

Why is there a Gap Between Procurement and Finance?



How stronger bonds between procurement and finance can help reduce supplier risk and cost.

The long-time disconnect between procurement and finance has been well publicized, but along with new, less-siloed business models comes a new appreciation for collaboration between these two important departments. Still, a recent report finds that the gap between finance and procurement creates negative business outcomes. As such, this rift is coming under greater scrutiny as organizations look for ways to “flatten out” their operations, improve collaboration among departments and get all team members working from the same playbook.

From its survey of 400 finance and procurement professionals, Medius sought to explore the issues and challenges at the various stages—from initial sourcing activity, contract negotiation and onboarding through to purchasing, invoice and payment. It looked for potential pinch points and came up with a list of procurement-finance disconnects that it says impact supplier relationships and have a knock-on effect on the wider business.

Maintaining Strong Supplier Relationships

In “*How dysfunctional finance and procurement leads to bad business outcomes*,” Medius points to late payments as one area where procurement and finance could have better alignment. Procurement works hard to maintain strong relationships with its suppliers, it says, but those relationships can quickly be damaged when payments are delayed by finance processes.

From the survey, Medius learned that 73% of procurement respondents report supplier relationships having *suffered* due to late payments, with business consequences including higher costs, being unable to fulfill customer orders and even losing orders altogether. In most cases, the payments are delayed due to missing POs or incorrect master data. “Finance teams argue that if procurement was doing its job effectively, supplier payments wouldn’t be late,” Medius points out.

The good news is that the procurement-finance disconnect isn’t inevitable, and collaboration can improve quickly when there is an urgent need. According to Medius, 40% of total respondents said that the pandemic had forced procurement and finance to work more closely together. “Further increases in collaboration will be essential if organizations are to build supply chains that are not only secure but also add value and support business growth,” it says.

A Trickle-Down Effect

According to the survey, both procurement and finance face steep challenges when trying to manage the supplier journey, which is impacted by everything from cancelled orders to late payments to accounts payable delays:

- 24% of finance respondents report customers cancelling orders as a knock-on effect of inaccuracies or delays in paying suppliers
- 79% of finance respondents say the volume of invoices they manage can cause payment delays

- 86% of procurement professionals report that late payments are the result of missing information or errors
- 30% in finance had experienced damage to supplier relationships due to inaccuracies or delays in the accounts payable process
- 22% of procurement respondents had experienced a situation where a supplier refused to work with them because of late payments and they had to buy from a more expensive replacement

Among finance professionals, 79% say the volume of invoices they manage has caused delays in payments at least once in the last year, with 15% saying this happens frequently. “Further survey responses suggest that the reason high volumes are problematic is because procurement and finance are disconnected,” Medius points out, “thus diminishing efficiency and collaboration.”

According to procurement respondents, 86% of payment delays are due to errors and missing data, while finance tends to blame poor communication. Among other key findings from the financial perspective:

- 50% say procurement at least occasionally does not give them the information they need to pay suppliers on time, with 18% saying this is frequent.
- 49% report master data errors preventing automatic invoice matching and delaying payments occasionally or often.
- 35% say procurement doesn’t understand that finance relies on them to provide timely and accurate information in order to pay suppliers on time.
- 54% of finance respondents say that invoices are lost in the mail or in the AP system either occasionally or frequently.

Pulling Together for a Good Cause

Despite the day-to-day problems that both procurement and finance deal with, 39% of survey respondents say they have a good working relationship between finance and procurement and 44% believe they have a “mostly good” one.

And when circumstances necessitate a tighter bond between the two—the COVID-19 pandemic, for example—teams do rise to the challenge. According to the survey, 40% of total respondents say procurement and finance are working more closely together now versus pre-pandemic. “This is encouraging,” Medius concludes, “and [suggests] that efforts to improve collaborative working will have strong support.”