

“Business is a
Conversation”

– David Weinberger
The Cluetrain Manifesto:
The End of Business as Usual
By Christopher Locke, Rick Levine,
Doc Searls, and David Weinberger

5 Steps to Automating Accounts Payable

How to Achieve
Process-Ready™ Data

White Paper

KOFAX 

Pains in the Accounts Payable Process

Knowledge and information are the lifeblood of any organization. The effective use of this information can mean the difference between success and failure. This is the case for all departments across your organization, from sales, to customer service, marketing, development, purchasing, and accounts payable.

In today's business climate, business transactions can be thought of as 'conversations,' where information is exchanged as documents, email messages, instant messages, and fax transmissions. Effectively communicating with your customers, partners, and suppliers through any combination of these can be a significant challenge. Therefore, it should be no surprise that companies around the globe struggle to solve this problem without increasing their labor costs.

In the midst of cost constraints and regulatory compliance pressures, accounts payable departments are striving to improve and extend the services they provide for their own organization, increase efficiency, and enhance business relationships.

Changing Role of Accounts Payables

Over the last 5 years the role of the accounts payable department in all levels of enterprises has dramatically changed. Specifically, an accounts payable department used to be managed as a cost center whose job it was to process and review transactions, coordinate with other departments, respond to inquiries, reconcile accounts and generally perform paperwork. More recently, however, this department is playing a larger support role helping to control, coordinate, and analyze key business processes.

In general this means that AP becomes more visible within the organization and their main responsibilities now lie in quality assurance, contract and policy compliance, reporting, and analysis. This change has come at a cost of increased workload and added responsibilities. To deal with this, AP departments need to re-deploy their skilled knowledge workers from doing back-office administrative tasks, such as invoices processing, to more business-critical management activities. To achieve this, AP departments are looking to automate as much of the business process as they can.

Regulatory Compliance

Being financial documents, invoices are subject to compliance regulations such as Sarbanes-Oxley and Basel II. Therefore, it's important that these documents are captured and archived using a well documented and consistent process. Scanning documents early in the process and delivering them to electronic repositories guarantees that important data is recorded, efficiently validated, and can be easily audited.

Invoice Processing Costs

Processing an invoice involves capturing key data, entering it into the proper financial systems, and kicking off the related business processes. Although straightforward, this task needs to scale to handle the large numbers of invoices your business will receive each day. Accuracy and efficiency, therefore, are major concerns.

Costs associated with managing this volume of data, the human labor typically required, and the need to catch and fix errors along the way, can grow quickly. According to an Aberdeen report from 2006, the actual cost of processing each invoice, from receipt to payment, can balloon to \$80 (see Figure 1). Actual costs depend on the level of process automation you and your business partners implement.

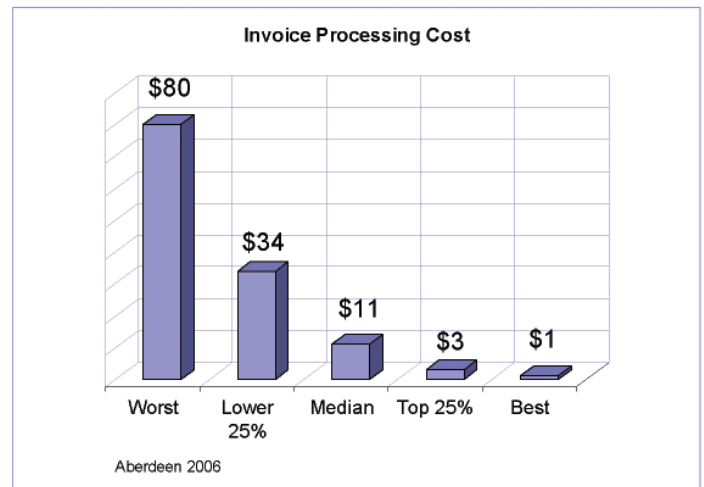


Figure 1 – The cost per invoice varies according to the amount of process automation your business implements.

Impact on Shareholders

Typically, at the end of each month or quarter, key financial data is rolled up and reported. This includes revenue from accounts receivable, and expenditures from accounts payable. These figures are critical pieces of a company's financial statements, and are used to make important resourcing decisions, and determine future stock value (for public companies). This financial data is also bound by strict legal / fiscal deadlines that can incur penalties if inaccurate, missing, or late. If many invoices require manual validation before they can be processed by your ERP system, reporting can be delayed.

In some cases, there may be invoices that cannot be included in the reports because the accounts payable team was unable to validate them in time. This results in a distorted view of your financials, which can negatively influence future resource, inventory, and work planning.

Cash Management: Early Payment Discounts

Most vendors charge penalties for late payments on outstanding invoices. Not only does this cost you money, it can damage your vendor relationship. On the other hand, most vendors offer discounts when invoices are paid early. However, if you don't have efficient processes in place, not only do you risk paying late fees, you miss out on early-payment discounts.

The loss of return in such cases can be significant, as the following simple example shows (see fig. 2). Consider a typical discount of 2/10 NET 30. Here, the buyer receives a 2% discount if the invoice is paid within 10 days instead of the 30 day term.

Admittedly, these savings are offset by the loss of 20 days of interest. However, if we extrapolate the savings over about 18 20-day periods each year, the result is a 36% return. This is a far better return when compared to leaving the money in the bank.

Invoice Process

The main steps in processing an invoice are

- Invoice receipt
- Invoice verification / matching
- Invoice approval
- Invoice payment

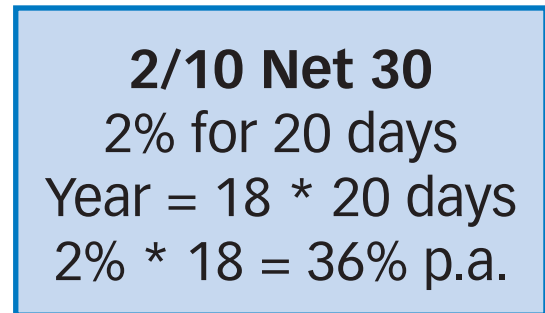


Figure 2 – The annual return of early payment discounts.

When looking at these sequential steps, companies spend a lot of time matching invoice data to the original purchase order (PO) or contract (invoice verification), and acquiring approval (invoice approval). It's in these areas that technology can increase efficiency and offer the greatest cost savings.

Having the ability to electronically capture invoice data, regardless of its form, helps to eliminate errors that may otherwise be introduced by manual processing. It also enables the automation of invoice data validation and contract matching, and integration with existing enterprise systems. Invoice data can be automatically classified, and then distributed in a secure, digital, form without incurring shipping costs.

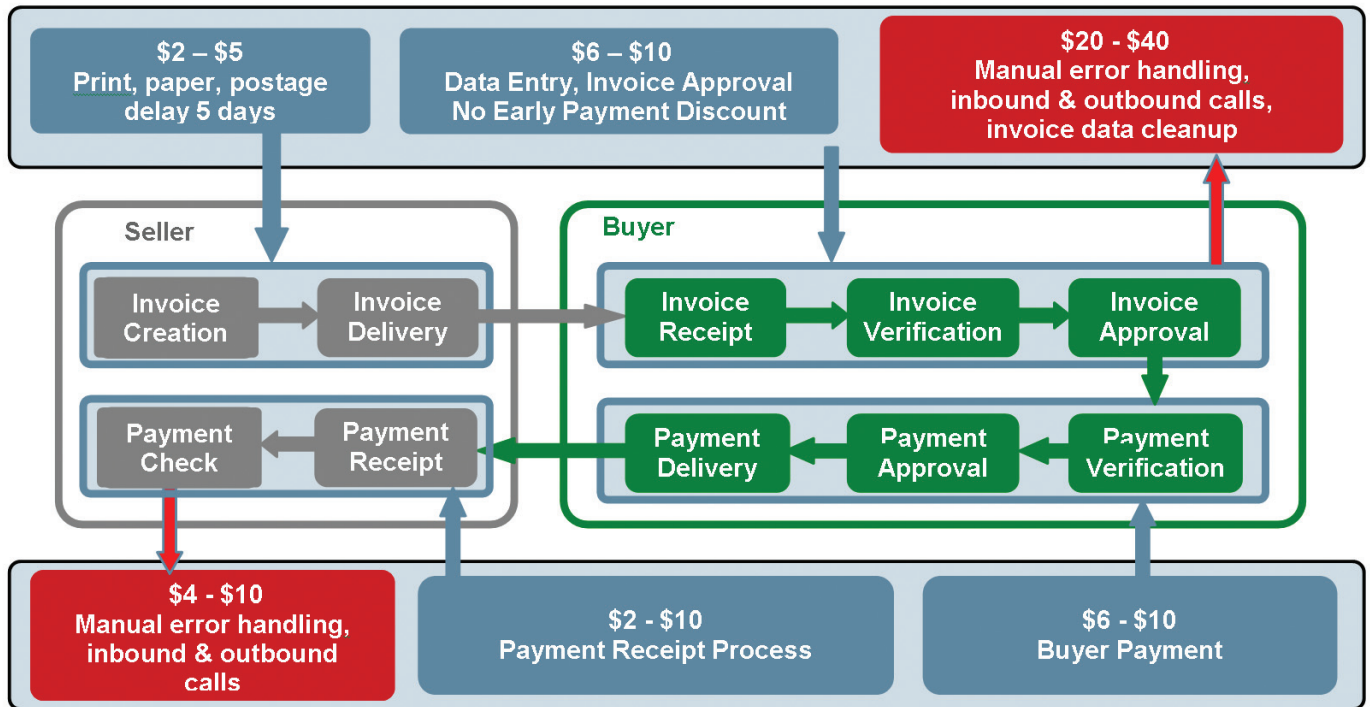


Figure 3 – Costs incurred at each stage of invoice processing.

The Five-Step Approach to Automation

As discussed above, capturing invoice data electronically is the key to an efficient, error-free, invoice processing cycle. As a result, the reduction in errors helps to streamline the rest of the process, and in turn saves you money.

To help you achieve these benefits, Kofax has defined a five-step process that you can implement incrementally. Experience has shown that it's best for companies to start at the beginning and incorporate this phased approach over time according to a plan. Let's review these steps now.

Step 1: Controlling the Paper Workflow

Business information exchange is still very much dependent on using paper as a medium. As an organization, you need to create one or more central points where invoices arrive. The goal is to eliminate the potential of an invoice being lost on desks or in mailboxes before they're processed. Streamlining invoice handling within your organization and limiting the number of "touch points" along the way helps to achieve this.

Next, the goal is to convert the paper into digital images right away. Early scanning of incoming invoices and then delivering electronic images throughout your organization is an effective solution to the issues around manual paper flow. Kofax solutions can help you efficiently capture invoices at distributed and remote locations regardless of volume. Invoice data can be transported electronically, instantly, anywhere in the world.

The benefits of immediately scanning invoices include:

- Eliminate lost invoices
- Decrease invoice-processing time
- Store documents in a secure, digital, form
- Reduce physical storage and paper filing costs
- Gain immediate access to digital invoice data regardless of location
- Eliminate costs associated with physical document copying and shipping
- Image enable ERP environment

Centralizing the influx of invoices and scanning them to have instant access to invoice data is the first step needed to feed the AP/ERP line-of-business applications. This also enables the use of business process outsourcing, where remote, offshore, teams can perform invoice processing. The resulting data can then be sent to your AP department for import into their ERP system.



Estimated cost reduction for step 1: \$10 per invoice

Step 2: Automate Data Extraction

With the paper flow under control, the next step is to optimize how invoice data is extracted and transferred to downstream applications for verification, PO matching, approval, and payment.

At this stage, you have the following options:

1. Your AP team can manually enter invoice data into your existing systems.
2. You can outsource invoice data entry to a third party and integrate the results with your existing systems
3. You can automate the data-extraction process from your scanned invoices

Any form of manual data entry can be expensive and runs the risk of introducing errors into your process. Additionally, opening your data and key business systems to external resources can introduce security risks. Alternatively, you can take advantage of the automation that the Kofax Intelligent Capture & Exchange suite offers you. The resulting automatic extraction of your scanned invoice data is key to achieving the goals of process transparency and straight through invoice processing.

In addition to paper, business information exchange increasingly involves the use of electronic forms such as email messages and fax transmissions. Software can be used to automatically extract data from documents received this way. The captured data can then be fed into the same business processes in place to handle scanned documents.

The result is a very efficient, inclusive, and cost-effective information capture process. This uniform method of processing information from different media helps to reduce costs and maintenance; you now have one way to process information regardless of its original form. For example, it removes the need to print and rescan a document received electronically, which many organizations do to normalize their process.

Further, you can automatically extract invoice information fields with little or no manual intervention, such as:

Standard Header and Footer Data	Standard Line-item Data	Other data
<ul style="list-style-type: none"> • PO number and date • Invoice number and date • Subtotal • Taxes • Postage & handling • Discount • Grand total • Supplier details 	<ul style="list-style-type: none"> • Position • Quantity • Description • Unit price • Total price • Discount • Unit measure • Article code • Order number • Delivery note number • Tax Rate 	<ul style="list-style-type: none"> • Use customized extraction schemes

As a result, you should achieve the following:

- Reduce or eliminate data-entry cost and labor
- Increase overall productivity
- Increase data security
- Increase productivity; growth in business and invoices received does not require increased staff
- Increase staff responsiveness
- Eliminate the need to ship physical documents to offshore teams
- Reduce data entry errors; increase data accuracy
- Significantly decrease invoice processing time
- Data analysis can be performed to quickly gain an accurate view into financial exposure



Estimated cost reduction for step 2: \$1.50 per invoice
Total savings: \$11.50 per invoice

Step 3: Increase Process Transparency

The steps examined so far help to improve efficiency and accuracy, as well as reduce costs. However, this process remains AP centric with little or no involvement of the other parties that take part in this business transaction: the internal buyers and the vendors. With the Kofax Intelligent Capture & Exchange suite, the goal is to do business as though it were a conversation.

By adopting Kofax Intelligent Capture & Exchange components within your organization, you can deliver the business partner interactivity using any media. In doing so, you can improve communication between all parties involved in your business transactions (accounts payable, internal customers, vendors, and suppliers) to achieve process transparency.

The Case for Notification

When considering suppliers' needs as well as the original goal of freeing up AP personnel from administrative and labor-intensive tasks, one must also consider streamlining communication with these suppliers. Research shows that, on average, 10 to 15% of suppliers place inbound calls to the AP department with basic queries about existing invoices. Aberdeen's AP Benchmark report of 2006 also shows that depending on the level of automation, AP departments spend anywhere between 26% and 41% of their time responding to these queries.

These interactions can quickly consume your employees' time, and can cost you as much as \$10 per call. Notification messages that can be sent to your business partners automatically throughout the invoice process can eliminate this problem. As soon as invoice information is extracted and validated, an automatic notification is sent back to the supplier using his/her preferred method of communication, such as fax, email, voice mail, or SMS.

This communication can include a message confirming receipt of the invoice; notification of any errors or omissions; the results of integrating the extracted invoice information; providing a payment date; or other information specific to you. Such a solution is beneficial to both buyer and supplier as it enhances process transparency and limits costly disputes.



Estimated cost reduction for step 3: more than \$1.50 per invoice
Total savings: \$13.00 per invoice

Step 4: Electronic Data Exchange

Implementing the first three steps results in a flow of electronic information throughout your organization, but why stop there? There are many reasons to reach beyond the walls of your company, and integrate your suppliers and

vendors with your electronic pipeline. A software solution based on open standards, such as XML, will solve this problem without the costs associated with other solutions, such as electronic data interchange (EDI). The result of this integration is the swift exchange of electronic information that helps all parties do more business, at lower cost.

Integrating Your Suppliers

The level of IT maturity and automation of a supplier has an impact on the level of electronic invoice data exchange they can support. Typically, 20% of your suppliers represent 80% of your invoice volume. Suppliers often fall into the follow categories:

1. Most strategic suppliers: the suppliers (top 2%) that have established an EDI connection with the buyer. This is expensive and only justified when the supplier is a large company that has strong IT capabilities.
2. Strategic suppliers: the suppliers (the next 10%) that have some IT, but do not support full ERP / EDI integration.
3. Regular suppliers: the bulk of suppliers (center 70%) who deal with moderate volumes and send invoices via paper or fax only.
4. Low volume suppliers: the suppliers that send the occasional invoice, and have no need for automation.

A solution that transfers data directly from a supplier to their buyer and that plugs into the Document Capture Infrastructure as described in steps 1 through 3, quickly and easily enables your suppliers to send invoices electronically. Kofax offers such a simple, low-maintenance software application that hooks into the supplier's computer's print subsystem, automatically extracts relevant data when the invoice is printed, converts the data to XML, and sends it to the buyer.

This enables you (the buyer) to automatically plug this data into your business process using your existing, integrated Document Capture infrastructure, and offers the supplier cost savings also. On average, each supplier will see a savings of around \$1.00 per invoice. On the buyer side, receiving invoices this way avoids paper handling, sorting, scanning, or manual entry, and saves another \$1.50 per invoice.

The cost savings and process transparency that an integrated software solution can offer will help both you and your suppliers. The result will be a more efficient and cost-effective business relationship with your suppliers and partners; one that all of your partners will appreciate being a part of.



Estimated cost reduction for step 4: more than \$1.50 per invoice
Total savings: \$14.50 per invoice

Step 5: Improve Data Quality

Most of the cost reductions discussed earlier are associated with the way invoices are received and how they are captured before the information can be fed into downstream applications. Even when invoice information is captured perfectly, there is no guarantee that the data itself is correct.

According to a recent Kofax survey, only 55% percent of incoming invoices could be directly matched with the purchase order system via straight through processing. There are many types of issues related to information capture that result in matching difficulties, such as:

- **Extraction related issues:** These are typically errors introduced during the automatic extraction of information from paper invoices.
- **Invoice conformity difficulties:** In this case, invoice information can be correctly extracted, but the data itself is different from the information on the original purchase order. For example, there may be differences in ‘coding’ between the buyer’s ERP system and the seller’s. Such discrepancies in coding can be as high as 50% and results in increased processing time and costs.
- **Data errors:** These are data errors where either the buyer or supplier made an actual mistake in the invoice, such as a wrong address, missing or wrong PO number, and so on.
- **Business logic errors:** There are errors where the supplier has used the wrong payment term, discount rate, tax rate, or other agreed upon pricing omissions.

In too many cases, it remains a manual process to fix these issues. As a result, AP personnel need to place ‘outbound calls’ to correct mistakes on the invoices. With average customer service calls being higher than \$10 per call, costs can easily run up to \$100 per disputed invoice. This process flow holds the AP department accountable for fixing errors that could have been avoided.

Delivering Process-Ready™ Data

To avoid the manual handling of invoice exceptions caused by errors or missing data, a software solution can automatically detect and resolve extraction-related data quality and conformity problems on the invoices.

Using advanced fuzzy-logic matching and statistical confidences, the software attempts to correct non-conformities and retrieve missing fields. It does so by comparing the invoice information with the PO information already stored in your ERP system. If the system still cannot resolve the issue, it can automatically trigger an ‘exception notification’ to the vendor via email, or it can be customized to work within your existing workflow for manual resolution.

For example, a notification is sent regarding the invoice, as outlined in step 3 above. However, the difference is that the exception notification now contains the extracted invoice information, the status of the invoice, and an explanation of what has been corrected or why the invoice cannot be processed. The result is a fully automated solution, from invoice receipt, data extraction, validation, exception processing, and error correction. Notifications sent throughout the process provide complete transparency and allow the automation to be audited. This allows you to:

- Increase the matching rate by automatically fixing errors related to extraction issues, data unit/coding differences, and other invoice errors. This can be performed using pattern matching algorithms, and the seamless integration with the buyer's vendor database that this solution offers.
- Involve business partners within the process, including error corrections.
- Automatically outsource the handling of unsolvable exceptions to the supplier.
- Assist in educating business partners on what is needed to smoothly process invoices, while providing them value as well.
- Reduce the need for outbound calls from the AP department.
- Provide validated, Process-ready™, data to the invoice verification and invoice approval workflows.

In summary, the cleaner the data is before it enters your workflow, the less time your staff will spend on manual intervention. Kofax products enable you to refine the information capture process to become more efficient, and reap the benefits of straight-through processing.

Conclusion

Efficiently capturing invoice data is a prerequisite to efficient downstream processing, with significant cost savings along the way. The way invoice capture is implemented determines the efficiency of the overall invoice process. Each part of the five-step solution described above uses the parts implemented in earlier phases as a foundation to build upon, allowing for maximum flexibility.

With the five-step process outlined throughout this paper, and a comprehensive, integrated, suite of software, you can easily increase accuracy and efficiency, save costs, and drive new revenue-generating processes immediately. When we reconsider the individual cost savings discussed from each step, they add up to a significant figure:



Completely manual process:

Costs up to **\$80 per invoice**

Approximate minimum savings per invoice:



Control paper flow:	\$ 10.00
Automate data extraction:	\$ 1.50
Enhance process transparency:	\$ 1.50
Single pipeline:	\$ 1.50
Improve Data Quality:	\$ 3.00
Automatic Feedback & Issue resolution:	<u>\$ 5.00</u>
Total:	\$22.50



Approximate savings from **\$22.50 per invoice**



Reduction of errors and dispute costs with each phase

Kofax offers an integrated suite of software and hardware solutions that provide the solutions just described. As a result, Kofax products implemented according to the five-step automation process will result in a streamlined, cost effective, business process that will help save your company money, and make you more competitive in the future.

Learn More

To learn more contact Kofax at:

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