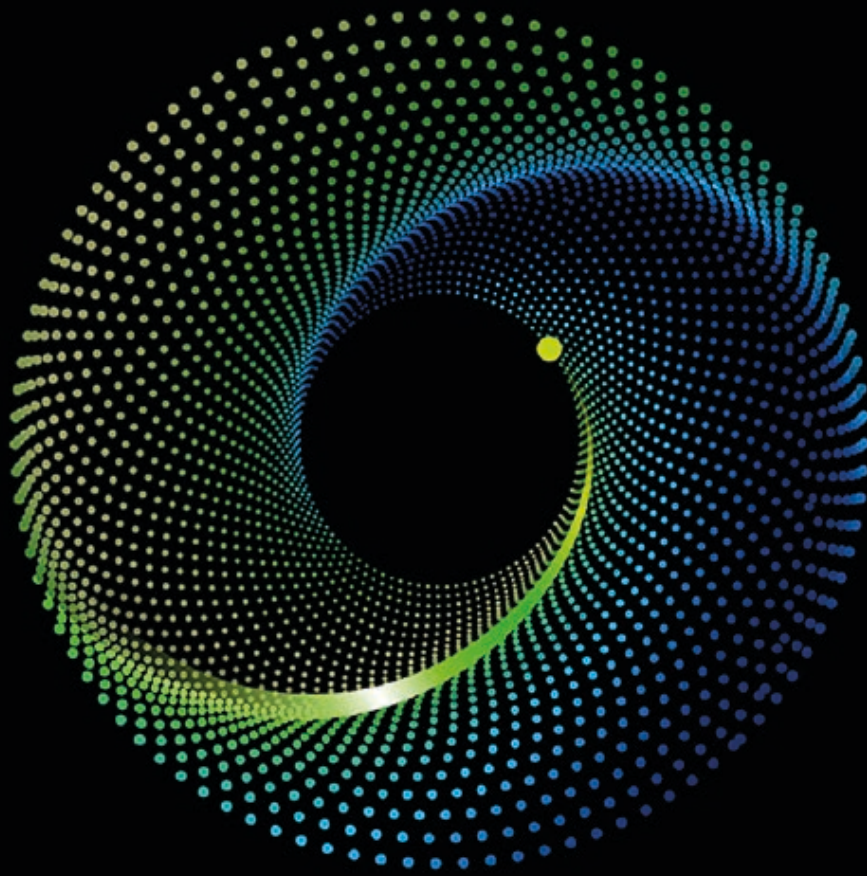


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Benefits of Integrating Procurement and Finance Operations





The Integration Challenge

The integration of procurement and finance operations refers to the alignment and coordination of activities between the procurement department and the finance department within an organization. Although integration typically leads to improved overall operational efficiency, cost management, and financial control throughout the procurement process, in our experience, tight integration between procurement and finance operations is the exception rather than the norm. Key reasons include:



Organizational Size and Complexity

Larger organizations with diverse operations and multiple business units may find it more challenging to integrate procurement and finance operations. The complexity of managing these functions across different regions, business lines, and subsidiaries can make integration impractical or less efficient.



Organizational Structure / Functional Ownership

Organizations may have separate departments or teams responsible for procurement and finance, with have distinct reporting structures, goals, and processes. Integration would require significant restructuring, which could be challenging and disruptive.



Functional Expertise

Procurement and finance operations require different skill sets and expertise. Procurement teams typically focus on sourcing, and category, vendor, and contract management, while finance teams deal with financial analysis, budgeting, and reporting. Separating these functions allows each team to specialize and develop specialized knowledge.



Segregation of Duties

Separating procurement and finance operations can help maintain a system of checks and balances within an organization, helping to prevent conflicts of interest, reduce the risk of fraud, and ensure proper controls are in place.





Non-Integration Impacts

Not integrating procurement and finance operations can lead to several challenges and inefficiencies within an organization, including:

 <p>Lack of Visibility and Communication</p> <p>When procurement and finance operations are not integrated, there is often a lack of visibility and communication between the two functions. This can result in a disconnect between procurement activities and financial planning, leading to difficulties in tracking expenditures, forecasting budgets, and identifying cost-saving opportunities.</p>	 <p>Duplication of Effort</p> <p>Procurement and finance teams may duplicate their efforts in areas such as vendor management, contract negotiation, and invoice processing, leading to inefficiencies, a sub-optimal operating model and increased costs.</p>	 <p>Inaccurate Financial Reporting</p> <p>Integrating procurement and finance operations ensures that financial reporting is accurate and reflects the organization's true financial position. Without integration, it becomes challenging to reconcile procurement data with financial records, potentially leading to errors, discrepancies, and inaccurate reporting.</p>	 <p>Limited Cost Control</p> <p>Integration allows for better cost control by enabling closer monitoring of procurement activities and expenses. When procurement and finance operations are not aligned, it becomes difficult to identify and address cost overruns, contract non-compliance, or unauthorized spending, potentially leading to financial losses.</p>
 <p>Missed Savings Opportunities</p> <p>Integration facilitates strategic sourcing and procurement processes, which can help identify cost-saving opportunities such as bulk purchasing, supplier consolidation, or negotiating better terms. Without integration, the organization may miss out on these savings opportunities and fail to optimize its procurement activities.</p>	 <p>Compliance and Risk Management</p> <p>Integrating procurement and finance operations ensures better compliance with regulatory requirements and internal controls. Without integration, there may be a lack of coordination in managing risks related to vendor selection, contract terms, payment processing, and financial fraud detection.</p>	 <p>Inefficient Cash Flow Management</p> <p>When procurement and finance operations are not integrated, it becomes challenging to align cash flow management with procurement cycles. This can result in cash flow shortages, delayed payments, or missed early payment discounts, impacting the organization's financial health and relationships with suppliers.</p>	 <p>Sub-optimal Strategic Decision-Making</p> <p>Lack of integration can hinder strategic decision-making as procurement insights and market intelligence may not be effectively incorporated into financial planning and forecasting. This can limit the organization's ability to make informed decisions and adapt to changing market conditions.</p>





Integration Benefits

Based on our experience and benchmarks, taking a more integrated and end-to-end process driven approach to procurement and finance operations can result in a 20-40% uplift in realized savings, a 10-30% improvement in operational efficiency / cost, and a better end-user experience, via:

Improved realization of contracted savings

Integration provides more visibility between identified and realized savings, identifying opportunities to address non-compliance to preferred vendors, contracts and buying channels.

Improved Cash Flow

Tighter integration between procurement and finance functions enables better management of working capital and cash flow. Finance can align payment terms with procurement activities, ensuring optimal utilization of cash resources. Efficient procurement processes can also minimize the time between goods receipt and invoice payment, reducing the cash conversion cycle and freeing up cash for other business needs. Streamlined Processes: Integrating procurement and finance operations promotes streamlined processes and eliminates inefficiencies, providing an opportunity for headcount reduction. This can be further amplified by automating processes and workflows to reduce manual tasks and duplicate data entry.

Accurate Financial Reporting

Integration enables better alignment of procurement data with financial reporting processes. Accurate and timely capture of procurement-related information, such as purchase orders, invoices, and payment details, enhances financial reporting accuracy and transparency. This helps organizations make informed decisions, facilitates budgeting and forecasting, and supports compliance with accounting standards.

Improved Sourcing Savings

By integrating procurement and finance operations, organizations can achieve better cost control and savings. Finance can work closely with procurement to negotiate favorable contracts, identify cost-effective suppliers, and optimize purchasing processes. This collaboration enables the identification of cost-saving opportunities, such as bulk purchasing, volume discounts, and better pricing terms

Improved Vendor Management

Collaboration between procurement and finance facilitates the development and maintenance of strong supplier relationships. By aligning objectives and strategies, organizations can negotiate better contracts, improve supplier performance, and foster long-term partnerships. Finance can provide procurement with insights on supplier payment history and creditworthiness, enabling informed decisions and ensuring timely payments.

Strategic Decision-making

Integrated procurement and finance operations provide a holistic view of spend data, supplier performance, and financial metrics. This data-driven approach empowers organizations to make informed strategic decisions, such as identifying cost-saving opportunities, optimizing sourcing strategies, and driving supplier consolidation. By leveraging comprehensive insights, organizations can enhance profitability, optimize working capital, and gain a competitive advantage.





Strategies to Integrate Procurement and Finance Operations

Based on our experience and benchmarks, taking a more integrated and end-to-end process driven approach to procurement and finance operations can result in a 20-40% uplift in realized savings, a 10-30% improvement in operational efficiency / cost, and a better end-user experience, via:

Centralize and standardize processes

Establish centralized procurement and finance functions to ensure consistent practices across the organization. Implement standardized workflows, policies, and procedures to eliminate redundancies and streamline operations.

Automation and digitization

Leverage technology solutions such as Deloitte's AIOps.D platform to automate manual tasks. This includes automating purchase orders, invoice processing, payment approvals, and reporting. Automation reduces errors, speeds up processes, and frees up staff for more strategic activities.

Vendor management

Develop strong relationships with vendors and negotiate favorable contracts. Implement vendor performance evaluation mechanisms to ensure timely delivery, quality products/services, and competitive pricing. Consolidate suppliers and rationalize the vendor base to benefit from economies of scale and reduce administrative overhead.

Spend analysis and cost optimization

Regularly analyze spend patterns, identify cost-saving opportunities, and negotiate better terms with suppliers. Implement strategic sourcing practices to optimize costs while maintaining quality standards. Leverage data analytics tools to identify areas of excessive spending and implement appropriate cost control measures.

Budgeting and forecasting

Implement robust budgeting and forecasting processes to align financial resources with organizational goals. Use historical data, market trends, and performance indicators to create accurate financial forecasts. Regularly monitor and review actual performance against forecasts to identify areas for improvement.

Cross-functional collaboration

Foster collaboration between procurement, finance, and other departments involved in the procure-to-pay process. Encourage open communication and knowledge sharing to ensure alignment and reduce bottlenecks. Cross-functional teams can identify process inefficiencies and implement solutions collaboratively.

Compliance and risk management

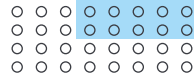
Ensure compliance with legal and regulatory requirements in procurement and finance operations. Establish effective controls to mitigate risks related to fraud, data breaches, and non-compliance. Regularly review and update policies and procedures to adapt to changing regulations.

Training and development

Invest in training programs to enhance the skills and knowledge of procurement and finance staff. Provide opportunities for professional development to keep them updated with the latest industry trends, technology advancements, and best practices. Skilled and knowledgeable employees contribute to more efficient operations.

Performance measurement and benchmarking

Establish performance metrics and key performance indicators (KPIs) to measure the effectiveness and efficiency of procurement and finance operations. Benchmark performance against industry standards and peers to identify areas for improvement and set realistic goals.



By implementing these strategies, organizations can enhance procurement and finance operations efficiencies, reduce costs, improve decision-making, and achieve greater overall organizational effectiveness.

In summary, integrating procurement and finance operations is crucial for achieving operational efficiency, cost control, accurate financial reporting, and strategic decision-making. It enhances collaboration, streamlines processes, and helps organizations optimize their procurement activities while effectively managing financial resources.

Deloitte offers a variety of support services to our clients that range from Application Management Services to IT Support to Finance and Procurement Operations Services. Deloitte's Business Operations Support services, provides deep end to end Finance and Procurement process expertise leveraging our 175+ years serving client globally. This expertise includes source to pay, record to report, order to cash, tax, treasury, internal audit and controls.

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