

Professional Landlord

Procure to Pay Project

Reducing Costs by Focussing on Procurement

Background

The Procure to Pay Project was part of a wider program undertaken by Bourton Group reviewing several aspects of the business. The intention was to end with a set of recommendations for our client to implement.

Very successfully focussed on increasing sales and rental income as a means of growing their business, they had never previously carried out improvement work on their procurement, either in terms of the process or the overall cost.

The company had no Procurement Manager or team, and there was no alignment of purchasing processes between different areas of the business.

The end to end process – from making a decision to purchase something to paying for it - only became standardised once the invoice was received by the Purchase Ledger team.



Our Approach

The project fitted neatly into the DMAIC approach, with Bourton's involvement from Define until part way through Improve. The first step, in Define, was to put some boundaries around what the aims of the project were, and a Quad of Aims was used for this.

With no Procurement function in the business to state what the issues were, a workshop was held with people from different areas, and a combination of items they identified as issues with procurement went into the definition of what should be solved.

In the Measure phase, three main sources of data were gathered:

1. Process maps were created for the key areas of approval and invoice processing so that the process steps were fully documented
2. Process observations and interviews were carried out, both to validate and time the steps in the process maps, and to understand the non-standard purchasing methods in each business area
3. Data on defects (specifically incoming invoices which had to be returned to suppliers) was gathered by the Purchase Ledger Team.



In the Analyse phase, data gathered during Measure was applied to a full set of the previous financial year's purchase ledger, over 430,000 lines of data. This volume information built up a picture of what could be gained by reducing defects and other forms of waste observed in the process. Separately, the Purchase Ledger was also interrogated with regard to the potential to reduce spend, and improvement suggestions were validated with other similar organisations who had a more advanced approach to purchasing.

Process Improvements

Multiple actions were identified which would enable the organisation to improve efficiency and significantly reduce costs, but broadly they all supported two overall improvement recommendations. Firstly, they needed to start raising orders in advance to cover all purchases, and secondly they had to invest in Procurement capacity – hire somebody who had a background in reducing procurement spend through consolidation of goods and suppliers who could take a more strategic approach to procurement focussed on the business' overall needs.

Neither of these changes are a radical departure from what might be expected of the procurement process in a company the size of our client, but in a business where back office functions had not previously been an area of focus, they represented a new way of thinking.

While budgets were managed in some areas of the business, the overall cost of the Purchase Ledger had never been significantly challenged.

Value Delivered

The benefits of implementing the recommendations from the project split into three categories

1. **£5.1m reduced costs per year** to be achieved through supplier and product consolidation and taking a more strategic approach to procurement
2. **£65k reduced costs** through headcount reduction as a result of process efficiencies, specifically
 - 14,000 fewer invoices received annually (35% reduction)
 - 68% reduction in approval transactions
3. **Reduced financial, HSE & other regulatory risk**, achieved through reducing variability caused by mistakes, deliberate circumvention of procurement processes, a lack of resources and system failure.

If you would like to find out more about our work with this organisation, or how Bourton Group can help make your business better. Please give us a call 01926 633333.