



COMBINING PROCUREMENT AND AP

CREATING A BEST-IN-CLASS AP operation is the aspiration of most Controllers and Chief Financial Officers (CFOs). These senior managers want greater visibility into overall spending and procurement, while simultaneously maintaining compliance with new regulations and tighter internal policies. In the drive to streamline, secure, and improve financial processes, as well as put a comprehensive P2P (procure-to-pay) system in place, many organizations are reevaluating the relationship between AP and purchasing.

The division between these two departments and the issues that arise due to this separation are age-old. But, there is renewed interest in many organizations, particularly education and government, to combine the two groups. About four percent of organizations in the U.S. have AP departments that report to procurement. In most cases, AP reports to the Controller or CFO, while procurement often reports to the head of operations.

Linda Haigh, Director of AP at Yale University, explains that "I have a solid line reporting to our procurement office and a dotted line to our Controller. This arrangement helps bring our teams together and make our processes more fluid." Brian Rosenberg, Senior Partner with Baltimore-

based RPI Consultants, works with a wide range of clients across the country and notes that "we are seeing a trend for the finance and procurement departments to report to the same executive; and, I think that this is a positive development."

If there are significant benefits to be gained by having the two groups under one organization or executive, why aren't more organizations using this structure? The answers are numerous: entrenched bureaucracies, 'empire and turf building', and security concerns about separation of duties in order to prevent fraud, to name a few.

Employees in the AP department may be hesitant to report to procurement because some of them may feel that buyers are not as detailed as they should be. Jane Benton, Director of Disbursement Services at the University of Arkansas for Medical Sciences in Little Rock, puts it this way: "AP personnel are more number-oriented, while procurement employees are more people-oriented. In some cases, there can be territorial and finger pointing issues; but, the bottom line is that organizations just want to receive the items that they have ordered in a timely manner. Problem resolution can be difficult if both groups aren't working together closely."

such as discounts and dispute resolution, are worked out in advance the invoices will flow in properly to AP. On the other hand, when AP provides guidelines to purchasing on how to work with vendors to help clarify expectations from the outset, many issues can be avoided down the road. AP and the vendors share many of the same concerns.

Regular meetings between the departments should occur for a number of reasons; at a minimum, it is important because they can come to understand each other's role in what amount to a single process - AP at the end, and procurement at the beginning. Procurement and AP need to understand each other's issues; and, this is more likely to happen when both departments report into the same organization. Ms. Benton confirms this concept: "the heads of AP and procurement should always have the same boss".

The Yale University AP group manages the vendor database and often arranges conference calls with vendors to ensure that they are set up properly. Ms. Haigh explains "the AP and purchasing teams have weekly meetings for vendor database integration with our automated tools, and bi-monthly meetings to go over current issues and find root causes to problems. Additionally, all the units that report to the procurement officer - AP, purchasing, e-commerce, training & communications, quality assurance, and testing - meet quarterly to provide updates and training for the entire team. We want everyone working together to ensure the processes are streamlined due to their integration... everyone has a job to do with goals and objectives that they need to accomplish. We want to foster an environment where everyone's goals are aligned and we have mutual respect for each other."

Mr. Rosenberg agrees that keeping the lines of communication open and the amount of finger-pointing to a minimum are critical. "AP should be involved at the very beginning of the process during new vendor negotiations. Their needs must be met and the entire billing and payment process clearly outlined." His experience has proven to him that when billing details,

While Mr. Rosenberg is a big fan of ongoing meetings, he says "if they just turn into complaint sessions, nothing will get



Why are AP and Procurement Segregated?

Entrenched Bureaucracies: Why fix it if it ain't broke?
Resistance to Change: This is how we have always done things
Differing Focus: AP is concerned with processing efficiencies while procurement's emphasis is on vendor relations
Security Concerns: Separation of duties is needed to curtail opportunities for fraud
Turf Building: Heads of AP and procurement do not want to give up control over their respective functions

Table 1

Fostering a Collaborative Environment between AP and Procurement

Bring AP into the loop at the front-end of the process starting from vendor communications
Involve procurement personnel when handling invoices with exceptions and vendor disputes
Keep lines of communication open between the two departments and schedule periodic meetings to discuss issues
Invite members of the AP team to attend procurement training sessions and vice versa
Leverage technology that spans across the two departments to develop a collaborative environment for the entire team
Develop a common corporate intranet for the two departments to provide news and updates

Table 2

accomplished." Brian recommends using a neutral person, such as someone from the finance department or even an outside consultant, to moderate meetings and assign action items. He is a big fan of metrics and reporting, and suggests that "organizations track discrepancies per line item not per PO, with the intent of driving down the number of discrepancies every month." Accountability is key. Both buyers and vendors need to be held responsible; and, specific actions should be taken to reduce problems in the payment cycle. Mr. Rosenberg emphasizes that "a timeline is also important – organizations must track how long it is taking to resolve open problems and search for ways to minimize those times."

Robert Derocher, Operations Practice Leader at Stamford, CT-based Archstone Consulting, believes "AP has a difficult job because far too many purchases do not even have a PO at the front-end". During his 15-plus years of consulting experience in sourcing and procurement, he says "direct materials that go into the manufacturing of a product have a very high percentage of POs tied to them; so do indirect goods, such as office supplies. But, in general, services have a very low percentage – somewhere between thirty to forty percent." While these numbers vary from organization to organization, the lack of POs is a significant stumbling block for AP departments that want to run efficiently. Robert notes that "strategic sourcing projects too often focus on cost savings and quality concerns, while AP is just an afterthought." He is a big fan of P2P

systems that move beyond strategic sourcing; but, "since P2P doesn't drive revenue, it is frequently seen as unnecessary, or as a necessary evil."

In addition to meetings, metrics, and mutual inter-departmental respect, the movement towards P2P, and technology in general, can help bridge the procurement and payables gap. This can be particularly true at smaller companies such as Clear Lake, IA-based Kingland Systems. Ann Campbell works in Kingland's accounting department and says "paper forms create real headaches for our department." With the previous system, employees would "check out" a PO number to buy something, but the AP department did not know exactly what was purchased and whether or not it was received. Now, with a newly installed requisition management module, everything is electronic from end-to-end. Ms. Campbell states "by using the new software and imaging on our intranet we have closed the loop and taken paperwork out of the process. It has proven to be a huge benefit to our department and very little extra work for our employees who order items."

Ms. Benton says the University of Arkansas utilizes a sophisticated ERP system and "both buyers and AP processors are using the same software package. The system handles security so that each user has appropriate access rights." Her take on technology is that it should empower employees to help other employees and vendors as well. She insists that "if a vendor calls and wants to know the status of a

payment, staff in either department should be able to immediately help. We want to create a more efficient process that prevents credit holds and ensures we receive the best discounts."

Mr. Rosenberg offers his advice on the use of technology: "Properly implemented ERP systems can streamline message movements between departments and help resolve invoice matching and discrepancy problems. While technology can help with exception handling, organizations must strive to prevent exceptions in the first place and avoid viewing the purchase of an ERP system as a panacea."

The benefits of combining AP and procurement may seem obvious to many observers; but, not everyone agrees. John Stahl, CEO of the Trio Company in East Norwich, NY, believes that "Purchasing should not rely on AP to solve their problems – all too often it is a training issue in purchasing. They must write the PO correctly in the first place; and then stay on top of vendors who short-ship, over-ship, ship damaged goods, substitute products, or invoice the wrong price. I've seen AP working under procurement and still see the same problems." He does concede, however, that both groups should report to the CFO. Mr. Rosenberg concurs; and, concludes with this: "Many CFOs don't appreciate how these inter-departmental problems can affect their statements and financial positions. If they don't have time to deal with the issues, they need to appoint someone who can be accountable for the actions of both departments." 