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Industry Point of View

Solutions & Strategies for Supply Chain Assurance & Collaboration: A Retailer's Quest for a Unified Buying Cycle

The single view of purchase orders and a unified end-to-end buying cycle (covers a connected procure-purchase, record-report and order-cash process stream) enables an integrated and fully networked supply chain ecosystem. The ultimate goal is to ensure that merchandise or inventory moves seamlessly in the supply chain and point-to-point transactions take place between stakeholders without financial or operational roadblocks. Moreover, financial and physical supply chain data should be made available to the broad network of partners, suppliers and other third parties.

In an Omni-Market[1], Omni-Channel & Omni-Tier retail supply chain, a long-term strategy for enabling a transformational fix for seamless order/transaction management, visibility and collaboration is a key imperative. Per EKN's June 2014 survey of 83 retailers, such a strategy begs attention as 51% of retailers do not use an integrated process or systems for managing purchase orders, buying processes, trade documents, finance options and payment settlements in the supply chain. More concerning is the fact that 6 out of 10 retailers report no change or decreased performance when it comes to chargeback rates and cost per purchase order.

These and many more unified P2P process and technology-related gaps plague supplier, vendor, 3rd party logistics, and other relationships with the retailer and vice-versa. Such problems can lead to escalated transaction cost per invoice, low contract compliance, longer lead times for orders, slow cash-cash conversion cycles, increased chargebacks and vendor dissatisfaction, among other problems.

[1] *Sourcing or collaboration strategies beyond a company's primary country or market*

Defining an Assured Supply Chain, Integrated P2P & a Unified Buying Cycle

Within the global retail trade ecosystem- comprising of retailers, suppliers, factories, 3rd party logistics companies and others (i.e. agents, brokers, consolidators etc.) there exists an opportunity for creating a more assured and risk-free supply chain. An assured supply chain is all about removal of operational and financial risks. It entails enabling order, payment and logistical ease using a consistent P2P execution framework that includes a standards-based unified buying process. Unified buying integrates purchase order visibility, invoicing, payments and logistics management for all internal (retail) and external (supply chain partners) stakeholders.

All retail supply chain stakeholders need consistent transaction & document management and an assured lead-time governance structure covering all aspects for order-to-cash (first sale), procure-to-pay (P2P) and record-to-report. The ultimate goal is to create a single view and vision for treating orders and supply chain transactions from source to settlement to a sale across any channel.

There exists an opportunity gap for streamlining one vision of an integrated purchase order and a unified buying cycle for the retailer, supply chain partners and the overall network. It is equally critical that retailers and the overall supply chain network collaborate to enable easier and more efficient processes for order transactions, first sale, finance options, payment methods, documentation management and payment settlements.

This report lays specific emphasis on ways to improve existing retail P2P towards unified buying processes that benefit the entire retail supply chain ecosystem. Key report objectives include laying out the process re-design and systems automation strategy of retailers that is important for P2P transformation.

Top-of-Mind Business Challenges & Why Change the P2P Status Quo?

Retailers work with thousands of suppliers, factories, and all other 3rd parties everyday using established legacy procurement processes despite constant pressure to attain P2P process efficiencies. This complex relationship between retailers and supply chain network involves a series of collaborative linkage points in physical and financial supply chain. In current times, process and data-led collaboration in the retail supply chain network involves early stage and deeper collaboration in areas such as:

- Pre-booking factory capacities at the supplier sites prior to placing the final order;
- Visibility towards availability of raw materials at factories;
- Tracking of purchase orders at all times, invoicing, related trade/logistics documentation;
- Transaction data collaboration, tax, duties & levies, and payment settlement, among other process collaboration areas

On both sides- retailer and network of partners, the challenge to sustain end-to-end P2P visibility and unified buying process collaboration is a formidable one. This challenge has ramifications on how retailers and their supply chain partners manage financials, product cost and flow of goods & services throughout the supply chain.

Growing Procurement, Order & Supply Chain Network Complexities

Business complexities that plague supply chain orders, procurement and buying processes are characterized by a number of factors. Such factors include but are not limited to:

- Growth in product volume, deeper and wider assortments;
- Expansion trend in channel demand especially online sales that are expected to increase from current 13% to 19.1% by 2016[2];
- A multitude of inter-related import, export, re-export transactions and documentation;
- Numerous fluctuating lead-times for products due to internal and external factors;
- An already large and growing global network of partners & suppliers;
- Lack of data standards and variable procurement, bills of material and settlement costs (processing time & chargebacks etc.).

For **4 out of 10** companies, the single biggest business challenge is the lack of a unified purchase order view linking all different stages, point of interactions (i.e. channels, brands or retail or wholesale formats) and stakeholders in the internal and extended supply chain

[2] *EKN and RIS 2013 Cross-channel Tech Trends Study*

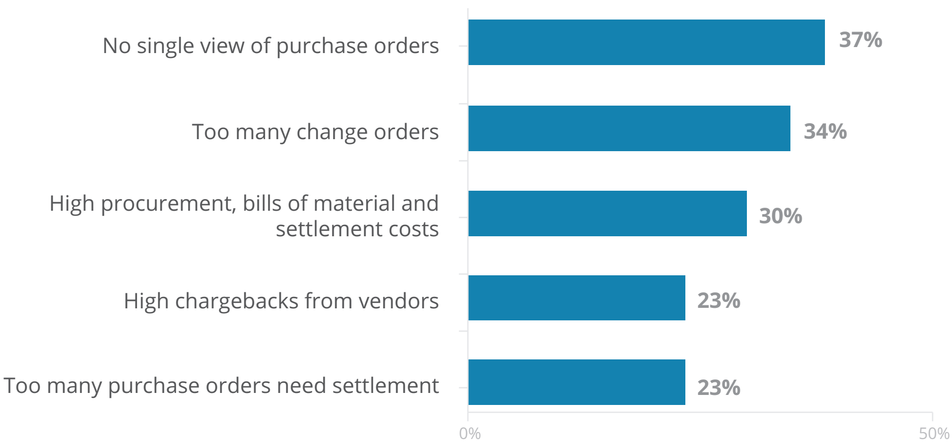
This challenge persists in the retail industry due to lack of common standards around procurement, invoicing, order due diligence, order activation processes, order processing and settlements. As already stated above, other reasons include legacy systems and processes and lack of procure-to-pay automation that hampers productivity for internal and external stakeholders.

The lack of a unified view of purchase orders has a role to play in creating other related transactional complexities such as purchase order inaccuracies, orders not matching invoices and related errors leading to high number of change orders. This increases cost of goods sold and the pressure to enhance order, delivery and payment cycle times or order-to-cash cycles.

All these problems create a vicious circle of escalating procurement, bills of material (BoM) and settlement costs as well as high chargebacks from vendors. In large retail companies, when one is dealing with several hundred thousands or even millions of orders and supply chain transactions daily, these costs add up very quickly.

When multiplied by the large volume of transactions, this inefficiency causes tremendous strain on retailers' operations, financial viability and vendor relations. Not to mention the strain on business and financial operations of factories, suppliers, 3rd party providers and other middlemen.

Top 5 P2P challenges:



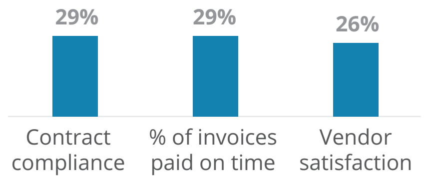
Source: EKN Order Management Survey, 2014

Leading Business Process Improvement Areas

In order to enable consistent standards, repeatable processes and a low total cost of ownership for increased P2P efficacy and integrated supply chain visibility and collaboration, leading retail chains and their partner ecosystems focus on business processes that include:

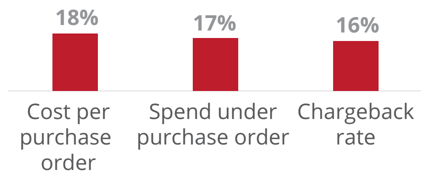
- **Go to Market:** Refers to the extent of retailer's buying, merchandise and other product procurement strategies on a global basis. This not only has a direct bearing on the retailer's go-to market plans by type of product, category or assortment, but also sales forecasts, account management and financial management strategies of all major supply chain partners.

Top 3 metrics with maximum increase in YOY performance



- **Procurement Plan** (includes P2P and unified buying): This directly relates to the end-to-end visible and collaborative buying and procurement plan-related budgeted spend, financing (where applicable), purchase order processing and payment settlement plans of the retailer with its supply chain partners. This involves a balanced top-down or bottoms-up procurement budget for the retailer and a sales & operations budget on the supplier side of the equation.

Bottom 3 metrics with lowest increase in YOY performance



- **Order to Cash:** This is a major supply chain process paradigm that also works as a financial or quasi-operational metric for retailers and supply chain partners that rely heavily on end-to-end order processing, invoicing, deal management and payment settlements. Order to cash cycles dictate the time period it takes for a retailer or a supplier to process an order from when a purchase order for merchandise is received to when it actually sells.
- **Record to Report:** Addresses anything to do with recording and reporting back performance involving financial and operational data, documentation and real-time tracking related to purchase orders and or touch-points.

Current & Top Three Planned Process Improvement Areas: Payments, Invoicing and Document Management

In the last few years, retailers have concentrated on two major areas of improvements to streamline P2P processes in an effort to create a more integrated and cohesive buying process. The first area of process improvement is vendor payments and the second is invoicing and document management.

Current adoption trends point to three enhancements for more seamless vendor payments:

- Increased payments through electronic funds transfer, reducing cycle time and errors (41%);
- Optimizing payment terms for all vendors/partners (37%);
- Offering flexible payment terms for suppliers based on financial performance (29%)

The execution of these processes can help reduce late paid invoices, invoice processing time, days paid outstanding and assist in improving vendor satisfaction.

The second major area for process re-design and automation that retailers concentrated on is order invoicing and documents management related to freight, import-export, logistics etc. This includes current adoption of business processes such as:

- Establishing process to centralize invoice receipt at one location (47%);
- Automated document checking, payment decision and execution (35%);
- Manage logistics documents (freight bill, bill of lading etc.) associated with each supply chain order (29%);
- Automated creation and delivery of orders, invoices and other documents electronically (i.e. e-invoicing) (29%)

In the area of invoicing and document management there are certain customs invoicing and document management efficiencies that are changing cost dynamics in the retail supply chain. Both in terms of global procurement and fulfillment of physical product and financial transactions, retailers and their overall network of supply chain partners deal with various ports of entry in multi-country scenarios.

In such cases, raw materials, semi-finished or finished products are being imported, exported or re-exported. Such use cases also mean that retailers and the overall network is dealing with complex custom invoices and varied racks of duties and levies at every stage of product entry and exit.

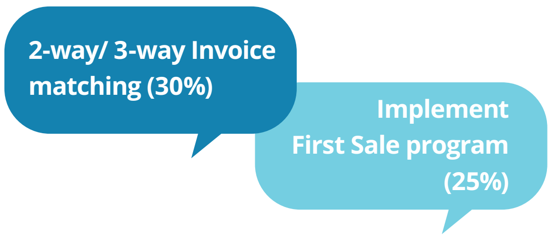
When done in paper-based or manual ways, companies are unable to effectively comply with customs compliance needs and ensure accurate and on-time duty rate payments. For handling such complex movements, the overall supply chain network needs automated invoicing and documentation for processing and settlements, especially in the area of "first sale" programs that retailers and their suppliers implement.

Similar to payment processes, consistent execution of centralized documents management and e-invoicing can result in better contract compliance, invoices paid on-time, productivity per invoice and reduce invoices in query. Enhanced logistics document management can enable reduction in miss-shipments and lower cost per purchase order by reducing change orders.

Planned Business Process Enhancements

2-Way and 3-Way Invoicing: For a third of retailers, a big push in the next 12 months would be to introduce 2-way and 3-way invoice matching for enabling easier, more accurate and more seamless payment settlement processes with suppliers and partners.

Top Planned P2P Process Enhancements



Source: EKN Order Management Survey, 2014

The whole invoicing and payment settlement process revolves around the notion that in a dynamic supply chain a retailer does not always receive what they order or at the price at which they first issued a PO. No retailer or partner wants to be in a situation where one is over-invoiced or under-invoiced. The 2-Way invoice matching is defined in 3 steps: 1. Purchase order matches invoice 2. Quantity billed is less or equal to quantity ordered 3. As a result no receipt is required for payment settlements by the retailer.

The case of 3-way invoicing is another way of arriving at payments between the retailer and supplier. The goods receipt should match the purchase order and invoice. Additionally, quantity billed is less or equal to quantity received. The price paid for the product has to be within tolerance limits mapped back to the purchase order only then the supplier invoice is approved for payment settlement.

First Sale Program: A fourth of retailers are implementing first sale programs today. Retailers collaborate with their suppliers and suppliers' partners to implement cost-saving 'first sale' programs. In the retail industry, there exists a direct and in-direct merchandise or inventory sourcing and import model. Traditionally, companies especially in apparel retail have procured branded merchandise through a complex maze of in-direct sourcing, buying, procurement and logistics models. As a result they are prepared to pay a higher price for the end-product by building the price into their margin or the price they pass along to the consumer. Direct sourcing models apply primarily to private label merchandise, also known as own or store-brand.

A first sale program applies mostly to the in-direct sourcing model as this is a way to pay duties at the middleman, broker, and agent level at the source country where it is being bought. The overall duties paid will be at the lower price that a middleman, broker or agent brought the merchandise from the supplier and not at the higher price at which ultimately retailers buy the product from the middleman. This price at which the retailer buys from the middleman is always higher as the middleman adds margin to the price for services rendered. Ultimately, first sale programs save retailers millions every year depending on the volume of merchandise they procure through their supply chain partners.

P2P & Unified Buying Innovation Technology Adoption Trends

The disconnect in the P2P technology environment is due to the fact that at least 5 out of 10 retailers are using a combination of purchase order management, financial management and ERP tools in concurrent or silos to manage various aspects of procurement, order to cash, record to report, and related process streams. Somehow this patch-work seems to be operating right now but for how long can it be sustained as transaction volumes and procurement needs continue to grow?

Moreover, it is evident that some companies are also using modular and highly modified versions within their PLM, e-invoicing and document management tools. The burn rate in systems that are older than 5-7 years is mid-high in terms of outdated functionality, obsolete user experience, platform integration problems and non-compatibility with mobile-enabled platforms.

According to our analysis, for retailers there is an opportunity within the current pedigree of P2P systems for re-platforming, and building easily scalable and deployable solutions based on a single P2P and unified buying platform that integrates with financial management in the ERP environment. To control cost, scalability and extensibility for supply chain partners, companies can also consider collaborative P2P and unified buying approaches within multi-tenant Software-as-a-Service (SaaS) or cloud.

According to data from EKN's 2013 The New Cost Structure of Retail IT study, a third of retailers are open to deploying more applications in SaaS mode or cloud. However, before deploying the cloud, careful consideration needs to be given to ramp-up time, deployment frameworks, data back-up, mobile platform enablement, template creation, internal and external partner on-boarding, training, among other factors.

Another upgrade that is beneficial for retailers is mobile-enabled P2P processes. EKN's 2014 Mobility in Retail study ranks use of mobility for compliance, merchandising, supply chain and procurement /sourcing as a high impact area with low levels of current maturity that needs attention from retailers. Although the current adoption of mobility across merchandising, procurement and supply chain is low, almost one-third of retailers are evaluating a compliance, procurement or supply chain-related mobility-based strategy[3].

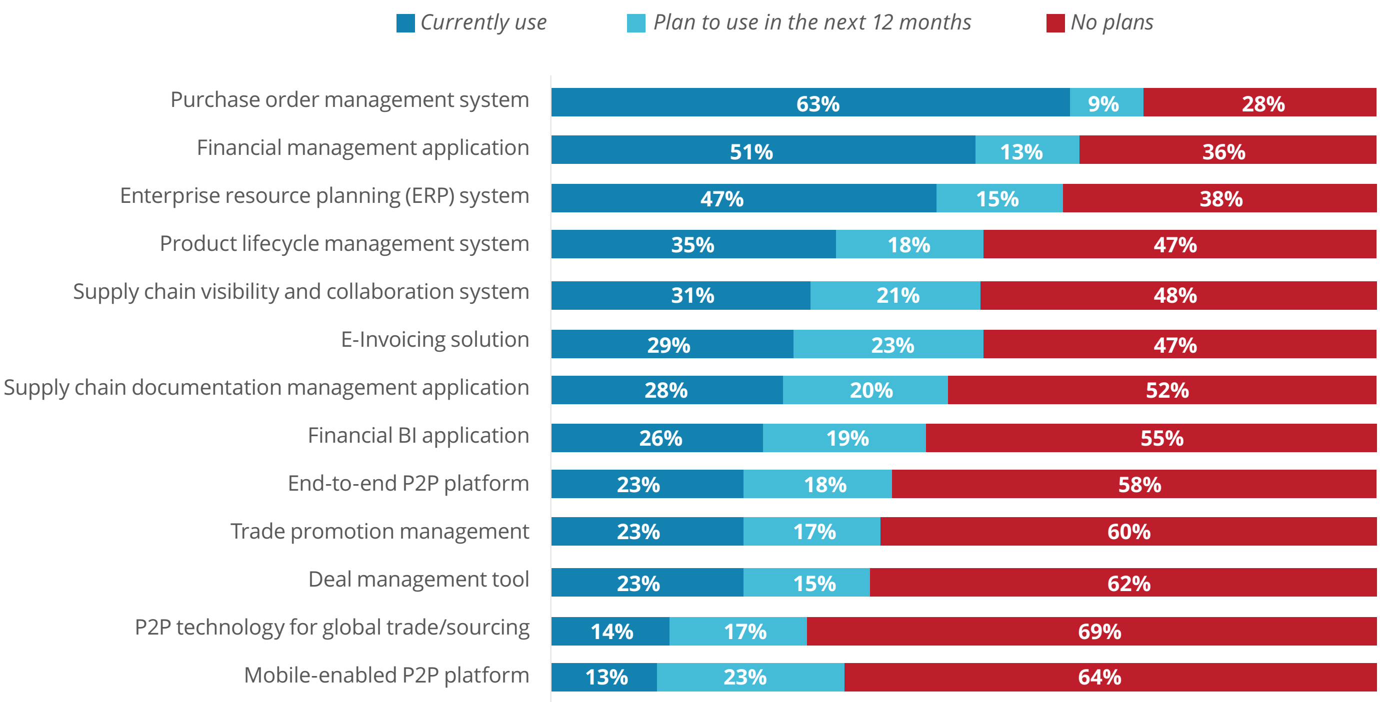
[3] *EKN Mobility in Retail Study, 2014*

As stated at the start of this report, a long-term strategy for enabling a transformational fix for seamless order/transaction management, visibility and collaboration is a key imperative in the retail supply chain. Especially, since one view of purchase order, invoicing, payments, logistics and related document management is in large part not a reality for a majority of retailers and their supply chain partners.

As part of a retail supply chain technology transformation strategy, P2P and unified buying cycle approach needs to be tied to a single and integrated platform approach that provides retailers the ability to create harmonized business processes and manage master data across the organization and externally with partners. This platform will provide complete visibility and collaboration covering:

1. Purchase order management
2. Logistics, customs & related invoice and document management
3. Finance
4. Cost structure
5. Vendor synergies
6. CRM opportunities

Adoption timeframe of technologies to manage Procurement-to-Pay processes, current vs. future



Source: EKN Order Management Survey, 2014

Best Practice Road Map Recommendations

- **Avoid Major Customizations as much as Possible:** Within the world of supply chain and procurement retailers should avoid heavy-duty technology customization to reduce enterprise complexity, costs and future scalability. Many retailers end up building expensive custom business-critical features within quality/compliance, order, logistics, finance, payments etc., only to find a few years later that they are marooned on an island where there are no industry best practices or focuses on integrated processes or systems.

- **Focus on Building a Single Platform Approach:** Re-platforming and re-thinking the unified P2P vision from a technology standpoint is critical. Companies should consider deploying a single platform that dynamically processes P2P, order to cash and record to report requirements covering purchase order, invoicing, documentation and payments-related collaboration. In order to manage cost, time to market, scalability and extensibility for internal stakeholders and supply chain partners, companies can also consider collaborative P2P and unified buying approaches within multi-tenant Software-as-a-Service (SaaS) or cloud.

- **Establish a Performance Management Layer & Review Metrics Regularly:** Even as retail supply chain network is becoming more expansive in terms of geographical spread and volume of transactions, evaluate performance-based short and medium-term procurement, invoicing, customs documentation and payment cost goals. Consider tracking and managing P2P upheaval through a core set of job-role based metrics for ensuring faster time to payment for suppliers, lower cost of purchase orders, fewer order, invoicing and payment errors.

- **Consider P2P as a Risk Mitigation Strategy:** For hedging risks associated with short-term inventory or merchandise order shifts and unforeseen Omni-market and Omni-channel trends (including wholesale), it is vital that retailers use P2P as a supply chain assurance tool. P2P is all about removal of operational and financial risks. Risk mitigation entails enabling order, payment and logistical ease using a consistent P2P execution framework that includes a standards-based unified buying process. Unified buying integrates purchase order visibility, invoicing, payments and logistics management for all internal (retail) and external (supply chain partners) stakeholders.

- **Centralize Order, Invoicing, Documents and Payment Data:** Centralized access to P2P data (all purchase order attributes including 2-way and 3-way invoicing capabilities, costs, margin, open POs, change orders, customization, e-invoicing, logistics documents history etc.) is required for greater collaboration and efficiency internally between procurement, finance merchandising and supply chain. Certain access points in the system should be open to supply chain trading partners including open purchase orders, invoice & PO matching, unpaid invoices, customs and logistics documentation and other payment fields.

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