Business Processes: Procure to Pay

After completing this activity you will be able to:
- Better understand one of the core business processes, purchase to pay (P2P or PtoP).
- Practice creating swim lane diagrams.

Step 1: Individually

Read the following narrative: P2P is the core business process that is used by organizations to acquire the products and services they need to fulfill their mission. In this scenario you are the plant manager at FitterSnacker, a company that makes and sells snack bars. The plant manager is responsible for determining what they are going to make, when they are going to make it and acquiring the raw materials (oats, raisins, chocolate chips, etc.) that they need to make the snack bars. Once the plant manager determines what they need, they send a purchase requisition to the procurement department.

The procurement agent verifies that the plant manager is authorized to place the order. They then select the supplier and send a purchase order to the supplier.

The supplier receives the order and picks, packs and ships the order. After the order has been shipped they send an invoice to the customer.

The warehouse receives the order and posts a goods receipt to show this. The person in the warehouse notifies the plant manager that the items have been received.

The invoice is processed by the accounts payable team in accounting. They match up the invoice with the purchase order and the goods receipt. If we received what we ordered and are being charged what we were expecting to pay then we pay the invoice. If not, we must figure out where the problem is and resolve the problem.

Step 2: As a Group (2-3 in a group)

On a blank piece of paper create a swim lane diagram that documents the P2P process here at FitterSnacker and answer the following questions:

1. How many swim lanes do you have and what are the roles of the people in each lane?
   - 5 swim lanes, for roles see diagram attached

2. How many different functional areas are involved in this process?
   - 4 functional areas: Plant Manager, Warehouse, Procurement & Accounting

3. How much chaos can be involved when accounting must "figure out where the problem is and resolve the problem"?
   - Can be very chaotic depending on the validity of data retrieved from other areas.
Step 3: Discuss as a Class

Compare your diagram with the diagram displayed in class and answer the following questions:

1. How does your diagram compared to the diagram displayed in class?

2. What do you like better with your diagram?

3. What do you like better about the diagram displayed in class?

4. How has working through the swim lane diagram improved your understanding of the P2P process?

Step 4: Rate this activity (individually)

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Step 5: Submit completed activity sheet
Business Processes: Procure to Pay with ERP

After completing this activity you will be able to:
- Better understand P2P and how it is improved with ERP.
- Practice creating swim lane diagrams.

Step 1: Individually

Refresh your memory of the P2P process at FitterSnacker by reviewing the diagram displayed in the classroom and reviewing the following narrative: P2P is the core business process that is used by organizations to acquire the products and services they need to fulfill their mission. In this scenario you are the plant manager at FitterSnacker, a company that makes and sells snack bars. The plant manager is responsible for determining what they are going to make, when they are going to make it and acquiring the raw materials (oats, raisins, chocolate chips, etc.) that they need to make the snack bars. Once the plant manager determines what they need, they send a purchase requisition to the procurement department.

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The invoice is processed by the accounts payable team in accounting. They match up the invoice with the purchase order and the goods receipt. If we received what we ordered and are being charged what we were expecting to pay then we pay the invoice. If not, we must figure out where the problem is and resolve the problem.

Step 2: As a Group (2-3 in a group)

On a blank piece of paper create a swim lane diagram that documents the P2P process at FitterSnacker with the following assumptions:

1. FitterSnacker has just implemented an ERP which will dramatically improve the efficiency of the organization.
2. Based on historical sales and information entered into the system by the sales organization a forecast of what you plan to sell is automatically generated by the system.
3. The system also manages inventory (both raw materials and finished goods). Since the system knows what you have (inventory) and the since the forecast tells you what you need (demand)
the plant manager doesn’t need to figure out what you are going to make and when you are going to make it (a.k.a. the production plan). The system will create the production plan. With the production plan the system can automatically create purchase requisitions at the appropriate times to acquire the required raw materials and execute the production plan.

4. With the ERP, we maintain a list of preferred suppliers for all raw materials. We also keep track of things like lead time (how long it takes to get a raw material) and pricing information for each supplier. Based on lead times and pricing, the system can automatically choose the optimal supplier and can send an electronic purchase order (PO) to the supplier. The electronic PO includes a unique PO number that we will use later on.

5. The items are received at the warehouse. The PO number for the order is included with the shipping documents. The person at the warehouse pulls up the PO using the PO number and ensures that everything that was ordered was received and posts the goods receipt.

6. The supplier sends Fit&Snacker an electronic invoice. The invoice includes the PO number. The system can automatically perform the three-way match, matching up the original PO, the goods receipt, and the invoice and it everything matches can send the payment electronically to the supplier.

Answer the following questions:

1. How does the ERP system automate repetitive tasks and eliminate errors?
   
   Many activities no longer require human intervention (ex: three way match is automated). Also only one set of data is available throughout the process.

2. What parts of the P2P process are better performed by a machine than people?
   - Supplier selection
   - Inventory management
   - Production plan
   - Purchase requisition creation
   - Purchase order creation
   - Invoicing

Step 3: Discuss as a Class

Step 4: Rate this activity (individually)

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Step 5: Submit completed activity sheet
Organizational Systems: Filling in the Income Statement

After completing this activity you will be able to:

- Discuss how ERP systems dramatically improve the efficiency of the accounting organization.
- Discuss how ERP systems can improve the decision making of a company.

Step 1: Individually Complete

Read: You are an accountant with FitterSnacker. You are responsible for creating the income statement. The data that you need to create the income statement is spread out across a variety of systems. Here are the systems:

- Customer Service
- Sales
- Procurement
- Production
- Corporate Performance 
  & Governance
- Human Resources
- Accounting
- Distribution

Step 2: Discuss as a Group (3-4)

1. Which systems will you need to get data from to complete each line of the income statement? Feel free to ask questions about what each of the systems do.

   Gross Sales: Sales
   Cost of Goods Sold: Procurement, Production, Distribution
   Expenses: Accounting, all departments
   Personnel: Human Resources
   Occupancy: Corporate Performance 
             & Governance
   Operating Expenses: Accounting, most departments

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2. How often is the same piece of information captured in more than one place, and when it is, which place should you get this information from?

**Multiple occurrence**

3. What are the odds that information that is stored in multiple locations is always identical or can this information get out of sync? If it is not identical how can this impact your ability to make decisions?

**Can easily get out of synch can greatly impact decision making**

4. FitterSnacker receives a call from a prospective customer. This could be the first of many large orders from this customer! The customer is asking for a price of $1.00 per snack bar. It looks like your cost for making a snack bar is $0.90. However, due to the time and resources it takes to calculate the cost of making each snack bar it is only calculated once per quarter and this cost of $0.90 is two months old. You also know that the price of oats, a key raw material, has been going through the roof over the past few months so you’re really not sure how much each snack bar costs to make. You don’t want to turn away a prospective large customer but you don’t want to lose money on the deal. Do you take the order at $1.00 per snack bar or walk away?

5. How do things get more complicated if you are the parent company for a collection of companies and you need to put together the income statement for the parent company?

**Much more complex**

6. How can an ERP system with a single integrated database improve the efficiency of the accounting organization?

**Extremely!**

7. How can an ERP system with a single integrated database improve the decision making of the organization?

**Extremely!**

**Step 3: As a class**

Discuss the answers to these questions.

**Step 4: Rate this activity (individually) and submit completed activity sheet**

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