Report:

Investigating the purchasing process in UK medium sized businesses

INVU:

Table of Contents

Executive Summary

Timely financial control over expenditure remains elusive for the majority of mid-market finance departments, according to the latest independent research from Invu. Despite continued attempts to impose greater controls over the purchase order process (POP), financial decision makers still lack real-time financial visibility and hence operational control.

The research into the views, processes and decisions of finance decision makers in UK medium sized businesses (MBs) was conducted by Red Brick Research and reveals:

+ Reactive use of plans - **50%** of businesses do not use budgets proactively.
+ Limited visibility - **44%** delay the production of their monthly management accounts due to slow processing of supplier invoices already received.
+ Late payment - **83%** are not always paying their suppliers on time.

83%

of respondents admitted to **not** always paying their suppliers on time.

50%

report that they **do not use** budgets proactively.

Executive Summary

57%

reported that they are **unhappy** with the effectiveness of their purchasing process.

The continued reliance on manual processes for both purchase order processing (POP) and accounts payable (AP) is a major contributing factor. More than three quarters of the companies **(84%)** reported that they used manual or Microsoft Office (Word and Excel) documents as part of their purchasing process. Of these **55%** relied totally on this approach and **45%** used these approaches to supplement processes based on their ERP or separate P2P systems. In more detail almost half **(47%)** of the UK's medium sized companies are relying wholly on either Microsoft Office documents **(25%)**, a manual paper based process **(14%)** or a combination of both **(8%)** to manage the purchase order process. This figure is closely replicated in the accounts payable process with **45%** using manual processes.

It is well known that uncertainty cripples business activity – political and financial uncertainty are recognised as having a negative impact on business generally. Transactional uncertainty, created by a lack of visibility of purchase commitments, efficiency of invoice processes and process control, can be just as damaging to an individual business.

Finance departments are responsible for informing the business on the consequences of its actions. Historically this was looking backwards, but today the expectation set on finance is to be a trusted advisor, guiding the business forwards. To play this role effectively finance needs to have real time information based on certain knowledge of commitments made by the business, without transactional uncertainty.

In order to deliver accurate and trusted forecasts, finance departments need to have confidence that they have processed supplier invoices on time, enabling them to take corrective action to improve cash flow management. This research identifies that many medium sized businesses have a lack of timely information visibility and control over spending – which is a business problem that needs fixing.

36%

report that Purchase Order Processing is **not easy to use.**

Introduction:
Control versus Ease of Use

The results of this research, reveal a clear mismatch between process and control that is fundamentally undermining both day-to-day and strategic roles of financial decision makers.

Getting the balance right between usability and control is essential. A system that is deemed 100% user friendly by all employees is likely to be one that offers little financial control. In contrast, a system designed with control only in mind is unlikely to be adopted by employees. Cultural pushback is an issue with which any organisation that has attempted to introduce change will be familiar.

The majority of respondents **(64%)** maintain that POP makes it easy to make a purchase on behalf of the business. Just over one fifth **(23%)** insist the process makes it difficult to make a purchase on behalf of the business – and **9%** have to work around the process to get things done. Perhaps worryingly, **4%** of organisations do not use a purchase order process at all.

In contrast, **57%** believe the purchasing process needs to be improved. In addition to the **19%** who believe the current process is broken and needs fixing as a matter of priority, a further **38%** say it can be improved, with most of these considering an investment into a software solution to make that change. The implication here is that in the balance of usability versus control, finance teams are still wrestling for control over employee purchasing behaviour.

9%

have to work around the process to get things done.

This lack of control is reinforced by an absence of commitment accounting. Only half of UK MBs are able to recognise financial commitments when they are made, while the rest have to wait until a supplier invoice is received. By failing to account for commitments when making a purchase, budget holders within organisations are missing the opportunity to understand the consequences of their purchasing actions against the financial plan until such time as performance is measured against budget, which would normally be when management accounts are produced.

Indeed, only **46%** of UK MBs reported that they are able to proactively manage the budget by monitoring and control at the point of expenditure. For the rest, where both budget holders and the finance team are unable to track committed expenditure in real time, the chances of retaining control over budgets is slim to zero.

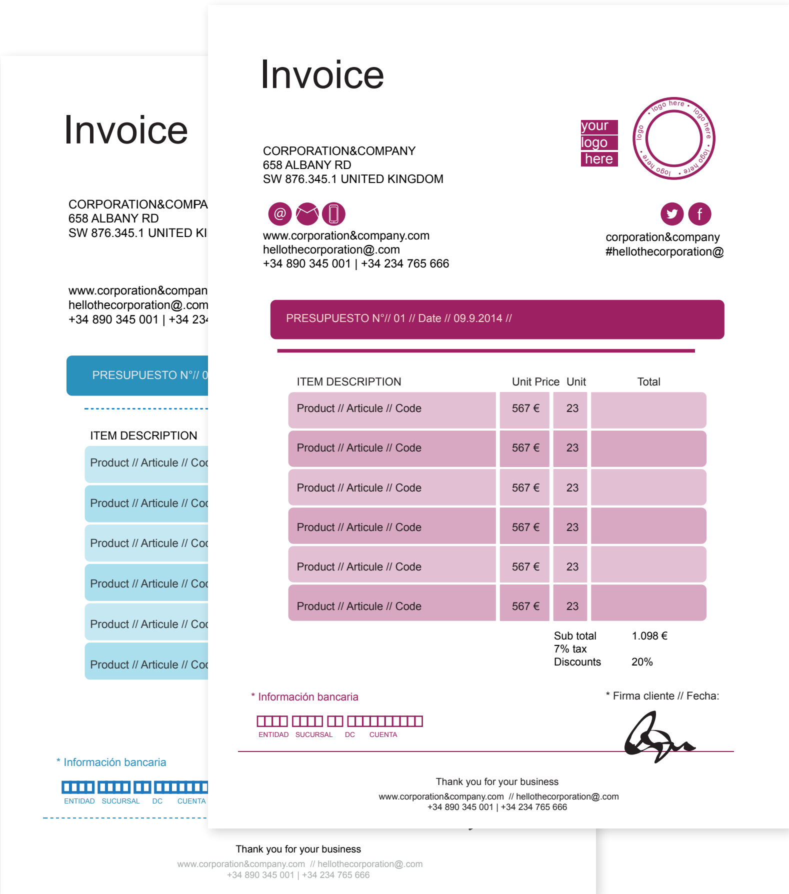
The result is not only that budget holders are taken by surprise to discover they have over run, but financial controllers are unable to undertake essential forecasting activity with any real confidence. In a volatile economy, this lack of visibility and control is an unnecessary business risk.

Continued Uncertainty

The implications of this lack of control can be seen at every stage of the finance process, from supplier payment to the production of management accounts and the management of fraud.

- **Management accounts are delayed: 44%** of finance decision makers report having to delay the production of monthly management accounts due to slow processing of supplier invoices already received.
- **Fraud is a serious concern: 83%** report they are uncertain that their POP and AP systems are robust enough to deal with fraud.
- **Late payment is common: 83%** report they are not always paying suppliers on time, undermining key supplier relationships.

The implications are significant – especially in terms of financial control. Organisations have a long blind spot between purchase commitment and the financial consequence measured against budget. The result is a significant time lag before implementing any corrective actions arising from variances to budget, as previous commitments work their way through the system.



44%

delay the production of their monthly management accounts due to **slow processing** of supplier invoices they had already received.

So what is going wrong?

One of the problems facing the finance team is that too much time is still spent on routine, day-to-day tasks rather than on managing exceptions. In a totally automated process individuals should be able to prioritise exception management, yet the survey reveals that only **3%** are spending more than three hours a day on exceptions. The vast majority **(83%)** are spending less than 60 minutes a day.

How are they spending their time? The main issue is that manual processes still clearly dominate with **84%** reporting that they used manual or Microsoft Office (Word and Excel) documents as part of their purchasing process. It cannot be deemed suitable or efficient for almost half **(47%)** of the UK's medium sized companies to rely wholly on either Microsoft Office documents **(25%)**, a manual paper based process **(14%)** or a combination of both **(8%)** to manage POP. The reliance on manual processes in POP is closely replicated in the AP process, with **45%** of the UK's medium sized companies stating they have a reliance on manual processes.

This reliance on manual processes creates additional problems – not least the inability to create effective and robust authorisation processes that enable control without compromising efficiency. In the research, **45%** of UK MB financial decision makers admitted that the originator is sufficient to approve a purchase request; **37%** need just the originator to approve a purchase order; and **50%** say the originator is sufficient to approve the receipt of a good or service. The originator is also sufficient to approve the payment of the supplier invoice in **32%** of organisations. Given this lack of strong process, no wonder organisations lack confidence in their ability to address fraud.

For financial decision makers, this continued reliance on manual processes is clearly a problem and one that affects not only their standing within the business but also operational performance. Just consider late payments as an example – clearly far too many payments are delayed due to poor systems and processes rather than any proactive cash management decisions based on visibility and control. Yet the ability to make such decisions should be a standard component of any effective policy for maximising cash flow and minimising business risk.

45% of UK MB financial decision makers admitted that the originator is sufficient to approve a purchase request.

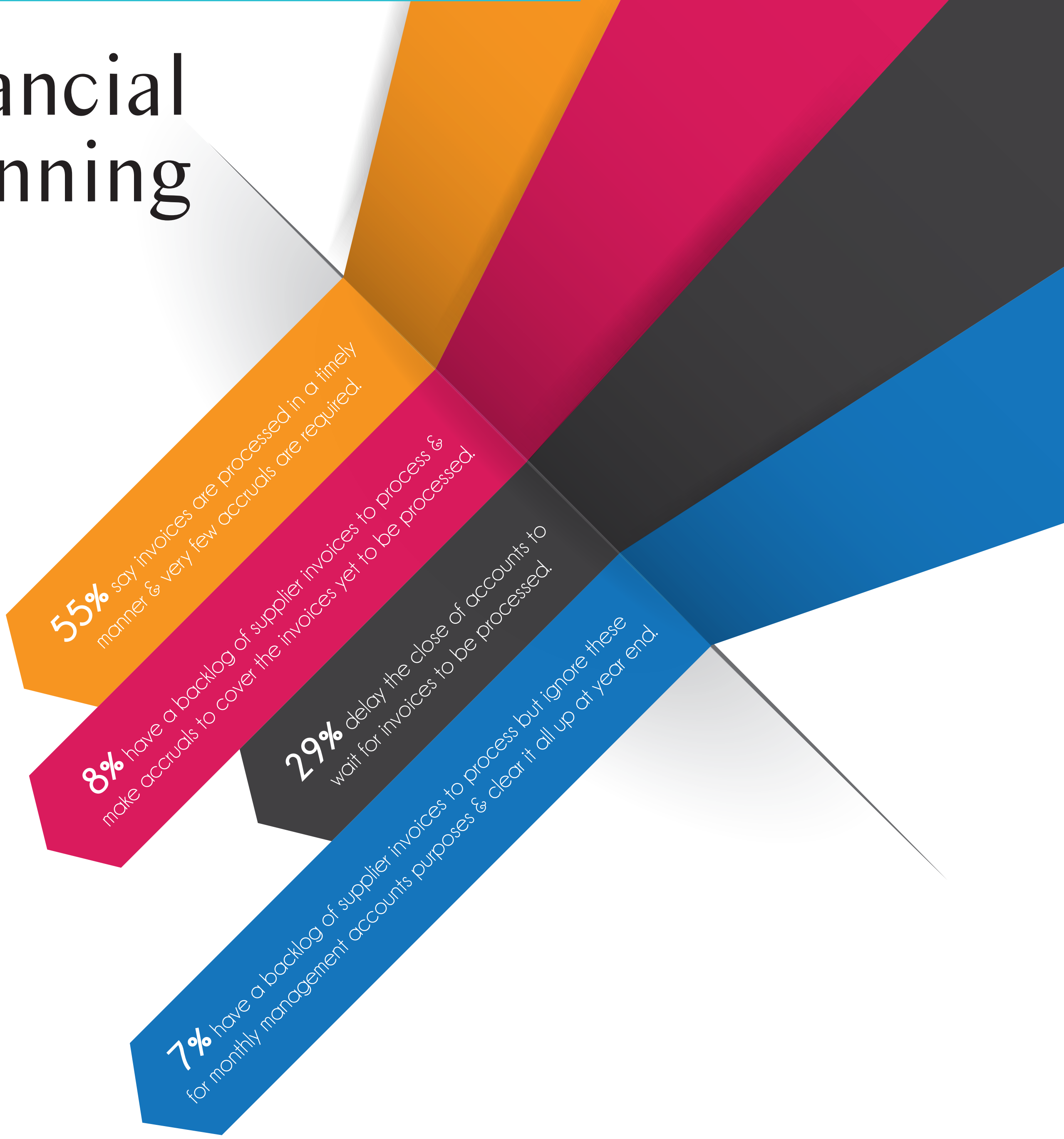
37% need just the originator to approve a purchase order.

50% say the originator is sufficient to approve the receipt of a good or service.

45%

said their accounts payable processes are still **manual**.

Financial Planning



The fact is that organisations are clearly struggling to process invoices in a timely manner – a problem that impacts not only payments, but also key financial tools including the creation of management accounts and forecasting.

When asked how reliant the monthly management accounts are on raising accruals to compensate for invoices that have been received, but not yet processed, **55%** say invoices are processed in a timely manner and very few accruals are required. However, **29%** have to delay the close of accounts to wait for invoices to be processed; **8%** know they have a backlog of supplier invoices to process and make accruals to cover the invoices yet to be processed; while **7%** know they have a backlog of supplier invoices to process but ignore these for monthly management accounts purposes and clear it all up at year end.

Essentially, **45%** of organisations cannot process the invoices they have in the building quickly enough to get them into the monthly accounts, so they have to do something different. When almost half of all organisations are operating too slowly to process documents in a timely fashion, the problems of late payments, lack of control over fraud and delayed management accounts outlined above are hardly a surprise.

83%

report they are uncertain their Purchase Order Processing & Accounts Payable systems are robust enough to deal with **fraud**.

IMPROVING CONTROL

Finance departments are renowned for their concern about control, the research reveals that many finance departments have a register of authorities and approved signatory lists that they perceive as simple, and well understood throughout the organisation. Yet **83%** reported they are uncertain that POP and AP systems are robust enough to deal with fraud. This suggests that UK MB financial decision makers are lacking absolute certainty at most stages of the process. Control over segments of the process does not appear to contribute to confidence in control over the whole process.

'AN AUTOMATED APPROACH CAN IMPROVE EFFICIENCY AT EVERY STAGE OF THE PROCESS.'

Organisations clearly need a more efficient and transparent approach to the approval process – one that delivers financial control whilst also empowering the end user, without introducing unworkable constraints. Moving the primary control point to the commitment point (i.e. the approval of a purchase requisition), relating this approval to the budget and then significantly reducing the control points thereafter (by having joined up systems) should increase the confidence in having control over the whole process.

A big first step in achieving more visibility is to move the process from paper to digital. Digital documents can be shared and traced particularly if workflow is used to assign tasks related to those documents. Traceability - addressing where the document is and who has the next task - significantly improves visibility and control.

Workflow also contributes to efficiency, however the biggest contributor to efficiency is capture. Processes that re-use data input at the point of inception, the purchase requisition (on the purchase order, account coding and internal receiving documents) or automatically capture data from paper or electronic documents sent by suppliers dramatically reduce data entry time and data errors. This data can be used in an automatic three way match, order/receipt/invoice. Staff time can shift from data entry to data control and exceptions management.

'IT IS ALSO ESSENTIAL TO DEFINE THE RIGHT PROCESSES AND ORGANISATIONAL OBJECTIVES'.

An automated approach can improve efficiency at every stage of the process: from authorisation through to commitment accounting and the timely creation of management accounts. Financial decision makers have access to accurate, trusted information to support essential decisions regarding supplier payments and cash flow management; as well as delivering better forecasts.

The results also make it clear that automation alone is not the answer. It is also essential to define the right processes and organisational objectives.

Using intuitive self-service requisition and ordering, combined with a simple streamlined line item authorisation approach and automated coding into the nominal ledger, addresses issues of increased financial control and end user empowerment. This model ensures the end user has the ability to request and place orders simply and effectively directly with the supplier, meanwhile the budget holder – and finance team - has complete and immediate visibility of committed spend. Therefore financial decision makers have the ability to recognise liabilities early and take the decision about when payments are made rather than reacting to demands for late payments.

Conclusion

Delivering financial control while empowering the end user, without introducing unworkable constraints, is the ultimate objective for Financial Directors looking to improve their POP and Invoice Processing. Implementing this change requires a commitment to design the right processes for the business and an empathy to understand that change is disruptive and will inevitably result in some cultural change pushback.

An easy to use, "employee friendly" end-to-end POP system, with line item level approval, built in budgetary control and straight-through processing, will provide user compliance through engagement and control over spending, in turn helping eliminate transactional uncertainty. Getting to this point will involve a lot of disruption within the organisation and will have an impact on many departments of the business. However if you, and/or your business, is/are not ready for this disruption then what are your options?

A less disruptive approach would be to introduce automated supplier invoice processing first. This helps to recognise liabilities in good time and then choose when you settle them, enabling finance departments to set the payments agenda rather than react to late payment demands. This significantly reduces transactional uncertainty and the major disruption is focused on the finance department where the roles of staff shift from data entry to transaction review and control.

Choosing the route most suited to your business, whether it be a full POP or a supplier invoicing solution, requires some self and organisational angst. Ensuring success will rely on having the right business partner that extends beyond the software solution itself and into professional configuration and implementation services, which have an important role to play.

Choose your supplier wisely. Discover whether they have a track record of successful implementations? Are you able to get on with them? Do they listen and demonstrate that they appreciate the organisational issues, like cultural change pushback, that will arise from the project?

Ensuring your supplier understands the scale of your business and your specific financial requirements will support the evolution of changing financial processing. This change is essential for those finance teams wanting to successfully remove transactional uncertainty.

Research Methodology

In January 2016 Invu Services Ltd. commissioned Red Brick Research to undertake Business to Business research into Finance workers industry attitudes towards Invoice Processing, Purchase Order Processing and Accounts Payable processes.

The survey was conducted among 206 UK Finance workers operating in medium sized organisations. The interviews were conducted online, using an email invitation and an online survey.

Quotas were set to ensure reliable and accurate representation of the total UK population aged 18 and older in various UK market sectors. Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

The sample for the UK was selected from the Red Brick Research survey panels. The Red Brick Research panel is balanced across regional, age and gender demographic factors, and is nationally representative of the UK population.

About Invu Services Ltd

Founded in 1997, Invu develops Electronic Document Management (eDM), Accounts Payable (AP) and Purchasing solutions for a range of sectors, particularly those which are highly document dependent or where compliance is important. Invu's comprehensive product suite encompasses document and content management, workflow, document automation and collaboration solutions.

Invu is a Microsoft Gold Partner as an Independent Software Vendor (ISV). The company and products, therefore, meet the stringent requirements of the Microsoft Partner Program introduced in 2010.

Invu partners with a range of software vendors, such as, ABBYY, a data capture, recognition and extraction tool provider whose Flexicapture technology sits at the heart of many Invu solutions and IRIS that supplies Invu Document Management to around 20% of the top 100 UK practices as the IRIS Accountancy Solutions document management product of choice.

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