Leveraging Electronic Procure to Pay for Revenue

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Abstract

The Department of Procurement Services at the University of Virginia consists of both Purchasing and Accounts Payable. By working collaboratively on implementation of electronic purchasing, invoicing and payment systems, Procurement has been able to increase the efficiency of the entire procure to pay process and to realize the power of its combined operation. Through strategically targeting its top suppliers and leveraging these electronic processes, Procurement has begun to generate revenue for the University.

Procurement started by purchasing an electronic catalog ordering system. This system allows goods to be purchased electronically from supplier catalogs hosted in our system, aptly named the UVa Marketplace. This same system allows invoices to be submitted electronically and match automatically to catalog orders. The third and final piece is electronic payment. Procurement utilizes two new electronic payment options provided through its banking services provider. The first is Automated Clearing House (ACH) and the other is a ghost card program for payments via credit card.

Leveraging the efficiency gains and the improved payment cycle created by these three electronic processes, Procurement Services has been able to negotiate rebates and early payment discounts with some of its largest suppliers. It is the negotiation of the revenue generated from these rebates and discounts that is our best practice.

Introduction of the Organization

The University of Virginia is distinctive among institutions of higher education. Founded by Thomas Jefferson in 1819, the University sustains the ideal of developing, through education, leaders who are well prepared to help shape the future of the nation. The University remains public, supported by the Commonwealth of Virginia while also nourished by the strong support of its alumni. It is also selective; the students who come to the University have been chosen because they show exceptional promise. With nearly 13,000 undergraduate and 6,000 graduate students, the University provides a personalized and well rounded education for all students.

The University offers 48 bachelor's degrees in 46 fields, 94 master's degrees in 64 fields, six educational specialist degrees, two first-professional degrees (law and medicine), and 55 doctoral degrees in 54 fields.

The operating budgets for July 1, 2008, through June 30, 2009, for all divisions of the University of Virginia total $2.2 billion. Of the total budget, $1.2 billion relates to the Academic Division, $980.1 million to the Medical Center, and $34.1 million to the University of Virginia's College at Wise.

Statement of the Initiative

Like many peer institutions, the University implemented electronic procure to pay. When Accounts Payable and Purchasing began to work collaboratively to strategically target high dollar, high transaction suppliers and to leverage the efficiency gains and savings received by both to generate revenue, our best practice was born. For obvious reasons the University began to realize savings from implementing electronic procure to pay. It became clear that many of the savings were also being realized by the suppliers in the program. The next logical step was to value those savings and negotiate a revenue stream. The revenue has begun to flow back to the University in the form of rebates and early payment discounts. The ultimate goal is to fund the maintenance of the system and any future enhancements.

Design

The design began by assembling a cross-functional team of Accounts Payable, Purchasing and Information Technology professionals. This team remained intact for each of the three systems. Details for each of the three systems are described below.

Electronic Catalog Ordering System

Implementation of the UVa Marketplace was the first and most time-consuming process. Integration of the UVa Marketplace software and catalog content into the University's existing enterprise resource planning (ERP) system required expertise from the three functional areas. The system needed to accomplish the following:

- Be the primary order placement tool for the University.
- Improve the efficiency of the ordering process.
- Standardize discounts and prices.
- Provide access to minority suppliers.
- Provide line-item detail on purchases for audit and data mining purposes.

These goals were accomplished by requiring that both catalog and non-catalog orders are placed in the UVa Marketplace. This ensured that the UVa Marketplace was the only order placement system. Ordering efficiency was improved by enabling 47 catalogs with contract prices, thus allowing shoppers to add items to a shopping cart rather than entering a description for each item ordered. Integration of the shopping cart feature with existing ERP approval workflows and accounting validation reduced approval times and eliminated manual approval processes. Electronic delivery of purchase orders reduced the amount of time spent on the phone or faxing orders to suppliers. Catalog suppliers were required to provide discounts to all shoppers, not just to those who negotiated a special price, saving shoppers money and further increasing system acceptance. Minority supplier products are clearly marked and have priority placement in catalog searches, reducing time spent sourcing minority suppliers and increasing their opportunities for business with the University. Having a robust offering of electronic catalogs at go-live increased acceptance and use of catalogs and accomplished the final line-item detail goal.

Electronic Invoicing

Electronic invoicing was a necessary evil from the beginning. We knew that the UVa Marketplace would increase the number of lines per order and the quantity of purchase orders, thereby directly impacting the number of invoices and lines per invoice. Our goals for electronic invoicing were:

- Reduce the increased workload on Accounts Payable and avoid hiring additional FTEs.
- Increase the speed and efficiency of matching invoices and purchase orders.
- Reduce the number of invoicing errors and accuracy of prices.

Accounts Payable and Purchasing worked collaboratively to determine the suppliers with the highest spend, number of transactions, and ability to invoice electronically. Within eight months of go-live with the first vendor, seven of the ten targeted suppliers were providing electronic invoices and nearly 25,000 invoices or 20% of purchase order invoices had been processed. Procurement avoided hiring one FTE to process these invoices. What typically took an entire day of data entry now takes minutes. Errors are reduced because the products are ordered from suppliers' electronic catalogs using its description and price. The electronic invoice is a direct reflection of the catalog description and price, thus improving pricing accuracy and reducing errors and discrepancies.

Electronic Payment

There are two new options for electronic payment offered by the University's banking services provider. The first is a ghost card process where all payments made to an accepting supplier are paid on a credit card. The other option is Automated Clearinghouse. Both reduce the amount of time it takes for receipt of payment, manual deposits and reconciliation by the supplier. The objectives for this project were:

- Reduce the manual processes involved in making payments.
- Generate revenue.
- Save mailing cost.

Creating a paper check will never be completely eliminated, but the number of paper checks was drastically decreased in a short time. Revenue is generated from rebates received from our banking services provider under the ghost card program. Mailing costs were reduced by $3,300 since the program began in earnest in April 2008.

Generating Revenue

This final step revealed our best practice of leveraging the electronic procure to pay processes for revenue. It was clear that the University was beginning to save time and money and so were our suppliers. With all the tools in place we determined the following implementation steps to target our key suppliers and began negotiating the value of these processes:

- Establish an implementation team.
- Target the existing supplier base.
- Educate the Purchasing and Accounts Payable staffs on the electronic procure to pay process.

- Determine the value of electronic procure to pay.
- Determine the negotiation strategy for each key supplier.

Although this best practice is in its infancy, it has already begun to net results. The Purchasing and Accounts Payable staffs have a good understanding of the benefits to the University. Both have begun working closely to target key suppliers and determine negotiation strategies for each.

Implementation

Timeline

Following is the timeline for completion of each stage of our process:

- Electronic Catalog Ordering System – April 2006 – December 2006
- Electronic Invoicing – April 2007 – October 2007
- Electronic Payment – January 2008 – April 2008
- Revenue Negotiations – July 2008 – June 2009

Although the best practice of generating revenue began in July 2008, it is worth mentioning this best practice could not have begun without first implementing electronic procure to pay. Additionally, through our Electronic Payment effort, it became clear that our top suppliers would require a higher level of effort. The implementation of our best practice was born out of the Electronic Payment initiative and is reflected in the implementation narrative that follows. Even though the projected completion date is June 2009, this program will continue to be refined and enhanced for years to come.

Establish an Implementation Team

The implementation team was initially comprised of Accounts Payable staff. The primary goal was to determine the high transaction/spend suppliers and register them for the ghost card program to generate a rebate for the University. With the help of our banking services provider, the implementation team began registering suppliers. Due to the fees paid for ghost card transactions, some of the suppliers who originally registered for the ghost card program reversed their decision. This prolonged implementation and identified a need to circle back to negotiate other payment options with those suppliers. This ultimately led to expansion of the implementation to the entire organization and the need for education on the benefits of the program.

Target Existing Supplier Base

Reports were generated from our database to identify suppliers with the most transactions and spend. These reports were reviewed by our banking services provider to determine which suppliers were best suited for electronic payment. Through this process, it was determined which of our existing suppliers were candidates for electronic payment. The suppliers on this list were contacted and registration in the ghost card program began.

Education

It became obvious that the entire Procurement Services staff needed to be educated on the benefits of electronic payment. Through multiple staff meetings and follow-up sessions conducted by our banking services provider, the implementation team saw the benefits of electronic payment and, more importantly, leveraging the entire procure to pay process was made clear.

Determining the Value of Electronic Procure to Pay

To maximize the potential revenue, we needed to first understand the value of electronic procure to pay. Even though the gains in efficiency were apparent, these gains were largely soft costs to our suppliers. We determined that in order to affect the bottom line of these suppliers we needed to know the value of money. We met with the University's Financial Administration to determine that value and establish targets for cash discounts and rebates.

Determine Negotiation Strategy for Each Key Supplier

With the cash discount and rebate targets, we have begun negotiations with our top suppliers. Accounts Payable and Purchasing are working collaboratively to negotiate with suppliers that have implemented electronic procure to pay. With a combination of tools for faster payment that include, but are not limited to, ACH payment, ghost card and earlier payment terms, we are negotiating with these key suppliers. Initial negotiations have gone well. We have completed negotiations with two suppliers and anticipate annual revenue of approximately $115,000 from these two suppliers alone.

Benefits

The benefits of the electronic pay to procure systems are numerous and well documented by other organizations and peer institutions. The University has realized many of the cost savings, efficiency gains, business process improvements, and employee satisfaction that our peers have realized. By leveraging all of these benefits with our supplier base, the University has begun to realize these specific benefits.

- Negotiating rebates and early payment discounts has given Procurement Services a higher profile at the University. Previously known as the department that spends money, we have begun to be recognized as self-sustaining.
- Revenue generated will be used to fund the maintenance and any enhancements to the systems. The goal is to become cost neutral to the University.
- Collaboration between Accounts Payable and Purchasing is at an all time high. We have finally begun to realize the benefit of merging the organizations in 1999.
- Knowledge and skill sets have increased throughout the organization.
- Suppliers have begun to benefit from our knowledge and are using the processes we developed for other customers. This improves their viability in the marketplace and ensures their longevity as a supplier with the University.

Leveraging the savings and efficiency gains of these systems will be on-going. Procurement Services has experienced a profound change in our knowledge of systems, banking practices and finance. As a result, the skill sets of our employees have been raised to a higher level. These changes have penetrated all aspects of the organization and are being applied at all levels. The organization continues to fine tune its implementation and benchmark its success. This has become Procurement's common goal and shapes our future.

Retrospect

We started this process with the original intent of implementing an electronic catalog ordering system. At each stage we realized there was another project that needed to be completed. Had we known the impact that first project would have on the organization, we would have been better focused on the end goal. We may have combined these projects into one larger project with phases. We may have been able to better coordinate the phases and assessed the impact each had on the others. We may have saved some time between the phases and started generating revenue earlier. In the end it was the progression from one project to the other that led to our realization of the true benefits gained. Ultimately, Procurement Services is a stronger organization as a result of this unifying project and will be able to sustain its systems with little or no financial investment.