The power of vendor portals in advancing the CPO agenda

Vendor portals provide a great tool to automate the exchange of procurement, risk and ESG vendor information.

Building a better working world

Executive summary:

- The supply chain has been inundated with risk due to heightened activity and demand, affecting all parts of the lifecycle, especially when onboarding vendors.
- Such sources of risk include process, financial and reputational risks — mostly impacting companies' operations through impact to their margins and bottom line.
- However, technology, especially vendor portals, harnesses early stage advantages to realize synergies, unlock savings and drive long-term value.

Vendor relationships are an increasingly complex matter

Globally, chief procurement officers (CPOs) are facing new challenges and opportunities working with vendors. Managing risk associated with doing business with third parties and environmental, social and governance (ESG) considerations are key areas encountering significant change. As the sophistication with which companies rely on their vendors and the associated controls are expanded, many interactions with vendors have been impacted. Onboarding, continuous monitoring and eventual offboarding now need to evolve with the changing needs across risk, contracting, procurement and accounts payable (AP). Demand for visibility into real-time vendor spend and information across vendor-related processes increases the complexity of managing vendor relationships. This results in three channels of inefficiencies for companies: fraud risks and controls (from both internal and external sources), vendor management (often siloed processes), and underdeveloped optimization of the accounting and spend information with suboptimal integrations to the finance and accounting processes. Optimization of these functions can bring significant risk reductions, along with visibility of spend, enabling more effective management of vendor relationships.

The current state — what are we seeing around risk and controls in vendor management?

Risks and controls

Our experience with companies shows workflows accrue various risks, often due to the medium with which data is collected. Outdated processes are targeted by fraudsters and often corporate functions are not current with changes in the industry risk landscape. Additionally, over-reliance on staff involved in vendor ordering and payment processes with single point of failures are unacceptable in today's environment. Furthermore, fraudsters target vendor payment processes to redirect payments to their accounts through inadequately controlled changes to companies' vendor master files.

Vendor onboarding

Various process bottlenecks result in onboarding taking up to six months at some companies.[1] The EY team of procurement transformation professionals found that onboarding vendors is often manual and reactive, with procurement teams employing phone calls, emails and even regular mail methods for collection of vendor data. This introduces delays to the process. Likewise, we often see onboarding activities commence when an invoice is received — after the vendor has been engaged and goods and services have been delivered. This pressure to pay vendors quickly increases the likelihood of "cutting corners" in the onboarding process. As a result, the accelerated payment pressure harbors risk due to the absence of risk evaluations, up-front spend approvals and predetermined budget checks on expense.

Working capital optimization

A recent EY analysis found that if retailers aligned operations with their top industry peer, $225b could be opened in cash flow.[2] We found many financial services organizations do not leverage their extra cash to generate additional savings by funding the supply chain. Particularly, companies that are able to easily obtain cash can reap the benefits of early payment discounts, where a 2% rate is increasingly becoming the industry standard. However, not all vendors avail themselves of early payment discounts. Alternatively, we see leading firms achieving $2 million in discounts per billion dollars of spend. Siloed operations, however, result in differing priorities, targets and key performance indicators, which stymies working capital optimization. More efficient processes are possible by developing sourcing departments that work closely with purchasing and payables.

The target state — visibility of the process and automation of controls brings significant benefits

Strategic sourcing takes **risk and controls** management to the next level

As sourcing functions develop into category management functions, a preferred network of vendors is established. While preferred vendors for certain commodities (i.e., technology, professional services, market data and office supplies) are now standard, directing employees to where and what to buy can be challenging. One solution is having a portal that directs employees through an "online shopping-like" buying experience. Vendor portals direct employees to preferred products, vendors or resources to guide buying decisions.

Such guidance is key to realizing benefits of category management. Additionally, providing information to educate buyers on how to engage suppliers and answer questions throughout the relationship is key to organizational efficiency. Extending portals to vendors allows additional benefits, such as the ability to collaborate with vendors on RFx transactions, automate contract negotiation and conduct reverse auctions, thus speeding decisions and streamlining vendor conversations.

Mature **vendor management** leverages fully automated and enforced workflows

Companies are facing increasing regulatory pressure to obtain more information from vendors during onboarding. Coupled with issues around fraudsters' attempts to redirect payments into their bank accounts, vendor onboarding has become an increasingly "hot topic" among payables teams. In addition to the pressure for increased due diligence, federal authorities and states are emphasizing the importance of tax compliance along with withholding. Vendor portals resolve these issues because they gather and validate data direct from the vendor. Electronic data collection has been available through procurement platforms for several years; however, vendor portals present key innovations via real-time validation of information. Such validations bring much needed security to vendor change processes. Using these portals to gather vendor risk information, insurance credentials and other certificates further automates and centralizes vendor management.

Enterprise-wide transformation enables **working capital optimization**

Corporate investment in digital transformation continues to be on the rise since 2020, per the EY-Parthenon Digital Investment Index.[3] We find the transformational needs of many financial services companies revolve around migration and modernization of their general ledger accounting systems to elicit a full source-to-pay process. In addition to digitizing purchase order processes and introducing internal and external vendor portals, the opportunity to leverage early payment discounts continues to increase. Even without these discounts, extending terms can bring cash flow benefits to organizations. However, companies must consider regulations in certain counties that push for faster vendor payment rather than extending payment time frames. Another such optimization is through recovery audits. Namely, recovery audits that look for duplicate payments (often due to automatic, recurring payments) for goods or services not received or rendered. Due to reduced lift absorbed by automation (located in vendor portals), recovery audits are now becoming an industry standard. The key to a successful recovery audit implementation depends on integrating vendor functions (ideally under the same leadership) so that objectives for sourcing, procurement and payables are harmonized.

Conclusion and next steps

Various motivations support vendor portal implementations. These include risk and controls, vendor management, and the optimization of working capital. However, questions must be considered when customizing a portal to fit your organization's size, spending habits and existing maturity.

Such questions include:

- How do vendor portals provide end-to-end support from onboarding to offboarding?
- How do they improve interactions within vendors?
- How do modules that help with vendor discovery interface with external relationships?
- How much do they cost, and why should my company bear this cost?

Sources

[1]Internal EY Analysis

[2]Five retail performance improvement strategies to release working capital | EY - US

[3]Improve returns with your digital investment strategy | EY - Global

Authors

Steven Krueger
EY Americas Financial Services Organization
Integrated Finance Management
Go-to-Market Leader
Ernst & Young LLP
steve.krueger@ey.com

Andres Leguizamon
EY Americas Financial Services Supply Chain Lead
Ernst & Young LLP
andres.leguizamon@ey.com

Dru Melidossian
Senior Manager, Digital Supply Chain
Ernst & Young LLP
dru.melidossian@ey.com

Joey Kucirek
Senior, Technology Consulting
Ernst & Young LLP
joey.kucirek@ey.com

Neil Singh
Staff, Consulting
Ernst & Young LLP
neil.singh@ey.com

Contributor

Jonathan Ridgwell
Technology Consulting
Ernst & Young LLP
jonathan.ridgwell@ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

US SCORE no. 19772-231US
CSG no. 2303-4209066
ED None

ey.com