

# P2P Operational Excellence

Presented by: Christine Battles  
AP Manager Symbotic LLC  
APS, APPM APM

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# P2P - End to End Process

- Reaches across multiple functions within the organization
  - Purchasing
  - Accounts Payable
- The entire organization
  - Sourcing
  - Vendor Management
  - Contracts
  - Supplier Follow up
  - Receiving
  - Internal and or External auditors

Can be centralized, de-centralized or hybrid

# Procure to Pay - Framework

Manages the end-to-end lifecycle of acquiring goods and services, from initial identification of needs to final payment.

Also referred to as:

- Purchase – to – pay (becoming more common to refer to as “source –to – pay”)
- Requisition – to – check
- The expenditure cycle

Describes the end to end process of:

- Recognition of need
- Purchasing process
- Reconciliation process
- Disbursement process

**Purpose:** To streamline procurement, reduce "maverick spending" (unauthorized purchases), and improve financial visibility

# Risk Management Framework

- A multi-step, structured process that identifies, assesses, and mitigates security and privacy risks.
- Protects organizational assets, ensures compliance and enables informed decision making by integrating the process into the system development life cycle. (SDLC)

## Standard SDLC Phases

- **Planning:** Define the project scope, objectives, resource requirements, and feasibility.
- **Analysis:** Gather and document functional requirements by interviewing users and evaluating existing system deficiencies.
- **Design:** Translate requirements into technical blueprints, including system architecture, database schema, and user interfaces.
- **Development:** Write the actual code and build the system components based on the design documents.
- **Testing:** Perform unit, integration, and user acceptance tests to identify and fix bugs before release.
- **Deployment:** Implement the finished system into a live production environment for end-users.
- **Maintenance:** Provide ongoing support, apply security patches, and update the system to meet evolving business needs.

# Risk Management Framework

## Common Types/Models

**Waterfall:** The original, rigid approach best suited for small projects with stable, well-defined requirements.

**Agile:** A flexible framework used for complex projects that require frequent updates and high stakeholder involvement.

**Spiral:** A risk-driven model that combines elements of both iterative design and the Waterfall approach, often used for large-scale, high-risk systems.

**V-Model:** An extension of Waterfall that pairs every development stage with a corresponding testing phase to ensure high quality.

**DevOps:** A collaborative methodology that integrates development and operations teams to automate and accelerate the entire lifecycle.

# Critical Touchpoints

Where purchasing data merges with financial data to ensure compliance, accuracy, and efficiency.

- Involves three-way matching
- Prevent maverick spending
- Ensure timely supplier payments.

Key touchpoints include:

## 1. Vendor Onboarding and Master Data Management

- **Supplier Set-up & Validation:**
  - Procurement initiates vendor selection
  - AP must validate bank details and tax information to ensure compliance and prevent fraud.
- **Data Synchronization:**
  - Both departments must share a "single source of truth" for vendor records to prevent duplicate payments or incorrect payment terms.

# Critical Touchpoints

## 2. Purchase Order (PO) Issuance

- **PO Creation and Terms:**

- Procurement sets the contract, pricing, and payment terms, which are embedded in the PO.
- AP relies on this data for accurate matching later.

- **Commitment Tracking:**

- Allows AP to forecast future cash requirements based on open POs, rather than just reacting to incoming invoices.

## 3. Goods Receipt (GR) and Verification

- **Confirming Receipt:** When goods or services are received, the receiving team (or user) creates a "goods receipt note".
- **Matching Receipts:** AP uses this record to verify that what was ordered (PO) and what was delivered (Receipt) matches what is billed (Invoice)

# Critical Touchpoints

## 4. Invoice Matching and Exception Handling

- **3-Way Matching:** This is the most critical touchpoint.
  - AP checks the invoice against the PO and the goods receipt.
- **Exception Resolution:**
  - When a 3-way match fails (e.g., price discrepancy, incorrect quantity), procurement must intervene to negotiate with the supplier or correct the PO
  - AP pauses payment to protect cash flow.

## 5. Payment Execution and Dispute Resolution

- **Payment Scheduling:** AP coordinates with Procurement to pay invoices within agreed terms to maximize early payment discounts or avoid late fees.
- **Vendor Relations:** When disputes arise, both departments must align to ensure the supplier receives a consistent message, preserving the partnership.

## 6. Shared Performance Metrics (KPIs)

- **Joint Measurement:** Successful P2P processes use shared KPIs like **first-pass match rate, invoice exception rate, and percentage of spend under management.**
- **Spend Analysis:** AP provides historical payment data to Procurement, which is used to renegotiate contracts, consolidate suppliers, and identify savings opportunities.

# The Bridge – Cash Management

Cash management is the primary bridge between Procurement & Accounts Payable

- Procurement focuses on the "what" and "how much"
- AP manages the "when" and "how" of cash disbursement or outflow

Effective cash management requires these two organizations to align on the following key considerations:

## 1. Working Capital Optimization

- Days Payable Outstanding (DPO):
  - Procurement negotiates the payment terms (e.g., Net 30 vs. Net 60), but AP executes them.
  - Extending DPO preserves cash for operational use but can strain supplier trust if not balanced carefully.
- The Cash Conversion Cycle (CCC): Both teams impact the speed at which cash returns to the business.
  - Procurement influences it through inventory levels and vendor terms
  - AP influences it through the speed and timing of invoice processing

## 2. Strategic Payment Timing

- Early Payment Discounts: Procurement may negotiate a "2/10 Net 30" discount (2% off if paid in 10 days). However, if AP's manual processing takes 15 days, that cash saving is lost.
- Strategic Scheduling: Organizations may time payments to align with their own revenue cycles—for example, scheduling major vendor runs for the last day of the month to maximize interest on cash held in the bank.

# The Bridge – Cash Management

## 3. Forecasting Accuracy and Visibility

- Visibility into Liabilities: If Procurement allows "maverick spending" (unauthorized purchases outside the system), invoices appear as surprises in AP, making it impossible for the company to accurately forecast cash requirements.
- Real-Time Data Sharing: When both teams use a [unified P2P system](#), finance leaders can see upcoming purchase commitments before they even become invoices, allowing for proactive liquidity management.

## 4. Risk and Compliance Controls

- Three-Way Matching: This control prevents cash leakage by ensuring the company only pays for what was ordered & actually received as verified against the invoice.
- Fraud Mitigation: Strong collaboration ensures that supplier payment information is verified across both departments, reducing the risk of fraudulent invoice payments or duplicate payments.

## 5. Supplier Relationship Management

- Reliability as a Lever: Procurement uses consistent, on-time payment records as a negotiation lever for better pricing or priority during supply shortages.
- Financial Stability of Suppliers: Both teams must monitor the health of key vendors. Small, critical suppliers may need shorter payment terms to survive, whereas larger suppliers may be able to support extended terms that favor the buyer's cash position

# Automation Opportunities

**Companies generally achieve these goals by moving away from manual, paper-based tasks & adopting integrated systems.**

The most common methods include:

## **1. Automation and Integration**

- ERP Integration: Connecting procurement software directly to the Enterprise Resource Planning (ERP) system ensures data flows instantly between departments without manual entry.
- E-Invoicing: Automating the receipt and processing of invoices to eliminate data entry, errors and speed up the cycle from receipt to payment.

## **2. Standardization of Controls**

- Three-Way Matching: Automatically comparing the Purchase Order (PO), Goods Receipt, and Supplier Invoice. If all three match within set tolerances, the system approves payment, minimizing fraud and overpayment.
- Approval Workflows: Pre-defining digital "chains of command" based on spend amount or department, ensuring the right people sign off without physical paperwork getting lost.

# Automation Opportunities - continued

## 3. Supplier Management

- Supplier Portals: Allowing vendors to upload their own invoices and check payment status.
  - Reduces the administrative burden on the internal team and lowers the risk of communication errors.
- Preferred Vendor Lists: Limiting purchases to pre-approved suppliers with negotiated contracts to prevent "maverick spend" and ensure quality.

## 4. Continuous Monitoring & Analytics

- Process Mining: Using data to identify "bottlenecks"—steps where workflows stall—allowing managers to refine the process and reduce cycle times.
- Audit Trails: Maintaining a digital log of every action taken in the lifecycle to ensure compliance and make internal audits seamless.

# Actionable Takeaways

1. Basic understanding of establishing frameworks
2. Know the critical touch points between AP& Procurement
3. Opportunities for streamlining and automation

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# QUESTIONS?

Christine Battles

Accounts Payable Manager

Symbotic, LLC

[cbattles@Symbotic.com](mailto:cbattles@Symbotic.com)

978-284-2800

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