processes and
- highlight how different teams across geographies and time zones work together to make the P2P processes work.

2.1 **INTRODUCTION**

Outsourcing as a business strategy has gained significant acceptance over the last two decades. In this Unit, we will understand the key reasons why corporations outsource their Procure to Pay (P2) process and the activities typically outsourced.

Employees working in a P2P process in a BPO work on IT systems rather than use paper documents. So we will have a look at the specific IT applications and hardware used in P2P processing. This will help us to be effective at our jobs at the earliest when we start employment. In this Unit, you will learn about the reasons for outsourcing P2P and the available technology enables.

2.2 **OUTSOURCING P2P AND ITS REASONS**

Let us start by looking at what is meant by the term **Outsourcing**. It refers to the practice of an organisation giving out a part of its operations to another organization to perform. The former is referred to as the client organisation and the latter is termed as an outsourcing service provider. Since the service provider is specialised in providing the service, the client organisation prefers to outsource the activities to it rather than performing it themselves.

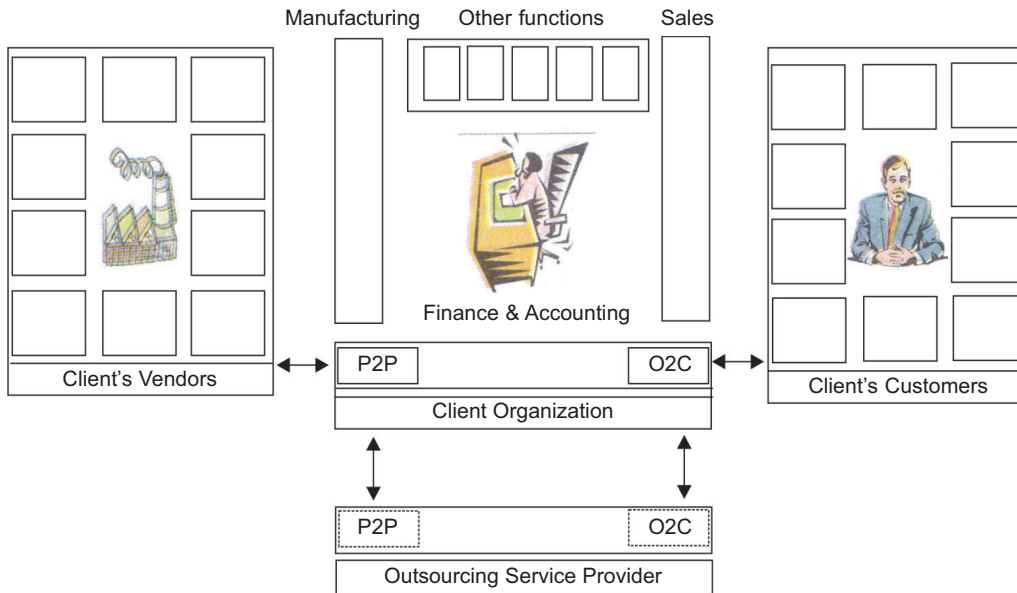


Fig 2.1: Outsourcing of administrative functions like finance to a BPO

Outsourcing as a practice first became popular in the manufacturing sector where each company works with a large number of vendors who handle various services that would otherwise have been done by the company's employees.

Take the example of a large computer manufacturer. It has its employees working in factories assembling computers, R&D engineers building new and faster computers, sales people selling the computers, service teams providing technical support and services to the customers etc. This company may decide to outsource its payroll processing to another service provider. So the payroll of all the employees will be processed by the service provider. The computer manufacturer (the client for the services in this case) will share the payroll related data with the service provider e.g. names and employee numbers of all the employees, their salary and bonus information, in case they are paid by the hour then their hours logged at work, any deductions that need to be made from their payroll. The service provider will process this information and prepare a report of each employee's gross wages, taxes, deductions, net payable salary etc. and send it back to the client (computer manufacturer). If the client needs then the service provider will also help answer employees' questions on salary related matters. The client gains from such an arrangement as it allows him to concentrate on the most critical part of the business which is making faster and better computers and providing good service to its customers while not having to worry about hiring payroll managers, tax consultants to make sure that employees are receiving their salaries on time.

The service provider gains from this as he provides a specialised service at a lower cost. He can bring a lot of specialised knowledge like payroll accounting and taxation and provide this service at much lower costs to a lot of his clients (not just the computer manufacturer). We will discuss the other benefits of outsourcing shortly.

Gradually outsourcing spread to the service sector companies like banks, healthcare and hospitality. In the nineties, large corporations felt the need to focus on the core business activities that give them a competitive advantage and help them survive the tough competition due to globalisation. As a result, they were keen to outsource activities which were not considered core to their

operations. This gave a fillip to the business process outsourcing (BPO) industry. Why would a company pay another organisation to perform finance & accounting processes instead of doing it internally? The reasons for outsourcing a process like Procure to Pay (P2P) are varied. However, the primary objective is to receive better quality of service at lower costs. Let us see how this is achieved. An F&A BPO service provider brings expertise in the P2P area. As a result of their focus and specialisation, the service provider is able to deliver much better performance on the process. Their employees develop a lot of experience and expertise in the P2P area. Also, they invest in specialised IT tools and applications which help in reduced cost per transaction with utmost quality of output.

Hence we see the following benefits in outsourcing P2P:

1. **Reduced costs:** Since the service provider supports a number of customers and handle high volumes, they are able to bring down the processing costs. E.g. same manpower can process multiple clients' invoices. These savings are further enhanced if the services are provided remotely from a low cost country like India.
2. **Vendor satisfaction:** Since the performance improves in an outsourced P2P process, the vendors of the company receive their payments on time. Hence they will be keen on doing business with the client and will be willing to give better commercial terms.
3. **Strong and effective internal controls:** The service provider is able to implement better controls to prevent financial irregularities.
4. **Improved decision making with accurate information:** The outsourcing service provider is able to provide better reports regarding the process. This information can provide a lot of useful insights to management to make better purchase related decisions and efficiently manage working capital.
5. **Standardized business processes:** In a large company which operates over different countries, it is often seen that the P2P processes vary from one location to another. When such a company outsources to a service provider who can support all these different locations, the latter is able to standardize and simplify things into one process. This standardization and simplification brings a range of benefits to the company as the process is much easier to manage.
6. **Best Practices:** Thanks to their expertise, the service provider is able to advice the client on ways that their P2P process can be redesigned and improved.
7. **Freeing of Management time:** Outsourcing helps to free up the time of client's management to focus on their core business.
8. **Using time zones to reduce response time:** The fact the service provider and the client work in different time zones can be used to ensure quicker response to service requests.

E.g. the work that is generated during the course of the working day in New York can be processed during the working day in India which is 9.5 hours

ahead in time. The completed work can be sent back to the US before the start of the next working day, thus resulting in a faster completion time.

Overall the outsourcing of P2P results in lowering the cost of transactions and offering better quality service to the client and their vendors.

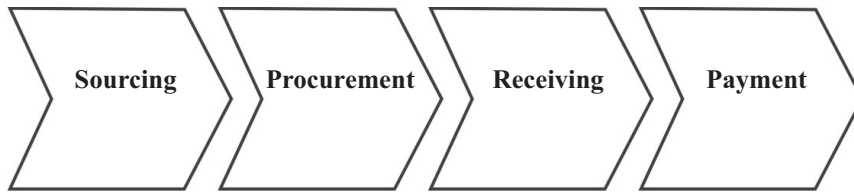



Fig 2.2: Key activities in the P2P process

Of the 4 key activities in the P2P process, the **Payment** step (also known as the Accounts Payable process) is the most commonly outsourced activity. This portion is usually managed by the Finance & Accounting (F&A) function in a company and hence comes under the umbrella of F&A outsourcing.

Some companies also outsource the **Sourcing** and **Procurement** Activities, which are usually managed by the Procurement or Purchasing function in a company and hence comes under the umbrella of Procurement outsourcing.

The **Receiving** step is managed by the user Dept. or Store function in a company. Since the activity requires a physical presence in the client's organisation, it is usually not outsourced to a BPO service provider.

The Accounts Payable (or AP) process is one of the most commonly outsourced F&A process. The primary reason is that the AP process involves a high volume of documents and a large number of transactions. Hence a company outsourced this activity can reduce the workload of their F&A department so they can focus on other areas.

| | |
|---|--|
|  | <p>For the rest of this course, we will be focusing only on the Account payable area within the P2P process.</p> |
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2.3 THE TECHNOLOGY ENABLERS

Before we look at the processes in an outsourced environment, let us look at some IT tools and technologies that enable the outsourcing of the AP process. These tools make it possible for teams located in different locations to work together. They enable;

- People in different time zones to interact with each other to carry out their responsibilities.
- To handover responsibility to another person or team once their job is over.
- To track the movement and status of each transaction or request.
- To measure and report on the productivity of the team members.
- To monitor the performance and health of the process.

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- To make sure that the action taken by an individuals are captured and visible to everyone to carry out their further investigation without any dependency.
- To make sure that the transactions are moving around (to different teams) under proper workflow without manual interventions.
- To monitor volume forecasting to understand the seasonality of the process/ volumes.
- To create an effective quality check concept around the process.
- To enable “to & fro” conversations with the business and hence vendors are aligned to the respective transactions through vendor portal without any manual interventions.
- To enable a repository place where P2P front desk team can search for the processed (Paid invoices) documents at any point in time for vendors/ customers queries.
- Call recording option could be enabled in Front Desk to review the response and to make betterment in replies.

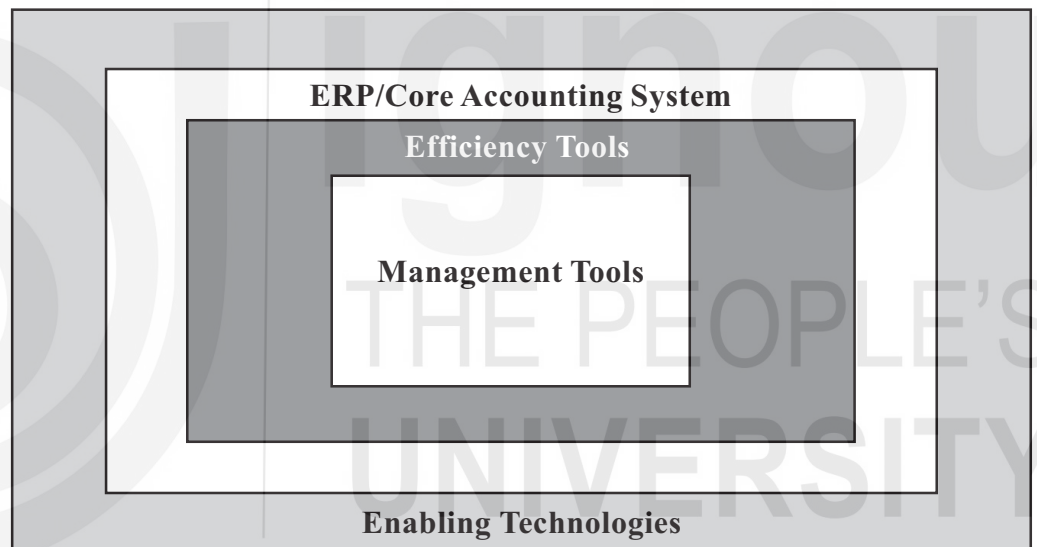


Fig. 2.3: Categories of IT applications in an F&A BPO

Broadly the tools used in an outsourcing environment can be classified into three categories:

1. **ERP/Core Accounting System:** These tools allow automated and quick transaction processing at the enterprise level and interact with system of related business function to validate information, store transaction data so the enterprise systems reflect the most up-to-date information e.g. SAP, Oracle and People Soft.
2. **Efficiency Tools:** These tools allow the team members to automate their tasks and hence increase their productivity. They also allow members to collaborate across time zones. Some example are workflow tools, email, document management system, telephony tools like automatic dialing etc.
3. **Management Tools:** These tools allow the process managers to allocate tasks and monitor its completion. It also allows them to distribute work load, extract reports on the performance and control the process by taking

corrective action e.g. workflow (reporting module). Automatic Call Distributor, reporting applications etc.

As new technologies which automate activities emerge, they will increase the benefits of outsourcing for the client organisation.

Let us now look at the important tools and applications that are used by an employee working in the AP process:

1. **ERP application:** Each client that goes for outsourcing of their AP process uses one of the various ERP packages available today like SAP, Oracle, etc. The ERP relates to a software system, that integrates different function within the business. E.g. an Accounts payable person can see the status of the Purchase Order and the Goods receipt note within an ERP system while matching an Invoice. This reduces the manual paper flow within the various departments and also increases the process efficiency.
2. **Email (or Electronic mail):** Email is one of the most commonly used tools for written communication in the business environment. It allows employees to share information, send written communication addressed to a specific person or persons in a reliable and quick manner and enhances the productivity of the individual, if properly used. As a result, paper letters are used very sparingly and only if a legal record of a correspondence is necessary.

Email applications can also be automated to send out automatic reminders based on certain defined conditions. For example, the workflow tool can be combined with the email system with rules set such that if a person has not acted on a task assigned to him for 3 bussiness days, an email reminder is sent to him. It serves to draw his attention to this fact and request him to complete the task.

3. **Scanning:** Scanning process converts the documents into a digital image which can be stored in a computer and thus can be transmitted using the computer network. Scanning an invoice allows people from the other side of the world to view it.

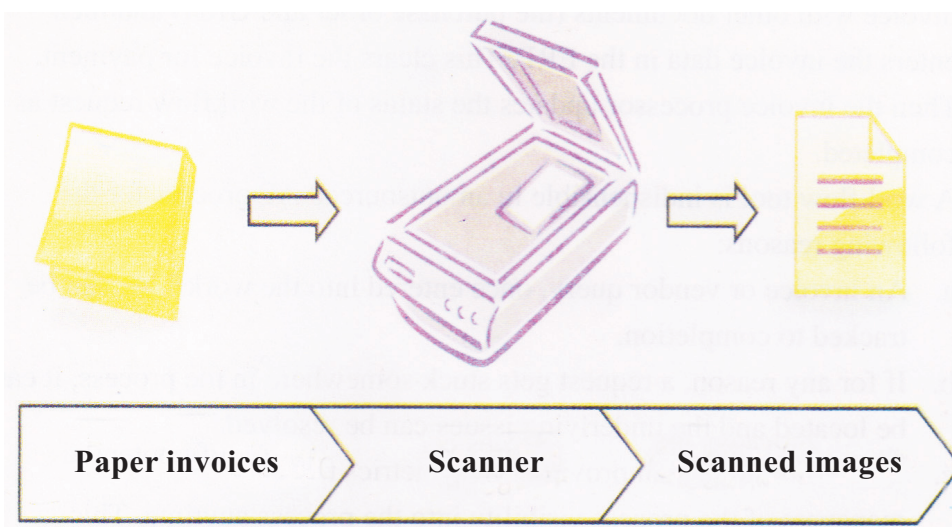


Fig 2.4: Scanning activity

Scanning is done for paper documents that are received by the client organisation. This majority of the scanned documents are invoices and credit notes.

4. **Management system:** In Course 1, Block 2, Unit 7, we have learnt that this system consists of hardware and software that manage images and other documents. This technology is used in the AP process to store, retrieve and manage the images of the invoice and other paper documents.

In the indexing process, the incoming invoices (digital image) are given an identification number and other details to retrieve a particular document easily. Logging on to the document management system needs an authorized user ID and a password. As a part of regular duties, the employees handling the indexing activity would be accessing this system.

5. **Workflow:** We have already learnt about workflows and their application. To recap, a workflow process is an automated process where different resources (employees or computer programs) perform a series of actions to complete a business transaction. After a resource in the workflow completes the job assigned to it, the work automatically moves to the next resource and waits for it to finish the job. The way responsibility moves from one resource to another can be configured and customized in the workflow process depending on the business requirement.

A scanned invoice image is put into the workflow tool and a workflow request is created against it. This workflow request is allocated to a team member to process the invoice further. The person, who takes up the invoice for processing, compares the data on the digital image of the invoice with other documents (the purchase order and GRN) and then enters the invoice data in the ERP. This clears the invoice for payment. Then the invoice processor updates the status of the workflow request as completed.

A workflow tool is indispensable in an outsourced AP process for the following reasons:

- a. An invoice or vendor query, once entered into the workflow, can be tracked to completion.
- b. If for any reasons, a request gets stuck somewhere in the process, it can be located and the underlying issues can be resolved.
- c. A workflow tool can provide ready metrics reports which allow managers of the process visibility into the process anytime. This allows them to judge the health of the process and identify potential bottlenecks. It also helps them to make an analysis of the past mistakes so that they can take corrective action for the future. For example, the P2P process manager notices that a lot of invoices are held up for processing with two of the team members and their workload is increasing. Based on this observation the manager can decide to send these to members for further training or provide extra support to them by assigning their requests to other members, till they are able to catch up with the rest of the team.

Most of the workflow tools also allow an intergration with e-mail system so that when one person finishes his/her task and the responsibility shifts to the next person, an alert is automatically sent to the next person drawing their attention to the task that awaits their action. The email interface can also be configured to send out reminders in case the concerned person does not complete the task within a certain time.

6. **Telephony tools:** Some of the outsourced F&A process also require the team to make or receive phone calls. These calls may be to customers, vendors or receive calls from them.

In the AP process, the most common example is the vendor helpdesk team which receives calls from the vendors enquiring about whether their invoices have been received and to know the expected date of its payment. Similarly, the invoice query resolution team needs to call up client managers and the vendors to seek clarifications on the invoices that have been kept “on-hold”.



Fig 2.5: Telephony tools used in the AP process

For example, in case the prices quoted on the invoice do not match the price on the purchase order, the invoice processing team needs to put the invoice on hold and seek clarifications from the client and the vendor.

There are a number of software and hardware application used to manage these calls. These are called **telephony tools**. For example, the Automatic Call Distributor (ACD) is a device that is used to route calls and also makes it possible to use software to report statistics relating to the calls. These software track metrics like the number of calls received, the duration of the calls, the average time taken to pick up a call, etc.

As new technologies which automate activities emerge, they will increase the benefits of outsourcing for the client organization.

2.4 FUTURE OF TECHNOLOGY IN BPO

The Robotic Concept:

Robotics process automation is an evolving concept which we can describe as an emerging concept of clerical process automation technology based on software robots or artificial intelligence workers. We all know that the purchasing goods and paying invoices can be a laborious process using a mix of people, process and technology. In recent years, regulatory compliance has added layer to the process by requiring documented process that segregate duties and have standard steps to provide checks and balances. While current automation has somewhat addressed this issue, there is still a high degree of manual labor and repetitive processes associated with each of the activity.

Opportunities of automation and its impact:

- Introducing OCR (Optical Character Recognition) solutions to extract the basics fields from the supplier invoices (vendor name, Invoice number, PO number, invoice value etc) will **reduce the standard processing time.**

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- Developing a system condition to auto- process the invoices for payment by introducing 3-way match concept (matching invoice value, PO value and Goods received value together). This will help to **reduce the exception invoices inflow from the overall perspectives.**
- Introducing pay-don't pay voting option via system instead of requesting them to receipt the invoice to process for payment may **reduce the standard turnaround time on receipting process.**
- Develop and introduce “Chat- Box” solutions in P2P process will help Accounts payable team to chat with the vendors to get in touch with all invoice and payment related queries.
- Auto-triggered e-Remittances to vendors on all payments made on daily/ weekly/ monthly payments to **eliminate payment and its relevant queries.**
- Introducing vendor portal for major invoice contributors to **check and understand their invoice status by simply log-in to the buyer's portal.**

Check Your Progress

1. Which of the following is NOT a reason to outsource the AP process?
 - a. The outsourcing service provider brings expertise in AP.
 - b. The client management can focus on the core activities of the Company.
 - c. It makes it possible to implement better controls in the AP process.
 - d. The client avoids getting calls from vendors regarding delayed payments.
2. State whether the following statements are True or False:
 - a. P2P outsourcing helps faster processing of invoices.
 - b. Workflow increases the process efficiency.
 - c. Document imaging system stores physical invoice copy.
 - d. The vendors of the client can access the workflow tool.

2.5 LET US SUM UP

The reasons P2P process are outsourced are:

1. Reduction of costs.
2. Faster processing.
3. Quicker resolution of requests.
4. More satisfied vendors.
5. Strong and effective internal controls.
6. Better reporting leading to improved decision making.
7. Standardized business processes.
8. Best Practice and process expertise.

9. Freeing up of client's management time to focus on their core business.

Of the P2P process, the steps that can be potentially outsourced are Sourcing, Procurement and Payments. The Payment or AP process comes under the definition of Finance & Accounting (F&A) outsourcing and will be the focus of this course.

An employee working in an AP process uses many IT application - ERP, email, scanning, document management system and workflow and telephony tools.

2.5 KEY WORDS

Cycle time: Average time taken for a transaction to be completed.

Document management: A tool which allows a document to be stored, retrieved and managed in digital form using a computer. This allows teams in one location to access documents which have been put in a document management system.

Efficiency tools: The tools that increase the automation of a task so that the efficiency and productivity of the team members is enhanced.

Email: A computer based application which allows its users to exchange messages over computer networks.

Hardware: It is a term used to describe the devices that form a computer like the monitor, keyboard, mouse, CPU, etc. The term is also extended to mean any piece of electronic equipment. It is often used in contrast to software (see below).

Managment tools: The tools that allow for task allocation, reportings to take corrective action by the managers of a process.

Outsourcing: The assigning of the responsibility of completing a sub-activity or process within the business to a third party, on a commercial basis e.g. the payroll processing of a lot of companies is outsourced to specialized service providers.

Scanning: A tool which converts a paper document into its digital images. After scanning, image can be stored on a computer and can be exchanged over computer networks.

Software: The programs used to direct the operation of a computer.

Workflow: A tool which allows for a transaction to be defined as a series of task and automatically assign the transation to the next person when the initial task has been completed.

Working Capital: Money that is used to run the day to day operations of an organisation. This money is typically borrowed from banks and hence attracts interest costs.

2.6 ANSWERS TO CHECK YOUR PROGRESS

1. d.
2. a) True b) True c) False d) True

2.7 TERMINAL QUESTION

1. List the reasons why corporations outsource a part or the entire “Process to Pay” process.
2. As an employee working in a P2P process, what are the various IT applications that you would be using on a regular basis?
3. Explain the difference between scanning and document management tools.
4. What is the purpose of efficiency tools?
5. How does a workflow tool facilitate collaboration across the teams?
6. What is the application of Document Management Systems in the AP process?



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