PROCESSES EVERYWHERE

LEARNING OUTCOMES

At the end of this lesson, the students should be able to:

- define the processes that can be found in every organization;
- discuss the procedure of those processes; and
- apply the concepts about processes in real-life scenarios.

INTRODUCTION

Business Process Management (BPM) is the art and science of overseeing how work is performed in an organization to ensure consistent outcomes and to take advantage of improvement opportunities.

In this context, the term "improvement" may take different meanings depending on the objectives of the organization. Typical examples of improvement objectives include reducing costs, reducing execution times, and reducing error rates, but also gaining competitive advantage through innovation. Improvement initiatives may be one-off or of a continuous nature; they may be incremental or radical.

Importantly, BPM is not about improving the way individual activities are performed. Rather, it is about managing entire chains of events, activities, and decisions that ultimately add value to the organization, and its customers. These chains of events, activities, and decisions are called processes.

ACTIVITY

Store Purchase

Create a flowchart describing the process of purchasing an item in a store. Explain every parts of the flowchart in detailed.

ANALYSIS

1. What is Process?

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2. Why is it important to know the correct procedure in a process?

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3. Describe a situation in which you need to follow a certain process.

1.1 Processes Everywhere

Each organization—be it a governmental agency, a non-profit organization, or an enterprise—has to manage a number of processes. Typical examples of processes that can be found in most organizations include:

- *Order-to-cash*
- *Quote-to-order*
- *Procedure-to-pay*
- *Issue-to-resolution*
- *Application-to-approval*

What are those processes listed above? Let's get down to them one by one.

1.1.1 Order-to-Cash

This is a type of process performed by a vendor, which starts when a customer submits an order to purchase a product or a service and ends when the product or service in question has been delivered to the customer and the customer has made the corresponding payment. An order-to-cash process encompasses activities related to purchase order verification, shipment (for physical products), delivery, invoicing, payment receipt, and acknowledgment.

Order-to-Cash Cycle: Step-by-step

Step 1: Credit Approval

The first step of the order-to-cash (O2C) cycle is credit approval. In B2B transactions, companies purchase goods and services on credit. *Credit approval* involves the supplier approving credit requests and credit limits for their customer.

To determine how much credit to grant a customer, a credit management professional will pull credit reports on the customer from the credit bureaus, consult the customer's bank and ask other businesses about their experiences with the customer (these are referred to as trade reports).

Step 2: Order Acceptance

Sales teams work with customers to place an order. Sales professionals inform the customer about what goods and services are available and negotiate with them on aspects of the order like price, quality thresholds, delivery dates and payment terms.

It is an important part of the *order acceptance* step to ensure that the terms of the order can be fulfilled by the supplier.

Step 3: Order Fulfillment

If fulfilling a good, *order fulfillment* involves locating the items, preparing them and shipping while ensuring that all delivery details are correct. When fulfilling a service, order fulfillment involves arranging the date and location of service and following through on all services promised in the order.

Step 4: Customer Invoicing

The delivery of a good or service requires accounts receivable professionals to now *invoice* the customer for the amount owed. This happens in a variety of ways, either via a paper bill sent through the mail, or increasingly, through ePresentment or electronic billing. Electronic invoices include older formats such as faxes and phone (interactive voice response). Newer, more efficient formats include emailed bills and bills presented via portals.

Quickly and accurately generating invoices and delivering them to customers is important and time-sensitive work. The faster the invoice presentment to a customer, the faster they can pay and realize cash for the business.

Step 5: Payment Process

Customers will try to pay their suppliers in the ways that are most convenient and beneficial to them. This may include paper checks, ACH payments, wire-transfers or virtual credit cards.

The supplier must decide which form of payments they are willing to accept and set up processes to maximize the efficiency of receiving payments through their chosen channels.

Step 6: Cash Application

Once payments have been received via the various payment channels, cash must be “applied” to accounts. In practice, this means recognizing that a certain amount of cash has been received and marking an invoice as *paid*.

This is more complex than it seems. Companies typically receive hundreds or thousands of payments each month. Cash application specialists must then “match” cash received with invoices. The use of remittance advice (often referred to simply as “remittance”) assists with this. Some forms of payment, like paper checks and credit card payments come with remittance advice attached.

A check may have in its “memo” section a note that states it is paying off invoice #1358. But some forms of remittance, such as ACH do not support remittance advice coming attached with the payment. There many ways to send remittance advice. For instance, in an email or phone call. This complicates the work of applying the cash and requiring advanced cash application solutions to ensure speed and accuracy.

Step 7: Collections

When payment is not received and applied by the agreed upon date, an account becomes delinquent and is transferred to collections.

It is the job of collectors to contact customers and try to get them to pay. There are many reasons that accounts become delinquent. A customer could just need a reminder to pay their open invoices, they may be strategically paying late in order to better manage their own cash flow, they may have a dispute about the good or service they received or they may simply be unable to pay.

A collector has the complicated job of connecting with customers, understanding their reasons for delinquency and trying to work with them in order to realize payment for the company.

Now that you have an understanding of the essential processes of the Order-to-Cash cycle, let’s look at ways you can optimize the order-to-cash (O2C) in your business.

1.1.2 Quote-to-Order

This type of process typically precedes an order-to-cash process. It starts from the point when a supplier receives a Request for Quote (RFQ) from a customer and ends when the customer in question places a purchase order based on the received quote. The order-to-cash process takes the relay from that point on. The combination of a quote-to-order and the corresponding order-to-cash process is called a quote-to-cash process

Order-to-Order Process

Quoting

Quoting was a single term, signifying the quoting process instead of the quote as an object, encompassing the development of a quote, as well as proposal, negotiation, and creation of the order. Today, Customer Relationship Management (CRM) and Configure-Price-Quote (CPQ) vendors can market Q2O as a feature, seeming to shave off most of the Q even though the end-to-end process is the same.

Proposal/Contract

Sales delivers a quote at the end of the Configure-Price-Quote (CPQ) process, having exploited upselling and cross-selling opportunities, requirements / specifications being added to the quote, the total package being priced accordingly and approved. This is the quote, not the proposal.

This stage is important because of the way in which the underlying quote is explained. B2Bs should implement master sales skills by providing detailed explanations for pricing, components, service packages, and other value-adds.

Negotiation

The second challenge of Q2O is to create a digital negotiation table. The value creator for the organization, the “table” starts with communicating the proposal to the prospect with the ability to negotiate, ask questions, or revise. In turn, the seller should be able to respond promptly to these actions, and possibly requote, if necessary.

Considering the incredible amount of value generated by this one step, it is disappointing to see Q2O mentioned as a mere feature, devoid of meaningful explanation and completely obscure regarding the constraints or enhancements it might bring to the Sales Rep. These changes in capability should be discussed openly and analyzed as differentiators or disappointments, using the business strategy as a guide to progress.

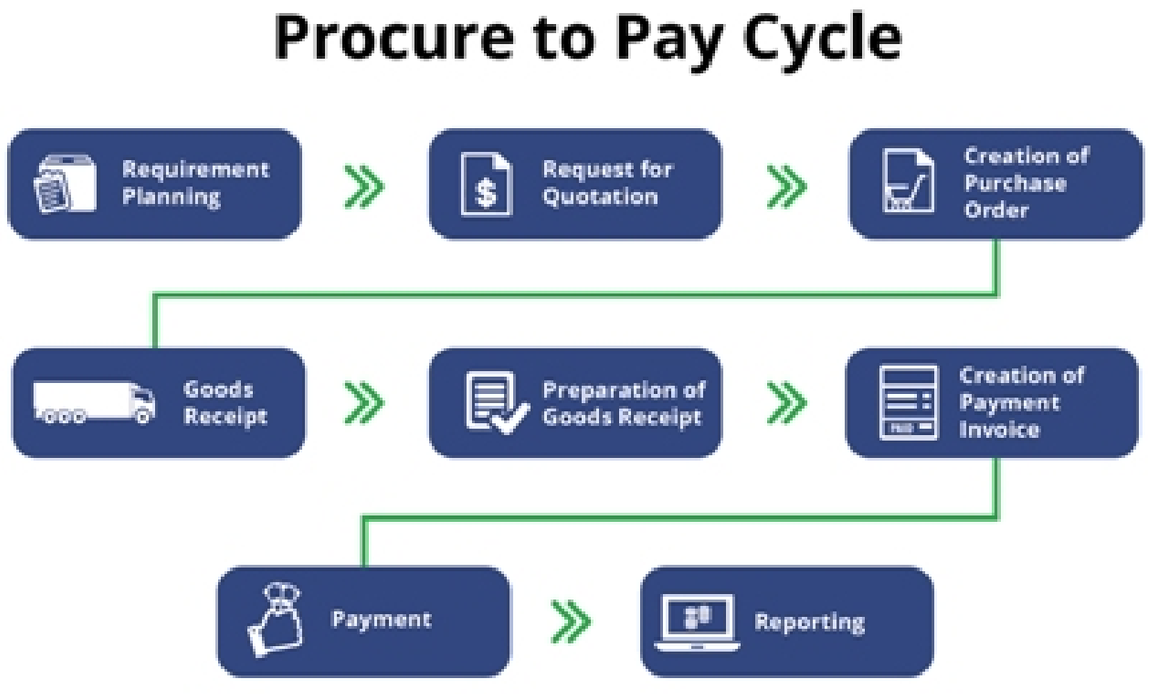
Finalizing the Orders

The success of the final step of Q2O is measured by how well Sales communicates with core business functions. Work orders must be created and distributed to Service / Operations; the bill must be sent to Accounting for collection, data needs to be structured for easy analysis. Each of these interfaces has a different structure, metrics, goals, and rewards, leading to potentially high integration costs. These costs can be managed to deliver high Return On Investment (ROI) at each stage of implementation.

One way to manage these costs is through Q2O vendor selection. Vendors differentiate on out-of-the-box integrations, some unlocking easy integrations across revenue management, others focusing on contract management, or still others on Operations.

1.1.3 Procedure-to-Pay

This type of process starts when someone in an organization determines that a given product or service needs to be purchased. It ends when the product or service has been delivered and paid for. A procure-to-pay process includes activities such as obtaining quotes, approving the purchase, selecting a supplier, issuing a purchase order, receiving the goods (or consuming the service), and paying the invoice. A procure-to-pay process can be seen as the counterpart of the quote-to-cash process in the context of business-to-business interactions. For every procure-to-pay process there is a corresponding quote-tocash process on the supplier's side.



- The process begins with planning what materials are required, when they are required, and the price that the company can afford to pay for them.

- Then the company prepares a list of vendors that they think can provide the materials for them.

- The company asks each of the vendors to submit a quotation, which includes the price, terms of delivery, quality of materials, and any other information that they need for making their decision. This stage could also involve negotiating with the vendors for the best deal.

- Once a vendor has been chosen, the buyers create a purchase requisition form that includes information such as the description of goods and services, department account number, signatures of the authorized managers, delivery instructions, and quotation from the authorized vendor.

- A formal purchase order is sent to the vendor to supply the goods along with instructions as to the conditions under which they have to be supplied.

- Once the company receives the goods from the supplier, the purchasing department prepares a Goods Receipt. This is an important document that can later be used for reconciling if what the seller delivered was indeed what they asked for.

- The Goods Receipt is compared with the Purchase Order to validate if the two match. If there are any discrepancies, the buyer can contact the seller and post a complaint. Checks are made if the goods are suitable for use or not if the correct quantity has been delivered if all the goods meet the ordered specifications, and they are priced according to the terms of the purchase order. If any goods are damaged then the buyers will have to contact the sellers and ask either for a replacement or a refund.

- Once the verification of the goods is done, the payment invoice is created and the necessary approvals from the project managers are obtained.

- When the company makes the final payments to the vendor, the cycle comes to a close.

Procure to Pay (P2P) Challenges and Their Business Impact

Procure to Pay has a considerable impact on the business since the process is spread across so many departments that encompass purchase, production, and accounting.

- There are many checks and balances put in place, and the authorizations of numerous managers are required.

- There are companies that conduct these operations manually and use extensive paperwork thus facing the risk of documentation errors and delays in processing.

- In some firms, there is a lack of communication and cohesiveness between the various divisions, and even among the personnel working in the same unit. The purchase department might place orders at a price beyond the budget of the finance department. Invoices might inadvertently get written for goods that were rejected.

- Orders might be placed for raw materials that the production unit does not need.

- There could be delays in the documentation traveling across the various departments causing late payments, which might harm the buyer-vendor relationship.

1.1.4 Issue-to-Resolution

This type of process starts when a customer raises a problem or issue, such as a complaint related to a defect in a product or an issue encountered when consuming a service. The process continues until the customer, the supplier, or preferably both of them agree that the issue has been resolved. A variant of this process can be found in insurance companies that have to deal with insurance claims. This variant is called claim-to-resolution.

1.1.5 Application-to-Approval

This type of process starts when someone applies for a benefit or privilege and ends when the benefit or privilege in question is either granted or denied. This type of process is common in government agencies, for example when citizens apply for building permits or when entrepreneurs apply for business licenses (e.g., to open a restaurant). Another process that falls into this category is the admissions process in a university, which starts when a student applies for admission into a degree program. Yet another example is the process for approval of vacation or special leave requests in a company.

As the above examples illustrate, business processes are what companies do whenever they deliver a service or a product to customers. The way processes are designed and performed affects both the quality of service that customers perceive and the efficiency with which services are delivered. An organization can outperform another organization offering similar kinds of service if it has better processes and executes them better. This is true not only for customer-facing processes, but also for internal processes such as the procure-to-pay process, which is performed for the purpose of fulfilling an internal need.

APPLICATION

BuildIT Construction Company

BuildIT is a construction company specialized in public works, such as roads, bridges, pipelines, tunnels and railroads. Within BuildIT, it often happens that engineers working at a construction site (called site engineers) need a piece of equipment, such as a truck, an excavator, a bulldozer, a water pump, etc. BuildIT owns very little equipment and instead it rents most of its equipment from specialized suppliers.

Apply what you have learned in the Procure-to-Pay process in the situation given above. Described the procedure for renting construction equipment using the Procure-to-Pay Process. You may described it via text or through flowchart.

Submit it in a PDF file format in your LMS.

File name should be: **Lastname_Module1_Lesson1_Application**

Note: You may actually just searched the answer on Google, however, if you will be copying that, automatic you will get the lowest score.

CLOSURE:

Great job! You have finished Lesson 1 of this module. Now, you are already prepared to move to Lesson 2: Ingredients of a Business Process. Congratulations!