



WHITE PAPER

The Obvious ... and Not So Obvious (But Significant) Benefits of Electronic Purchasing, Invoicing and Payment Processes

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EXECUTIVE SUMMARY

Talk of moving companies away from costly, manual, paper-based business processes has been around for years. Much of the talk has been just that ... a lot of buzz ... but no action. That's until recently. Today, thousands of companies are experiencing significant advantages by leveraging proven data and document capture solutions to automate and digitize core processes – specifically within the Accounts Payable (AP) department.

What's changed? The technology. It has been battle tested. It has matured. It has become more flexible so the data and document capture solutions are easier to customize and conform to specific purchasing, invoicing and payment processes that companies have been using for years.

This White Paper outlines the benefits of moving from paper-based AP processes to an automated, digital workflow process leveraging today's leading data and document management solutions. While some benefits are obvious ... time-savings, cost reductions, etc. ... other more significant benefits can be overlooked. These benefits are critical when calculating the true Return On Investment (ROI) a company can attain by going digital.

THE OBVIOUS BENEFITS OF ELECTRONIC AP BUSINESS PROCESSES

Most companies move to a digital workflow process because they are trying to reduce cost and resources, or in an effort to create a competitive advantage.

Cost and Headcount Reductions

Aberdeen, a leading analyst firm, estimates that paper invoices cost between 68% - 76% more to process than receiving invoice data electronically. That's just the invoicing phase of the AP financial process. The cost for processing paper purchase requisitions, purchase orders, expense reports, etc. can add up quickly.

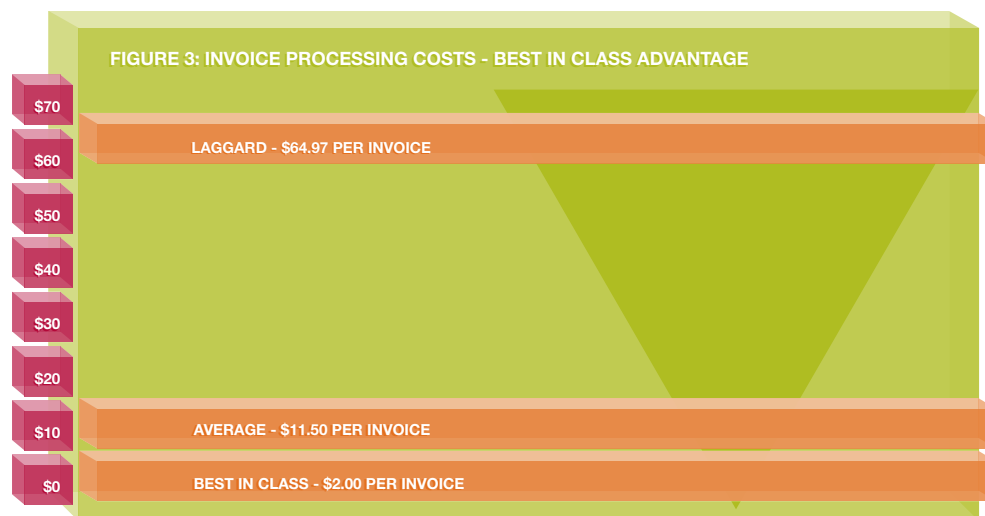
The table and chart below from Aberdeen illustrates the significant cost reductions that can be gained from going digital. The savings can be almost 50% per paper-based document.

INVOICE TYPE	ELECTRONIC-COST TO PROCESS	MANUAL-COST TO PROCESS
PO	\$12.79	\$22.52
NON-PO	\$11.92	\$20.39
OTHER	\$12.78	\$21.44

TABLE 1: AVERAGE INVOICE - PROCESSING COST - ELECTRONIC VS. MANUAL

Source: AberdeenGroup, December 2006

This chart illustrates the dramatic cost reductions that can be attained by organizations executing a “best in class” AP automation strategy, according to Aberdeen.



Source: AberdeenGroup, December 2006

COST AND HEADCOUNT REDUCTIONS continued

In addition to the obvious cost reductions attained by moving to digital AP processes, 50% of companies surveyed by Aberdeen also state that reducing headcount was another key reason they decide to implement automation processes.

How are companies reducing costs and headcount? 23% of companies surveyed by Aberdeen plan to leverage technology solutions to move from paper to electronic AP business processes. The analyst firm states these companies will utilize e-invoicing, scanning, data extraction, imaging, and other solutions over the next 12 months to make this happen.

THE NOT SO OBVIOUS (BUT SIGNIFICANT) BENEFITS OF AP AUTOMATION

Aberdeen states that even though leading enterprises have proven the “obvious” benefits of AP automation, the average AP group struggles to gain management support for investment in digital process improvement. So when cost and headcount reductions aren’t enough to justify investing in AP automation, you can leverage the additional benefits and their impact on business performance outlined in the remainder of this White Paper.

Automated Data Extraction of AP Documents

The first step of AP automation is scanning the AP document. This first step takes the process from a paper-based process to an electronic process that can route a document to the next person in the AP process — whether that person is across the hall, across the street in another building, or across the country — immediately and without the risk of losing the original document.

Extracting data from the AP document using optical character recognition (OCR) technology virtually eliminates the manual keying and coding steps of the AP process. Both the basic invoice data (e.g. invoice number, invoice date, invoice total, etc.) and line item detail data can be captured and used. Automated lookups match AP system data to data from the document, beginning the matching and coding processes. For example, the vendor name and/or address can be read and searched to find the vendor’s ID number in the AP system and link the new document and data to the found vendor. Now both the data and the document can be passed along to each step of the process – coding, validation, approval, etc.

BENEFITS: Electronic documents can move more easily through the AP process regardless of physical proximity, decreasing the overall processing time and preventing document loss. Extracting the data from the documents automatically allows both the data and documents to be used throughout the AP process without manual keying and coding of the information.

Document Storage, Search and Retrieval

A great side benefit of scanning the documents for the data extraction process is that you are now able to store both the document AND the data electronically. Now AP documents traditionally stored in file cabinets, archived in offsite storage facilities, or lost on someone’s desk waiting for processing or approval can be securely stored electronically and made accessible using the captured data as search criteria (e.g. invoice number, PO number, vendor name, etc.) to search and retrieve the electronic copy of the document faster and easier than ever before.

Additionally, this document image now becomes a key component to automating the AP process, making the rest of the validation, approval, and payment processes possible. All of the information is available at each stage of the process – both data and the originating document (in electronic form). Approving authorities can now review and approve not only the payable document (invoice, PO, etc.) but also the department(s), account(s), etc., that will be billed for the payable.

BENEFITS: Digital document archive/retrieval enables organizations to leverage financial information in more powerful ways and to access critical documents in a much more efficient manner, all of which improves business performance and productivity.

Match Invoice to Order Validation Process

One of the significant advantages of moving to an automated AP process is the ability to automatically match invoices to purchase orders. Automation allows you to establish business rules that can automatically identify variances and trigger exception notifications to respective parties. For instance, when an employee enters an invoice into the system as a voucher, the invoice is compared to the PO and the Receipt. The PO includes the data for the price of goods and services. When configuring the business rules, you can set tolerance levels for when prices do not exactly match. Let's just say the finance department set a 10% tolerance level for price differences, both over and under the price at the unit, and extended price of the line item. When the system matches the data from the invoice and purchase order, any discrepancies outside the acceptable tolerances can cause the system to present the invoice and PO to a user for review, or can generate an exception report and corresponding email reporting to the appropriate party.

BENEFITS: By automating the invoice-to-order matching process, companies can implement checks and balances that will catch errors and prevent vendor overpayment.

Automated Accounting Code Assignment Process

Assigning accounting codes to purchase orders and requisitions is a fundamental aspect of financial management and reporting. The problem is that, in most cases, the assignment process is completed manually. Because of this, errors are quite common, negatively impacting financial reporting and, in some cases, profitability for a given cost center, department or project. As a financial professional, you're very familiar with accounting codes. Below is a list of sample accounting codes for a professional services firm:

- 713678** - Professional and Consulting Fees, depending on field of specialization
- 714769** - Fixed Capital Outlay (FCO) and Construction Services
- 723770** - Printing Services/Copies
- 724771** - Repair and Maintenance Services

Both large and small companies use accounting codes just like these to properly classify expenses. Often, there are literally hundreds of codes listed in a paper-based or even electronic document that will be used as a reference guide by employees across the organization. The problem is that different individuals view what they are purchasing, and the respective code, in different ways. This creates room for interpretation, not to mention the possibility of data entry errors when manually typing in a 6-7 character accounting code.

By automating the accounting code assignment process, errors can be eliminated and benefits gained by:

- > auto-populating the PO with the code, eliminating the possibility of data entry errors
- > associating specific information on the purchase order and recommending relevant codes
- > automatically suggesting accounting codes based on previous codes used
- > providing user with a recall list of recently used accounting codes for easy access

BENEFITS: By automating the accounting code assignment process, finance departments can reduce manual errors, improve data integrity, and generate more accurate financial reports.

Automated Back-End Validation, Review and Approval Process

One of the greatest advantages of automating AP workflow is the ability to implement business rules that improve validation, review, authorization, and approval processes. When using a paper-based system you are faced with a wealth of challenges:

- > time required to route paper documents
- > chance of documents getting lost or destroyed
- > documents being approved by unauthorized parties
- > lack of formal review and authorization process

The list goes on and on. With these challenges and problems, it is amazing that 80% of AP workflow is still paper-based. No wonder companies that automate AP processes realize significant financial and competitive advantages.

BENEFITS: Automated validation, review, and approval ensures accurate data has been reviewed and approved by authorized personnel. The overall process is faster and provides better tracking and logging of the AP review and approval process.

Web-based AP Workflow Automation

Below is a diagram that illustrates a sample workflow process with specific business rules. As you can see, automating AP workflow enables you to route documents based on business rules, define who can authorize what types of purchases and what amounts, create a digital signature authorization process, and reduce the overall time to process AP documents.



This same level of automation can be applied to expense reports, check approval/payment processing, etc.

BENEFITS: By implementing business rules and automating AP workflow, companies can improve compliance and data integrity, eliminate fraudulent behavior, implement best-practices, and enforce accounting procedures.

Automating AP Processes in the Financial Services Industry: A Case Study

Company: Financial Services Company with More than 600 Employees

Challenge: Because of the company's fast-paced growth, the current staff was unable to manage with the volume of AP paperwork. As a result, delays in processing payments, errors created by a rushed process, and vendor/supplier complaints were increasing significantly.

Solution: Rather than trying to throw people at the problem, the company started looking for technology solutions that could automate specific AP processes. The company found Advanced Data Spectrum and quickly implemented a system that automatically scanned and captured the data on invoices and automated the accounting code process. This process also included an automated Web-based review process.

Benefit: Without adding any incremental staff, the company was able to automate specific AP processes, reduce processing time and error rates, and replace the paper-based archiving process with an online company-wide search and retrieval system. The company is about to implement an automated AP routing and payment approval solution that will continue to improve business process efficiency and reduce costs. Additionally, they will also automate the expense reporting and check request process. All of these solutions use or will use components of The DataSpectrum Framework from Advanced Data Spectrum.

TECHNICAL CONSIDERATIONS

When selecting an AP automation solution and partner, it is imperative that you consider the following:

Implementation and Customization (Time/Money)

Make sure the partner has experience implementing AP automation solutions that can be tailored and configured to automate existing processes. You shouldn't have to re-invent entirely new processes just to go digital. There will be subtle changes, but the solution should not inject significant chaos into the organization.

Ease of Integration

It is critical that the AP solution integrate well with your existing accounting, ERP and other solutions. Make sure the solution you choose has the ability to quickly and easily integrate with internal applications and those used by vendors/suppliers.

Data Sharing (Import/Export Functionality)

You will want to leverage AP data in a wide range of areas and reports, so it needs to be easy to import and export information from the solution. It shouldn't require senior IT professionals to export data. General administrators and power users should be able to import and export data to/from an Excel document.

Web-based Technology

Make sure the solution supports today's industry and Web standards (XML, Web services, etc.). This will ensure that the application will be able to communicate with other Web-based applications and integrate well within a Web-services ecosystem.

Workflow/Business Rule Functionality

The solution should enable you to easily build and apply business rules to the entire AP lifecycle. Again, creating business rules shouldn't require a PhD in Information Technology or a year-long consulting engagement. It will take some work, but don't let the solutions provider overcomplicate this aspect of the process.

Security Considerations

Make sure the solution supports basic security and encryption technology. In an ideal situation, the solution should support Single Sign On (SSO) technology so finance professionals can access the system after logging into the core accounting or ERP system.

Business Process Implications

Change is inevitable, but you can manage the degree of change by selecting the right partner and solution. With that being said, there is no such thing as an out-of-the-box solution to automate the AP lifecycle, so some business process and cultural changes will occur. Make sure your solution provider explains how they plan to minimize the degree to which your financial organization, suppliers, and vendors will have to change in order to become part of the automated process. Also, make sure they have had experience managing both the technology and business process aspects of an AP automation implementation.

AP Automation Adoption Trends

According to Aberdeen analysts, when organizations automate ahead of their peers, they realize greater transactional savings, process efficiencies, improved internal and external collaboration, and are in a better position to proactively manage their business. Of the companies surveyed by Aberdeen ...

- > 33% will implement XML/EDI to automate electronic receipt of invoices
- > 31% will leverage Optical Character Recognition (OCR) scanning for invoices
- > 26% will leverage technology to automate header data validation/duplicate invoice verification
- > 24% will use OCR technology to capture detailed line item data from documents
- > 24% will move to a digital expense reporting process

SUMMARY

While the benefits of moving to automated electronic data and document AP processes are vital to any organization, it is imperative that you investigate the solutions and partners in this category. It is important to conduct the proper due-diligence and be sure that the partner you choose not only has solid technology, but also has the business process expertise required to truly implement a solution that will deliver optimal results for your AP department. The ideal partner will have a unique blend of AP process automation experience; data capture, extraction and management technology expertise; and a solid understanding of how to map technology to existing business processes.

About Advanced Data Spectrum

Advanced Data Spectrum™ (ADS) is the premier provider of data and document management solutions. The company's DataSpectrum Framework™ automates and manages the entire data/document lifecycle that enables organizations to significantly reduce operating costs, streamline critical business processes, increase data integrity and improve business results.



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