



11 ESSENTIAL SOURCE-TO-PAY KPIS, IMPLEMENTATION MINDFULNESS & BENCHMARKING

WHAT GETS MEASURED GETS IMPROVED

The measurement that happens through consistent tracking of your key performance metrics (KPI) is an indicator to the profit our businesses make. In Procurement, like in any other domain, there are KPIs, in fact 100s of them. In this whitepaper we will focus on the necessary KPIs that will boost your bottom line. In this white paper, we will outline the 11 critical KPIs that will boost your bottom line.

How do these KPIs help?

- Achieve cost savings and efficiency improvements
- Shorten purchase order cycle
- Get rid of maverick spend
- Forecasting with real time data insights
- Faster invoice processing



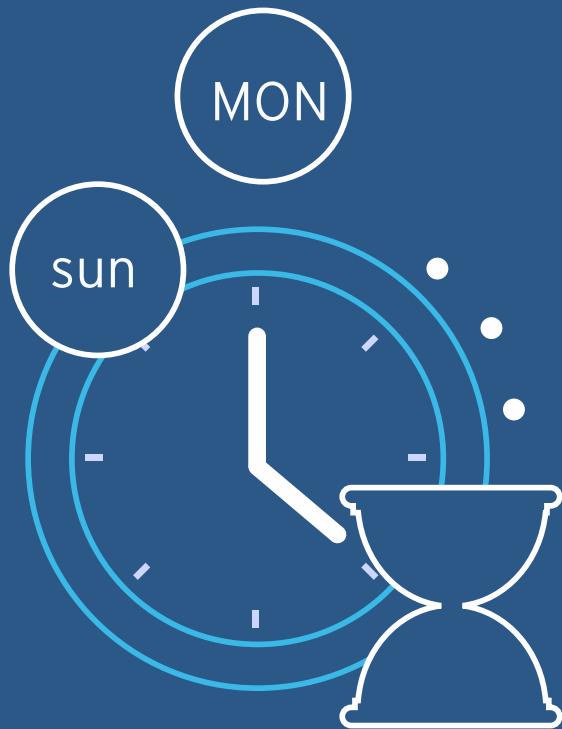
11 ESSENTIAL SOURCE-TO-PAY KPIs

While going through the below KPIs, please note that they don't exist in isolation but are used as benchmarks against industry standard best practices.

1. **Purchase Order Cycle Time:** The time it takes your team to issue, review, approve, process and pay purchase orders
2. **Average Purchase Order Processing Cost:** The time required to process a purchase order, staff hours required at each stage, expenses like special supplier fees and exception costs.
3. **Invoice Processing Time:** This helps prevent missed discounts, late fees and damaged supplier relationships
4. **Average Invoice Processing Cost:** This includes indirect expenses, late fees and labor costs related to data entry, exceptions and corrections
5. **Invoice Exception Rate:** Includes invoices lacking crucial information or having wrong information
6. **First Time Match Rate:** This KPI tracks the accuracy and completeness of documents such as purchase orders, receiving paperwork, and invoices and the success in matching them on the first try
7. **Days Paid Outstanding (DPO):** The average number of days it takes to pay outstanding accounts payable
8. **Spend Under Management (SUM):** The percentage of procurement spend controlled by management
9. **Productivity per FTE:** It allows a company to quantify larger processes based on the total number of FTEs required to complete a specific task
10. **Compliance Rate:** Contractual and policy compliance ensure legal security. Metrics to note are ratio of disputed invoices to total invoices and total difference between price paid and price quoted
11. **Supplier Defect Rate:** Breaking it down based on the defect type will offer insights about supplier performance. It is usually measured in defects per million



5 THINGS TO BE MINDFUL OF WHILE IMPLEMENTING KPIS



Be on time

Avoid situation wherein because of excessive focus on cost savings to procure cheap good/services, your business makes a loss as supplier fails to deliver. Timely strategy plays an important role here.

KPIs to keep

If you notice a pattern of reporting high on not meeting KPIs, it is indicative of the KPIs not being chosen well. Ideally one should promise low and deliver high.

The rope-walk

Cost savings, quality and delivery work in unison. Focus on any one of them over the other will disappoint the balance. For greater output of cost savings, uninterrupted supply and controlled stocks strike a balance.

Letting Go

It won't be a pleasant experience wherein business units and buyers have to manage with redundant/obsolete stock. This will be very detrimental to the business process. Holding on to stock might lead to depreciation and reduction of the stock value. So let go of the KPI that can't control and brainstorm for the next best.

Solve it

In a big organization with multiple stakeholders or in a small company that often lacks segregation of work, there can be occasions of conflicting KPIs. Such situation demands attention and should be resolved either internally or through timely intervention of field experts.

Now that we are aware of the weeds to keep away from while implementing new KPIs, let us proceed to discussing benchmarking as mentioned earlier.

5 PROCUREMENT BENCHMARKS

In Procurement, through benchmarking an organization can bridge the gap between them and the top-performing organization by following the above discussed best-in-class KPIs. Below listed are-



1. POE < 1% TS

With world class organizations, Procurement Operating Expense or POE is usually below 1% of Total Spend (TS). And when studied from the lens of the below benchmark, it shows that the procurement function in world class organization is a profit generating department.

2. CRS at 2% TS

Cost Reduction Savings or CRS averages at 2% TS across industries. CRS is realized by negotiating for a lesser price for the same goods purchased at a higher price earlier. This 2% savings on Total Spend indicates how world class organizations make a minimum net profit of 1% TS above the bottom line. Direct Profit = 2% CRS of Total Spend – 1% POE of Total Spend. In Semiconductor industry, CRS is 5% of Total Spend. So here, benchmarking should be considered within the same industry and not outside.

3. Average PO Processing Cost

The average for Purchase Order processing cost is \$429. Best practice would be to issue POs for items that exceed the POS cost. In Engineering & Construction, PO processing cost is as high as \$1,778 for engineering/construction and in chemical, industrial manufacturing, metals & mining and pharmaceuticals, it is below \$200. So benchmarking is recommended within industry territory.

4. 6% ASA for 80% of TS

At present, Active Supplier Accounting (ASA) is at 6% owing to an average number of organizations investing 80% of their Total Spend on 6% suppliers forming the A category. This benchmark figure helps CFOs and CEOs manage, develop, partner and negotiate better with the suppliers.

5. % TS Managed and/or Controlled by Procurement

On an average, procurement controls 82% of Total Spend (TS), with an exception in the pharmaceutical industry which is at 58%.

CONCLUSION

The necessary KPIs have been listed; we've listed the important ones from a pool of 100s. We have also discussed things that we should be mindful of when we try to implement the KPIs discussed. The objective is not to be conned by a KPI if we can put it that way. And when talking about benchmarking, the benchmarks discussed must be initiated by the Procurement Director/CPO sooner than later. Benchmarking helps track results to achieving world class practices in any organization.



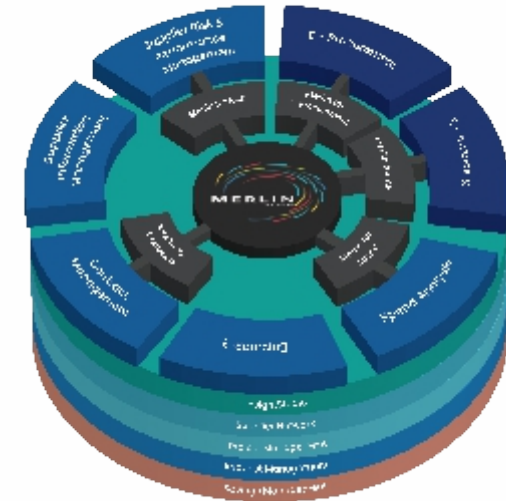
ABOUT US:

Zycus is the pioneer in Cognitive Procurement software and has been a trusted partner of choice for large global enterprises for two decades. Zycus has been consistently recognized by Gartner, Forrester, and other analysts for its Source to Pay integrated suite.

Zycus powers its S2P software with the revolutionary Merlin AI Suite. Merlin AI takes over the tactical tasks and empowers procurement and AP officers to focus on strategic projects; offers data-driven actionable insights for quicker and smarter decisions, and its conversational AI offers a B2C type user-experience to the end-users.

Zycus helps enterprises drive real savings, reduce risks, and boost compliance, and its seamless, intuitive, and easy-to-use user interface ensures high adoption and value across the organization.

Start your #CognitiveProcurement journey with us, as you are #MeantforMore.



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