The Impact of Trusted Supplier Data

Benchmarking against the Best: Letting Supplier Data Tell the Story of Unlocking Value in Procure-to-Pay

By: Pierre Mitchell, Chief Research Officer

As a newly-minted management consultant in the 1990's doing strategic sourcing work, I used to analyze supplier spending data to determine savings opportunities, and it quickly became apparent how bad supplier data was – and how many ways IBM could be spelled! Over 20 years later, the procurement tools have gotten much better, but unfortunately, the data hasn't. In fact, last year's 2019 Chief Procurement Officer Study conducted by Deloitte and Spend Matters revealed that the top three problems cited by 450 CPOs related to digital complexity were:

- *Poor master data quality, standardization, and governance* **(60%)**
- *Inability to generate analytics and insights across the systems* **(33%)**
- *Too many fragmented internal applications* **(33%)**

If "data is the new oil", then it's certainly time to clean the oil, especially across all the source systems.
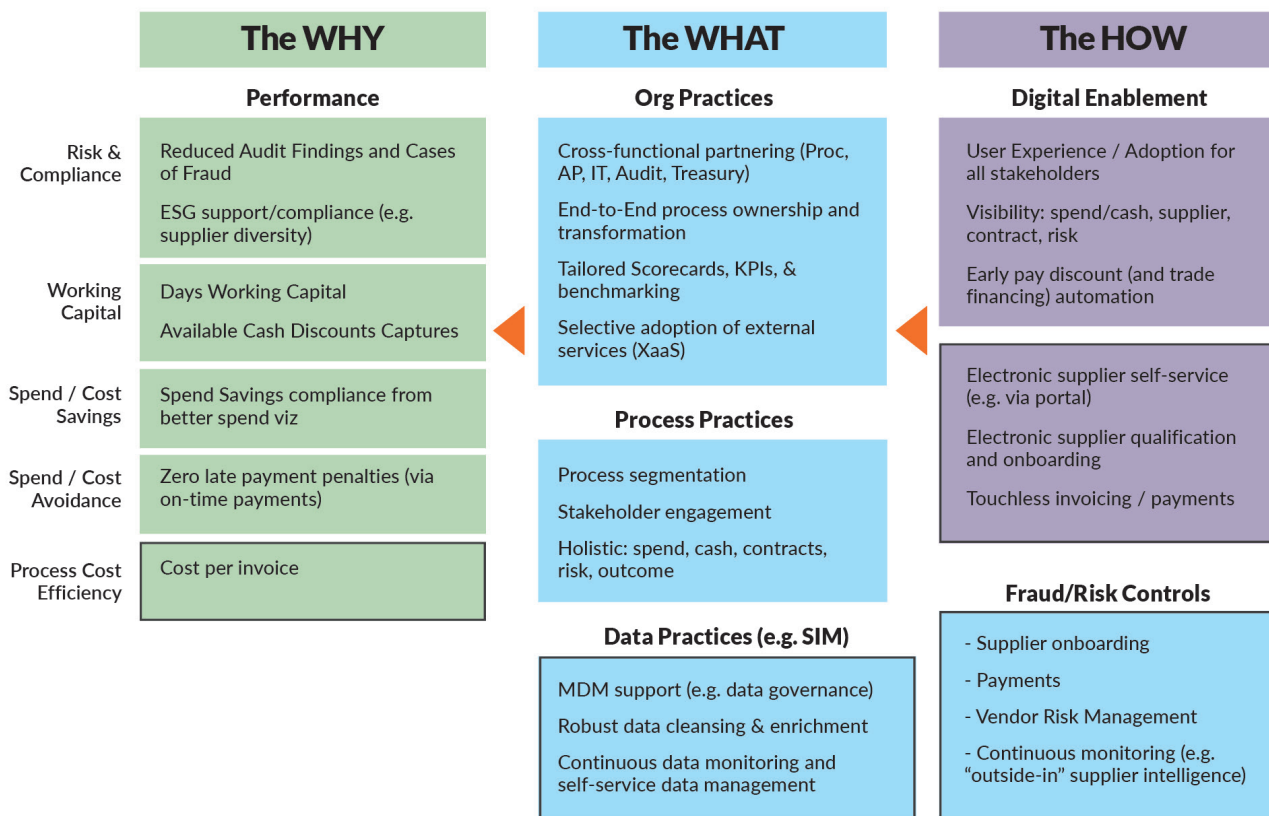
But it's not an easy problem. For the last 15 years, I've spent a lot of time benchmarking and researching various practices and technologies that impact supply-side processes such as Procure-to-Pay (P2P), and there are many root causes to this data problem. And it's a vicious cycle: bad data poisons your processes and bad processes poison your data.

Business and IT professionals alike understand this problem, but it's often difficult to quantify the improvements of fixing it. Survey-based benchmarks can help "size the prize", and the right technology tools (and implementation projects) themselves can somewhat "tell the story" of value creation, but these two things rarely come from the same source. So, I was excited when I learned the details about the apexanalytix annual benchmarking survey AND the extractable performance data from the firm's supplier master data solution that uses supplier intelligence from over 650 external data sources to bake in deep controls and best practices into its workflows. I proposed some analysis to see whether the technology in action could back up the practices and performance in the benchmarks – and find out whether managing and creating high-quality supplier data really does impact downstream P2P processes and KPIs.

In other words, could the vicious cycle be flipped on its head to a virtuous cycle where "golden" (high quality) data can lead to golden processes that create more value (pot of gold?). Here's what I found…

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Analysis Framework: Performance ("WHY"), Practices ("WHAT"), and Digital Enablement ("HOW")

The most important question to any proposed improvement project is "Why"? What is the demonstrable business value of improving current performance levels via improved organizational/process practices (which is **"The What"**) and digital enablement (i.e., **"The How"**). After reviewing the apexanalytix benchmarking study and master data solution capabilities, we first developed a specific framework shown below that outlines the key P2P performance indicators to improve (**"The Why"**), the key practices and controls needed to improve those KPIs, and then the digital enablers that 'connect the dots' between the practices and performance (we won't draw all the connectors though since it'd be a spaghetti bowl!).

The WHY	The WHAT	The HOW
Performance	**Org Practices**	**Digital Enablement**

The WHY — Performance

Risk & Compliance
- Reduced Audit Findings and Cases of Fraud
- ESG support/compliance (e.g. supplier diversity)

Working Capital
- Days Working Capital
- Available Cash Discounts Captures

Spend / Cost Savings
- Spend Savings compliance from better spend viz

Spend / Cost Avoidance
- Zero late payment penalties (via on-time payments)

Process Cost Efficiency
- Cost per invoice

The WHAT — Org Practices
- Cross-functional partnering (Proc, AP, IT, Audit, Treasury)
- End-to-End process ownership and transformation
- Tailored Scorecards, KPIs, & benchmarking
- Selective adoption of external services (XaaS)

Process Practices
- Process segmentation
- Stakeholder engagement
- Holistic: spend, cash, contracts, risk, outcome

Data Practices (e.g. SIM)
- MDM support (e.g. data governance)
- Robust data cleansing & enrichment
- Continuous data monitoring and self-service data management

The HOW — Digital Enablement
- User Experience / Adoption for all stakeholders
- Visibility: spend/cash, supplier, contract, risk
- Early pay discount (and trade financing) automation

- Electronic supplier self-service (e.g. via portal)
- Electronic supplier qualification and onboarding
- Touchless invoicing / payments

Fraud/Risk Controls
- Supplier onboarding
- Payments
- Vendor Risk Management
- Continuous monitoring (e.g. "outside-in" supplier intelligence)

P2P Value Creation Framework - Digital Enablement of Best Practices and Controls

The performance outcomes shown in green are really part of a P2P "balanced scorecard" that span from tactical to strategic (and include both risk and reward elements). The most tactical KPI is the process efficiency metric of cost per invoice (CPI), but it's easily measurable and can be used to free up staff and/or budget to focus on the more strategic outcomes. **When analyzing the various digital capabilities that influenced CPI, the clearest linkage found in the latest benchmark data set turned out to be touchless invoicing.**

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Touchless Invoice Processing Clearly Reduces Cost per Invoice

Cost Per Invoice by Touchless Invoice %

$y = 6.1673e^{-0.52x}$
$R^2 = 0.5468$
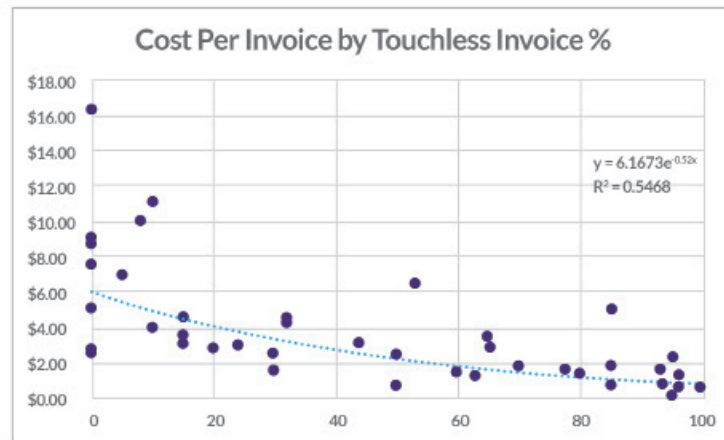
"Touchless" processing isn't so easy to achieve though and has a few implications:

* *You need the invoice data to be accurate – and the data pulled from the vendor master must be accurate – which in turn requires supplier self-service and pre-validation before the invoice gets matched to the PO/receipt*
* *There must be controls in place so that you don't have "touch-free fraud"! And controls have a cost, so you need to reduce the cost of controls or else you'll be forced to choose between poor controls or higher process costs. And, similar to the previous point, you need to control the data in the vendor master (e.g., banking details)*

It can also be challenging to include a hard dollar fraud prevention metric in your business case, but your internal/external auditors will have a strong voice in helping to justify risk reduction efforts, especially with an increased prevalence of "vishing" (voice-based phishing fraud). Therefore, intelligent automated controls (with increasingly sophisticated rule-based and AI-based fraud detection algorithms) are key to ensuring reliable, repeatable, transparent, and always-on controls. As an example of the most cited controls, the benchmark study found the following:

Top 5 most cited controls in place within AP operations:
1. Invoice coding standard: **81%**
2. Track blocked/on-hold invoices: **75%**
3. Positive pay for all disbursing bank accounts: **71%**
4. Daily duplicate payments audits: **70%**
5. Daily invoice audits: **65%**

These controls are "necessary, but not sufficient" to completely eliminate fraud, especially given the sophistication of bad actors that threaten the process. And this threat is real and potentially very expensive. Fraud prevention is the most tangible monetary aspect of poor risk management within a P2P context, but risk management also intersects with P2P in terms of supplier financial risk management (e.g., vendor credit checking) and brand protection via robust vendor due diligence during vendor master data setup. Yet, brand protection and regulatory compliance can also evolve to brand enhancement in the case of supplier diversity where diverse spend can sometimes be uncovered just by virtue of properly enriched supplier master data!

Deeper supplier intelligence can also help improve working capital related performance by making better early payment discount offers (off of your balance sheet or via a third-party financing firm). Also, supplier data that is synchronized with contract data allows better tuning of such discounting efforts relative to payment terms and of course helps reduce late payments and any supplier late payment penalties.

Transitioning from Process Efficiency and Risk to a Larger Prize: Cash and Cost (Spend-Related)

On-time payments is a great initial 'stepping stone' metric to help track your progress to fast and accurate e-invoicing (efficiency), but you need to get fast enough to hit early pay discount opportunities to unlock more savings and/or potentially improve working capital (via 3rd party supply chain financing) performance. The previously mentioned hard-dollar ROI aspects to supplier master data improvement are great, but the biggest opportunity is to "follow the money" and address supplier spending. Process savings are fine, but since supplier spend is roughly 100X the magnitude of P2P process costs, it's critical to improve supplier data to support:
- *Spend analysis and sourcing to de-duplicate vendor records and aggregate spend data to the corporate level*
- *Savings leakage to reduce internal contract non-compliance*
- *Supplier management to improve supplier compliance against mission critical KPIs*

Yet, most managers are simply fed up with the poor quality of supplier master data that pollutes the operational process (creating errors) and obfuscates opportunities that analytics should reveal. In fact, the 2019 Deloitte CPO Study highlighted that "quality of data" was by far the largest cited barrier (57% of CPOs citing) to the "effective application of digital technology in procurement". The apexanalytix benchmark study actually sheds more light on the root causes of this distrust as it relates to the vendor master as shown below:

Top 5 answers to "What are the main hurdles to trusting your vendor master?":
1. Manual Process: Updating the data is a manual process so it only gets added at onboarding
2. Degradation: Vendor data captured at onboarding degrades over time. Especially contact data
3. No Built-in ERP Validations: Critical data like Tax IDs may be in the right format, but not accurate
4. Multiple ERPs: With multiple ERPs, it is unclear which record is the correct record
5. Duplicate Vendors: Multiple ERPs or duplicate vendors in the same ERP creates confusion on which data is valid

One final point about supplier data within the context of more strategic processes like sourcing and supplier/vendor/third-party management is that "Supplier Information Management" (SIM) is more than just vendor master data setup/maintenance done by AP. It starts further upstream in the Source-to-Pay (S2P) process related to sourcing and supplier registration. This is where supplier information quality starts at the source – with engagement with suppliers through some type of supplier portal – whether set up internally, externally (like apexanalytix's apexportal), or both.

Interestingly, an analysis of the apexanalytix benchmark database found that automated supplier registration was the digital capability most correlated with "top performer" AP performance (i.e., top quartile performance based on CPI). Organizations with formal supplier registration were **104% more likely** to be in the Top Performer Category (with over 90% of these firms having this capability). They were also **40.2% more likely** to be in the top quartile of companies processing invoices on a "touchless" basis (no human intervention or error correction).

Surveyors with Supplier Registration

104% more likely to be in the Top Performer Category (90%+) for on-time payments

14.4% lower CPI compared to top quartile surveyors without supplier registration

Surveyors with Supplier Inquiry

162.5% more likely to be in the Top Performer Category (90%+) for on-time Payments

33.7% lower CPI compared to top quartile surveyors without supplier inquiry

Another interesting finding was that the most correlated practice with a composite P2P performance metric across all the KPIs was automated supplier inquiry (i.e., supplier self-service on a vendor portal). This really drives home the point that supplier self-service and data maintenance is needed on a continual basis to keep the supplier information accurate and "golden".

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As a side note, remember that a vendor self-service supplier portal is by nature different than a transactional portal used for one-off invoice entry (e.g., a "PO Flip"). These are fine for small low-volume suppliers, but highly repetitive transactions like supply chain transactions at manufacturers still require practices such as evaluated receipts settlement (ERS) or EDI (whether via traditional EDI gateways or via newer API driven cloud integration) – and the data from the benchmark database proves it out:

Cost Per Invoice
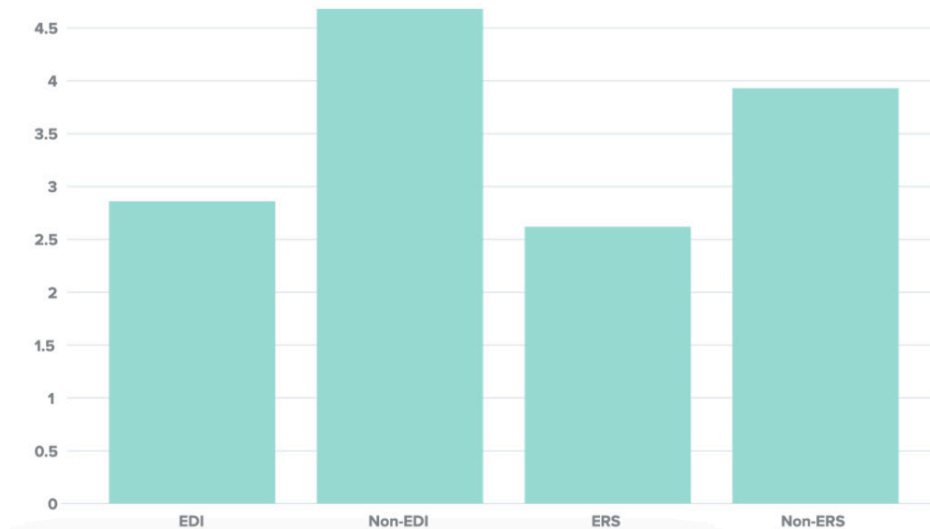
Also, it's important to know that AP-centric vendor master data maintenance and broader SIM isn't just pushing self-service functionality to suppliers. SIM best practice means the organizational data governance and rigor of data control at a field-level based on field, process action, and user role/group. For example, TIN matching and banking information checking are critical upstream registration processes that need to prevent duplicate vendor entries and also help eliminate fraud. In fact, these two critical fields most strongly correlate with the performance metrics cited in Figure 1, and likely indicates that automated data controls and governance are key to reducing data-related process errors – and not just data-related spend/fraud risk.

This information governance is also critical to resolving the "who owns the supplier master data" debate, because the ownership is pushed down and distributed at field level regardless of top-level process accountability/ownership.

Learning from Leaders - Diving into Proof Point Projects

OK, so what does this all look like in real life with real (problematic) data from real (complex) companies?

Well, apexanalytix is a fascinating company because its master data solutions contains embedded best practices and controls that's in use at roughly 50 major corporations (with an average invoice spend of $5B). What seems to happen is that the most advanced firms who've been using it for the longest time are highly outperforming those who are just getting started. And the differences are stark. For example, consider the previously discussed topic of field-level supplier master self-service. Well, to that point, all fields are clearly not alike! While a remit-to address might not change very often, supplier contact details in the form of phone (and especially e-mail contact details) quite often do.

Analyzing apexanalytix's data showed that the companies with up-to-date phone and email contact info have a massive advantage in terms of supplier response rate. The chart below compares the master data sets of "best-in-class" companies (that have top quartile level of early payment discount performance) versus an average company that hasn't yet achieved this level of performance. These top performers are highly reliant on rapid supplier response rates and therefore they take great care to keep phone and email contact details accurate!
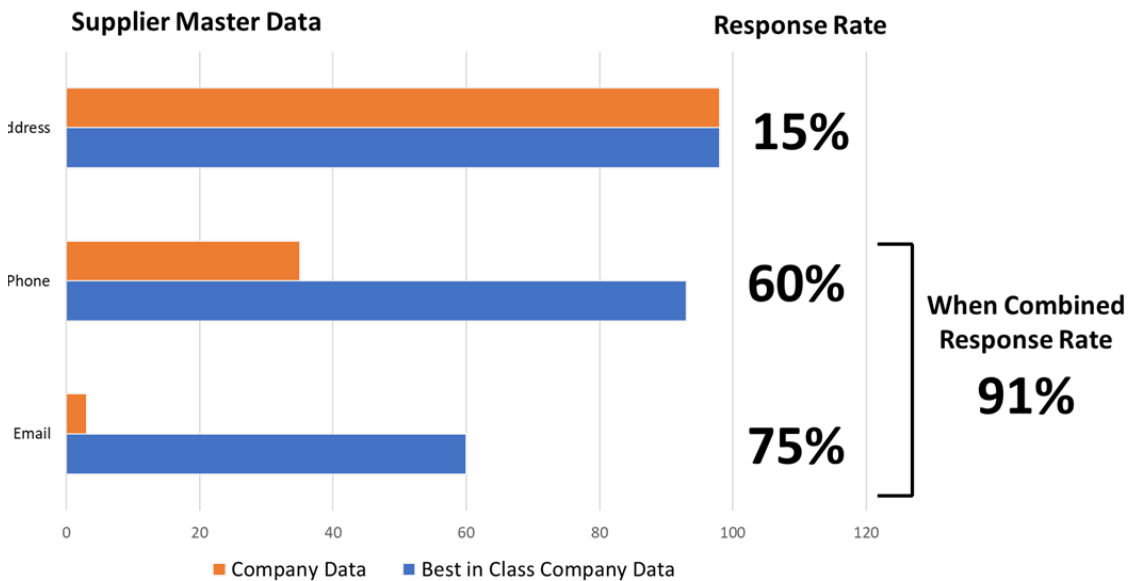
This data update frequency issue creates real problems when process connectivity happens via e-mail and is multiplied by the number of vendor master records (which can be a huge number) for each buyer. And this of course magnifies the problem for suppliers who need to go update all the vendor portals of their various customers. This is why the market is turning to third party supplier networks to support this on a 1-to-many basis – especially when you want to monitor not just contacts, but also broader supplier intelligence and risk monitoring. Buyers need help with CRM-like mass engagement tools that can collaborate with mass supplier segments at scale for various purposes: contract term changes, policy updates (e.g., new supplier code of conduct requirements), new third-party risk management requirement, dynamic discounting offers, M&A activity, new buyer contact details, and other various communications.

Not every organization needs all this support, but the most progressive ones are adopting this more scalable approach to managing supplier information, and it does seem to be paying off. We've not yet been able to interview the stakeholders in these case studies cited below, but the results are still impressive:

Example Organizations	Illustrative Benefits to Date
A leading integrated healthcare system of 30,000 employees and 4,000 practicing physicians	• Reduced FTE after go-live then **doubled the amount of hospitals** through acquisition without increasing FTEs • AP is now a Profit Center • **53% increase** in early payment discounts captured annually • **79% increase** in annual credit card rebates
A global leader in financial services has 250,000-plus employees in nearly 60 countries	• Same-day supplier on-boarding • Reduced vendor maintenance team **from 12 FTEs down to 2 part-time approvers**
A leader in family entertainment that operates multiple business units around the globe—from media networks and theme parks to consumer products	• AP has been a profit center for 3 years • **50% reduction** in supplier onboarding time • **40% reduction** in supplier help desk inquiries
A US health insurance provider with 4,500 employees who serve over 3 million policyholders	• **7 times** faster supplier onboarding time • **Identified $2M** in diversity spend • **1.5 FTE reduction**

Wrap Up

In the opening of Robert Frost's poem "Nothing Gold can Stay", Frost writes that "Nature's first green is gold" and that gold is "Her hardest hue to hold". This applies to a "golden supplier record" as well. Not only must the data start golden, but it must stay golden through rigorous application of digitally enabled best practices. By focusing on the "I" in IT rather than just the "T" (i.e., just the various back office applications), the data shows that high quality data will lead to high quality/performing processes – and vice versa.

The best firms link these new data-centric capabilities to business outcomes (reward AND risk) in order to justify investments and self-fund their way to increasingly sophisticated levels of capabilities. So, golden data will help lead to golden processes (and vice versa). This is how leaders are doing it – and the data backs it up.

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"Where apexanalytix's supplier management capabilities are a perfect match is for customers who are primarily interested in data integrity, financial security, controls and fraud prevention. These types of organizations will find it a great fit even in cases where they have other source-to-pay (and even supplier management) platforms already. And if they do not, we could not think of a better place to start on the supplier management and compliance journey than capturing, validating and maintaining accurate supplier information."

- Spend Matters apexanalytix: Vendor Snapshot by Michael Lamoureux, Consulting Lead Analyst, and Jason Busch, Founder of Spend Matters

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apexanalytix revolutionized recovery audit with advanced analytics and the introduction of firststrike overpayment prevention software. Today, apexanalytix is a leader in supplier management innovation with apexportal and smartvm, a popular supplier onboarding and compliant master data management solution available. With over 250 clients in the Fortune 500 and Global 2000, apexanalytix is dedicated to providing companies and their suppliers the ultimate supplier management experience.

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