WHITEPAPER

PURCHASE TO PAYMENT AUTOMATION

Overcoming paper in an efficient electronic world

Stuart Evans, Chief Technical Officer, Invu

In the real world of commerce today the paper and PDF invoice will be around for many years to come, yet businesses must improve their efficiency to stay competitive and even alive.

Introduction

Over the last few decades, businesses have been sold Accounting or ERP systems to "computerise" their business. Nearly all businesses are now proud owners and users of such a system. With the 20-20 vision of hindsight we can now see that these systems did not computerise whole finance processes; they simply computerised the "ledgers" and the "books" – recording the core transactions of the business. What's more, these systems can still be very manual, still forcing users to touch all transactions with a keyboard instead of a pen: The processes have not really changed or become automatic.

These products leave many aspects of the business more or less un-touched: Back office processes are left ignored, line of business communications remain very ad-hoc, and key transactional documents continue as before - paper based and filed out of reach. The ERP system is there at the heart of the business, but surrounded by heaps of paper and regular process chaos. Sound familiar?

One key area left incomplete and not automated is the "purchase to payment" flow; the process that drives the interaction with a business' suppliers.

We live in a world where numerical purchasing data is held in such systems, yet nearly 80% of all invoices are still delivered to a business on paper. Where paper is being dropped for an electronic method of delivery, invoices are being delivered as PDF files; however, this is still meaningless to an ERP system since the data is laid out for a person to read and not a program.

It is not just invoices either; proof of delivery slips and good received notes are also commonly in paper form. In short, most transactions in the "purchase to payment" process starts or ends with an unstructured document – and it's probably in paper form.

Of course, where a business can make all its purchasing completely digital, it does so and can achieve significantly enhanced levels of throughput. However, for the majority of small and mid-size businesses, making that move is difficult, expensive or downright impossible. For example, Implementing EDI (Electronic Data Interchange) demands significant technology, effort and expenditure as well as needing the power to make such demands on suppliers.

Even when EDI solutions are put in place, it is often there for only the top tier of suppliers and many purchases will still be document based and the "cost of exceptions" is now higher. Investment in EDI makes complete sense at enterprise level – for example, the UK's grocery retailers save c. £650m pa in costs by using EDI instead of manual, paper-based processes for their orders, invoices and despatch advices[1]. However, in the main we are talking Tescos, Sainsburys etc. and their suppliers (for whom EDI may be a condition of doing business with these giants).

Where there is significant throughput, especially from a variety of suppliers, the potential benefits of automation are high. However, paper and unstructured documents will remain core to business transactions for many years to come. Solutions for "purchase to payment" must therefore embrace and address document processing in order to succeed.

Why is the purchase to payment cycle such a high priority for a business to address?

Whilst the labour costs of processing purchases are high, this is not the only "cost" of inefficiency. The process exists simply to ensure that a business pays only for what it has received. Failure to manage this properly will result in excessive or early payments – and the amounts can be large. At a minimum these can result in a cash flow problem and at worst, money spent that cannot be recovered. In a recession era, where cash is king, these consequences can be, and frequently are, fatal to a business.

The rewards may be measured in millions of pounds for retail powerhouses but they maybe even more substantial for medium and smaller sized businesses where pragmatic solutions may mean the difference between success and failure.

The Purchase to Payment Process

The purchasing flow is simple in principle:

1. A purchase order is raised indicating what a business wants to procure
2. The goods or service is ordered and delivered (delivery note)
3. An invoice is sent for those goods (perhaps a part thereof, or for other goods too)
4. If the invoice requires approval – approval is obtained
5. Payment is made to the supplier

A real life example of a purchase process is shown below. In this example the business does a "3 way match" to see if the payment can be made without seeking specific approval. This is a well known approach for reducing effort in processing.

The 3 way match works simply by comparing the purchase order (what was asked for) with the delivery note (what was delivered) and the Invoice (what is being charged for). If these match, then the company may choose to assume all is well and pay the invoice (although not perhaps until it must!). If they do not match, then either the difference require some investigation or consolidation before payment can be agreed.

Most ERP systems support 3-way matching at the transactional level, but provide little in the way of helping resolve issues or drive the process quickly.

There are other problems too: How does the user get to see the source evidence (documents) to resolve a problem? How is the policy of when and when not to match enforced? These are aspects that Business Automation can address.

Whilst all this sounds rather simple, there are several real life factors which make life a little more complex. For example, if the item being purchased is a service or a product that requires configuration, then there is no simple way for a finance department to prove that the purchase has been fulfilled. In these cases the normal approach is to get the source purchaser within the company to approve the invoice sent. Even in the more straight forward case of managing goods in, the sign-off process can be very limited as the products are often sealed or in need of some assembly.
Automation in purchase to pay involves 3 key aspects:

1. Capture:

• Purchase Order (PO): When the PO is raised in the Accounts system it is then printed. At this point the document can be automatically captured and filed with the correct metadata without requiring any user intervention. The print capture technology "reads" the printed document for the metadata in it. This means there is no expensive integration required with and an indisputable copy of the transaction is made – important for those supplier queries that happen when things go wrong.

• Delivery Note (DN): When the delivery note is received it can be scanned and automatically captured and filed linked with the originating PO.

• Purchase Invoice: The invoice can also be scanned and linked to the PO and DN with no additional input from the user. In some cases, more data can be captured than just account information.

2. Document Management of captured information

All captured data is put into the Document Management system which provides:

- **Auditable repository**

- **Powerful search & retrieve for ad-hoc queries**

- **Integrated with ERP product**

- **Records Management: retention & secure control**

- **A basis for Self Service:** Captured documents can be made available via a supplier extranet back to the supplier, removing the cost and effort of purchase query management (simple integration required)

3. Workflow and integration

- **Invoice Approval:** Directing the workflow out to the source departments for easy and audited approval of invoices with access to all transactions and documents that relate to that Invoice

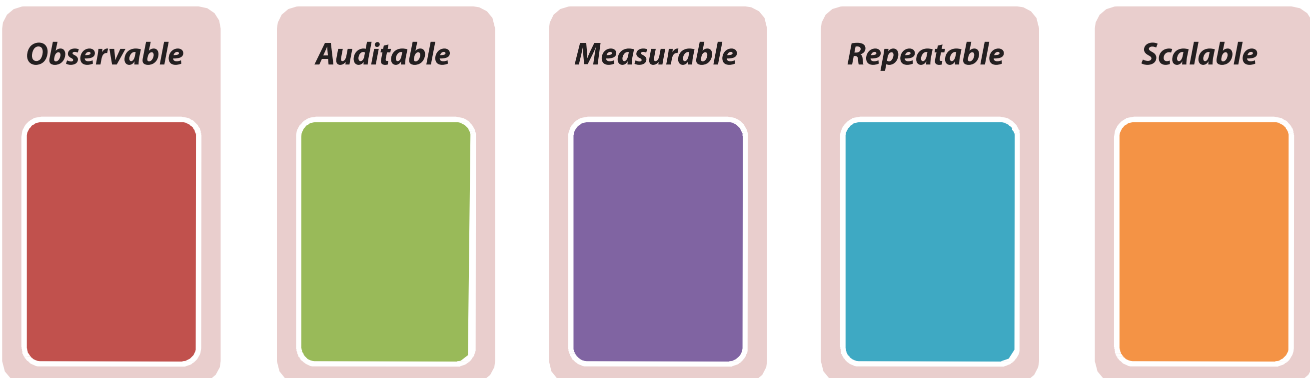
- **ERP system read/update:** Bringing in data from the ERP system to assist with decisions and feeding the ERP system with data as a result of document capture events or user action

Benefits of Business Automation

To improve the efficiency of a business process, we automate it: Use rules to make decisions and technology to deal with large amounts of data.

A common scenario is that of a manual process documented in a SOP (standard operating procedure documents) – this then gathers dust on the shelf. The paper documents are filed into single, vulnerable and largely inaccessible locations. Process policies are un-enforceable and are replaced by ad-hoc decisions made by key staff on the ground.

Automating a process brings it to life. The process can be observed in an IT system, measured and audited.   The information that passes through it is available to all and instantly retrievable. Over time, the data from the process drives business KPI's. In short, it is hard to imagine an ISO qualifying business of the next decade that is able to function without fully automating its processes.



Aspects of automated processing

Automation offers many benefits to businesses including:

Good Governance of line of business information - ***reducing risk and cost***

• Systematic capture (email, print, ERP data) of key documents

• Auditable and discoverable information

• Records Management/Document disposal support

Embodiment of key business process in IT systems – ***Proof of a quality business***

• Demonstrable business process (ISO)

• Measurable business process (KPIs)

• Auditable processes

Efficiency – ***cost reduction and improved service***

• Low labour/no labour capture & indexing

• Rapid access and leverage of information

• Enforced and "driven" process

• Raised quality of service (speed and accuracy)

• Better leverage of business information for advantage

Summary

In the real world of commerce today the paper and PDF invoice will be around for many years to come, yet businesses must improve their efficiency to stay competitive and even alive. Few businesses have the "luxury" of moving to a full EDI approach to Purchasing, making invoice process automation the best, and often the only route to take.

A business automation approach based on document capture, management and workflow can turbo-charge a business' existing processes and compliment the investment in its existing ERP systems. It can break a business free from the shackles of key operative individuals whilst also helping to drive change.

With the significantly reduced costs of new generation Document Management and workflow systems, small and medium sized businesses can also now transform their purchase processing with a compelling ROI.

Invu Services Limited, Blisworth Hill Farm, Stoke Road,
Blisworth, Northampton, NN7 3DB
01604 878 010 | info@invu.net | www.invu.net