



Paper-Free AP

Automated Processing of Vendor Invoices

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Introduction

Research by the Hackett Group has found that top-performing companies process a higher percentage of vendor invoices electronically in comparison with their peers. Businesses recognise the value of automating Accounts Payable and are increasingly eager to gain the efficiencies that automation brings. Recent research by Aberdeen Group found that more than half of organisations surveyed say Accounts Payable is strategic — up from 40% in 2006. The Institute of Management and Administration (IOMA) reports that major drivers for implementation of automated Accounts Payable are large transaction volumes, pressure to reduce costs, and impact on cash flow.

How much does an invoice really cost?

While enterprise resource planning solutions such as SAP® ERP empower businesses with Accounts Payable functionality and transaction data, manual processing of vendor invoices remains standard procedure. This manual process negatively impacts the opportunity for business process improvement and decrease the additional ERP return on investment in company software — for many companies.

Businesses running state-of-the-art ERP solutions still employ conventional paper-driven Accounts Payable processes. As a result, they are limited in their ability not only to minimise per-invoice costs but also to improve productivity, prevent duplicate invoices and take advantage of fast-payment discounts. Financial planning, vendor relationships, employee productivity, inter-enterprise communication and even regulatory compliance efforts may suffer from lack of automation in Accounts Payable. Beyond significant cost savings, organisations using an automated Accounts Payable system can realise efficiencies throughout the process from data entry to archiving.

This paper presents the unique value of a comprehensive platform to streamline Accounts Payable processes that run on paper documents — at levels ranging from basic “quit paper” solutions to “touchless” posting of invoices and full process automation. It analyses the challenges faced by companies today who are still using manual paper-driven processes, as well as the outcomes of automating processes — including time, labour and cost savings as well as increased visibility of the process.

Above all, this paper is designed to assist CEOs, CFOs, CIOs, Accounts Payable managers and ERP system administrators in learning, planning and evaluating automation of Accounts Payable processes to gain added efficiency in today’s competitive business environment.

If your company has ever...

found it difficult to answer vendor questions about invoice status

paid the same invoice twice

missed out on fast-payment discounts

struggled to gather audit information

or made an inaccurate cash forecast

...then you know the value of AP automation.

Executive Summary

Accounts Payable challenges

What automation addresses

Key issues facing Accounts Payable operations today include:

- **Time** to process vendor invoices and other payables
- **Errors and delays** affecting the accuracy of financial statements
- **Visibility** to see what's happening with Accounts Payable documents
- **Cost** control and avoidance
- **Security** and regulatory **compliance**

Performance improvement drivers

Where to focus

Immediate and significant outcomes can result from focusing on:

- Productivity in the Accounts Payable department
- Transaction cost control and avoidance
- Financial management and compliance support
- Security and risk control
- Supply chain and vendor relationships

Document process automation as the solution

Enterprise-wide ROI

Additional value beyond Accounts Payable is available from a comprehensive platform to:

- Capture key information — such as vendor number, product part number, due date, and purchase order number
- Present data for modification and validation in a web-based interface or use touchless processing
- Archive data and documents for easy access
- Deliver outgoing documents such as purchase orders and customer invoices
- Take a phased approach to implementation

Software as a Service (SaaS) options

Automation on demand

Why choose a SaaS solution?

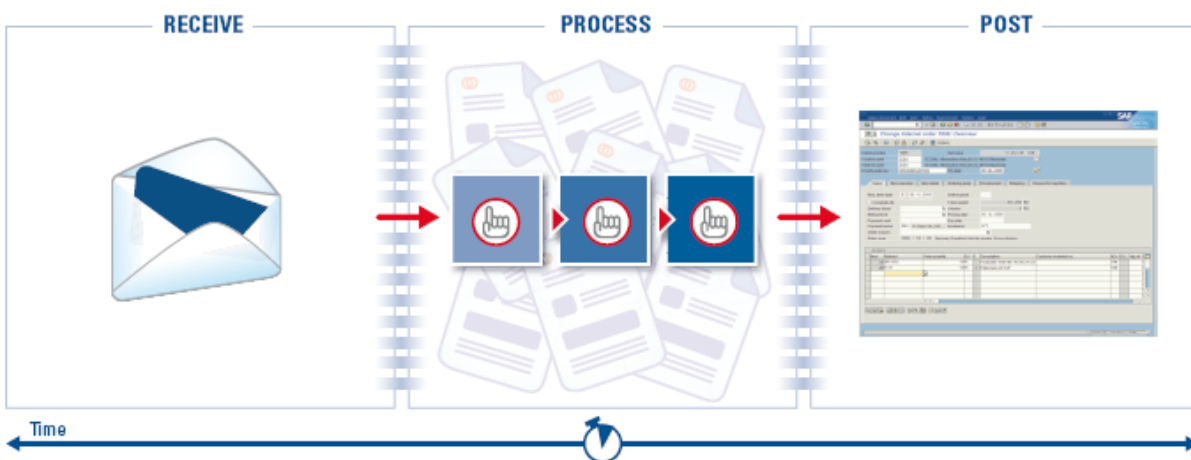
- Rapid deployment
- Rich functionalities
- Low cost
- Low risk
- No IT investment

Challenges in Accounts Payable

What is the problem?

As with any business process that relies on documents which have traditionally been paper, painful processes run throughout the procure-to-pay cycle. Research by PayStream Advisors has found significant concentration in four key areas of Accounts Payable: invoice receipt, data extraction, invoice matching and exception handling, and approval workflow. The core problem is that these steps rely on paper and people. AP departments relying on manual processes are finding that adding staff does not solve the inherent problem. Manual processes are not only expensive and inefficient; they also increase the chance of errors and expose organisations to many risks.

ISSUE	IMPACT
Invoice processing cycle time	<ul style="list-style-type: none"> ▪ Delays in posting expenses ▪ Waste of cash: inability to capture early payment discount, late payment penalties ▪ Damaged relationships with suppliers
No automatic validation	<ul style="list-style-type: none"> ▪ Overpayments for billing errors ▪ Duplicate payments ▪ Tax errors
Lack of process visibility	<ul style="list-style-type: none"> ▪ Difficulties in budgeting, planning and forecasting ▪ Lack of control and higher risk impacting audit standards compliance ▪ Challenges for accurate and on-time closing ▪ Difficulties in responding to vendor invoice status inquiries
Invoice processing costs	<ul style="list-style-type: none"> ▪ Invoice dispute resolution ▪ Exception handling ▪ Escalation and approval of problem invoices



Invoice processing cycle time

Although invoices start as electronic documents, they end up as paper on someone's desk. The result is that they take longer to process than they would if they remained in electronic format. The resulting delays in processing have a negative impact on the ability to take advantage of vendor discounts for early payment.

No automatic validation

Risk of error is inherent in any process that involves paper and manual data entry. In Accounts Payable, this demands particular attention not only because of the impact on working capital, but also because Accounts Payable transactions are subject to scrutiny by external audits for regulatory compliance. Any problems in recording invoices as liabilities, particularly when the invoice is not associated with a purchase order, can result in inaccurate financial statements and even allegations of fraud.

Lack of process visibility

According to Aberdeen Group research, top-performing enterprises are 43% more likely than their peers to have company-level visibility into Accounts Payable processes. Companies lacking such visibility encounter difficulty in assessing operations and developing strategies for process improvement. Lack of visibility is also a significant contributor to transaction cost and cycle time.

Just as automated entry of vendor invoices is essential for process efficiency and quality assurance, data on invoice document processing is crucial to daily operations. For example, vendor inquiries frequently create the need for information about the processing status of an Accounts Payable transaction. Quick access to information on whether an invoice has been received, processed, or paid (as well as data on the currently responsible agent) can significantly reduce turnaround time of vendor inquiries.

Invoice processing costs

The cost of processing vendor invoices is generally high. It is even more important for small invoices, as the cost of resolving an issue may be higher than the value of the invoice itself. Aberdeen Group studies show that manual invoice processing costs between \$13.00 and \$15.60 per invoice versus \$8.60 to \$9.00 for electronic invoices.

How big is the problem?

As a measure of the scope of the issue, recent Aberdeen Group research has found that paper remains the main format for vendor invoices — representing 80% of all invoices. Even as ERP solutions have centralised and standardised many key business processes, Accounts Payable remains inundated with paper.

Aberdeen Group research has characterised Accounts Payable functions lacking automation as inefficient and weighed down by paper. Still, despite compelling transaction cost savings and other strategic benefits, most companies have not automated Accounts Payable to any significant degree.

How valuable is the solution?

According to the Hackett Group, increasing the volume of electronically captured invoice line items to 80% can:

- Increase on-time payments by 7%
- Reduce process cost per invoice by 59%
- Increase early payment discounts by a factor of more than 3

Procure-to-pay value

When the solution is part of end-to-end automation in the procure-to-pay cycle, The Hackett Group finds significantly lower transaction costs among top-performing companies than their lower-performing counterparts. Reduction of the end-to-end cost can be as high as 92%, resulting in savings of \$2–\$3 million for the average organisation.

Overcoming the Challenges

Organisations can effectively address productivity and transaction cost reduction with the ability to:

- Remove manual sorting and handling of invoices
- Speed up data entry
- Remove transportation costs from local offices to headquarters and back
- Minimise the cost of physical archiving of invoices
- Streamline communication to resolve exceptions and discrepancies
- Reduce supplier complaints and inquiries
- Improve response time to answer suppliers' inquiries
- Monitor individual AP specialist performance
- Identify "problematic" suppliers
- Improve AP service levels to other departments
- Integrate electronic invoices in the same process

To strengthen financial management, cost and risk control you need to:

- Improve visibility of expenses (approval and/or payment)
- Improve ability to take advantage of early payment discounts
- Support regulatory compliance efforts (Sarbanes-Oxley, etc.)
- Control actual terms of payment and compliance with regulations
- Control credit situation and protect credit ratings
- Improve financial statements closing process
- Reduce risk of duplicate payments
- Enable cash flow forecast
- Unify Accounts Payable processing and exception tracking
- Quickly respond to auditor (internal or external) requests

Automation improves supply chain and vendor relationships by helping companies:

- Pay suppliers on time
- Identify and resolve disputes
- Avoid credit hold situations that may impact the business
- Reduce the number of invoice query calls from suppliers
- Answer supplier questions immediately

Accounts Payable Automation

How it works

Esker solutions automate vendor invoice processing from the reception of the original document to the resulting creation of a corresponding business document. The workflow includes automatic and human validation of the data as well as document archiving. Full customisation flexibility lets you:

Automate the creation of vendor invoices, including posting and parking capabilities. For invoices and credit memos without a purchase order, users can specify if a credit memo or invoice should be created. Other invoices are created in relation to an existing purchase order can flow into the ERP system without user intervention.

Archive the original document for later reference, either on the esker server or an external system.

Data such as vendor number, purchase order number and due date for routing and indexing are captured when a fax, email, paper or electronic invoice arrives. No predefined templates are needed. The Esker solution checks the extracted data to determine if the invoice is associated with a purchase order.

PO invoices

ERP data is compared with the invoice and the purchase order. If there is a perfect match, the transaction can be automatically sent through to the ERP system (touchless processing). Data is automatically captured using intelligent technology offering accuracy and flexibility that is superior to basic OCR and template-based capture, completely eliminating manual data entry. The original invoice image is automatically stored for later search and retrieval.

Non-PO invoices

For invoices that do not match up with a purchase order, the Esker solution can perform the necessary exception handling, such as checking to see if the invoice is a duplicate, if there are any discounts that can be applied for fast payment or if the invoice needs to go through an approval process. Coding may be done, either inside or outside of the accounting department, at this stage. If any additional approval is required, the invoice can be transferred through the office electronically so that you know exactly where it is in the approval process and it gets to the right people, get the necessary approvals to generate the information in the ERP system to book payment as quickly as possible.

With or without a PO

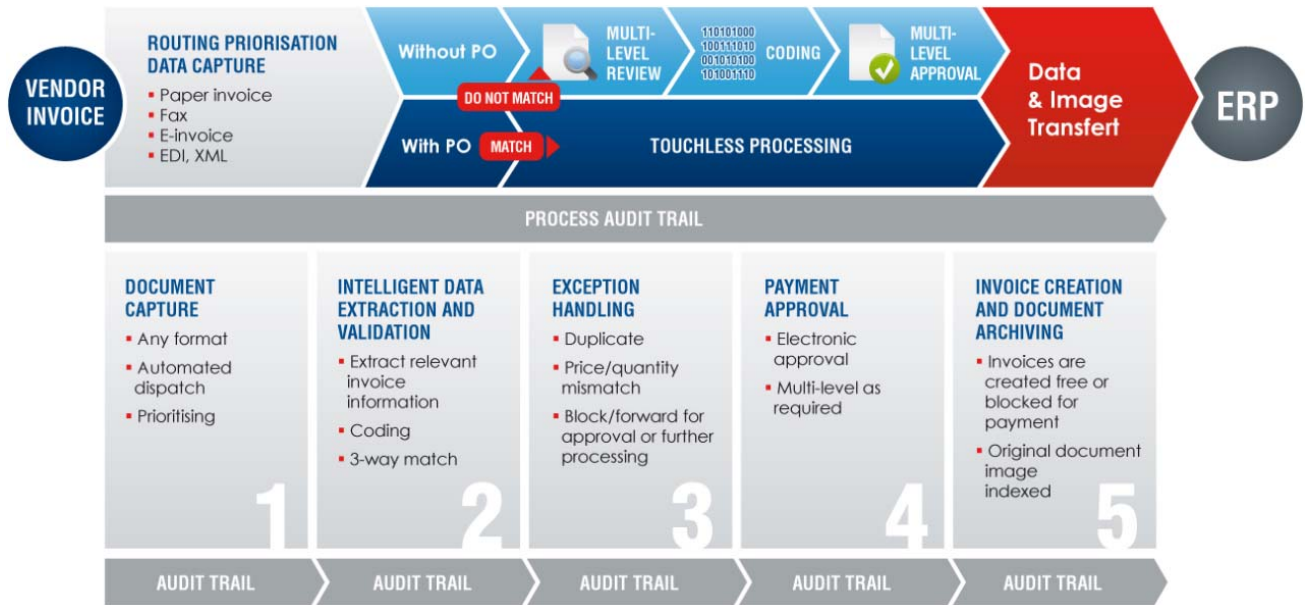
Throughout the process, with or without a purchase order, every action taken is documented and auditable. Invoice data and document image are electronically transferred into the Esker archive or a separate archiving solution, with a link back into the ERP application.

In delivering the advantages of Accounts Payable automation, Esker provides a tool for accurate and on-time account booking, effective procurement management with on-time vendor bill settlement, invoice validation and automated approval workflow. Accounts Payable departments gain the ability to track and closely monitor each step of vendor invoice processing. Combined with the versatile user rights management features in Esker solutions, these capabilities also help companies comply with regulations such as the Sarbanes-Oxley Act.

Reporting and metrics

Reporting tools empower Accounts Payable managers and personnel to monitor volume of invoices processed by FTE per day, split between PO and non-PO invoices, average time to process an invoice and other Key Performance Indicators. Whether a company uses the technology to remove some or all human intervention from vendor invoice processing, the automated process offers distinct advantages with electronic copies of invoices readily available to any authorised person within the company without having to go through physical files.

Automated process overview



1. Invoices are sent to the Esker platform and processed according to predefined rules matched to invoice attributes such as supplier, amount, buying entity, etc. scanned or electronic documents are captured and can be automatically routed and prioritised.
2. The Esker solution extracts relevant invoice information such as company name, invoice number, due date and line item details. Captured data can be automatically checked using 2-way or 3-way matching against an existing purchase order. If there are no exceptions, touchless processing can create the invoice for payment without the need for user validation. Invoices without a PO can undergo multi-level review, coding and multilevel approval.
3. If an exception such as price/quantity mismatch occurs, the invoice can be blocked for payment pending validation and approval via an electronic workflow that can be set up to go through one or several users.
4. Invoice information is made available to the ERP application, and the document image is automatically indexed to the Esker server or another archive. Users can be notified of invoice entry and status.
5. The original invoice image is readily available for reference as needed.

Esker customers benefit from:

- A corporate solution for multiple processes, including procurement integration
- SAP-certified integration and experience
- A true company solution with support for shared services and technologies such as clustering
- Proven deployments worldwide
- Archiving flexibility
- One-step document validation and reconciliation capabilities
- Web-based workflow — outside of the ERP system
- A proven implementation methodology and process-focused approach

Strategic value assessment factors reported by Esker customers

- Minimal downtime
- One-step validation and reconciliation/posting
- Fit with company SOA strategies
- Web workflow allowing users to validate and approve invoices through the ERP interface
- Capability to extend the solution to procurement for end-to-end procure-to-pay management

Attributes of the solution

Key features for Accounts Payable automation

- Exception handling and payment approval workflow — notification
- Automated invoice matching, including 3-way verification of PO invoices
- Non-PO invoice handling — financial posting
- Automatic coding and tax allocation
- Automation of header and line item data validation
- Automatic duplicate invoice check
- Expense coding accuracy and automated GL policy-based coding of invoices
- Goods receipt-based invoice verification
- Quantity and price variance management
- Planned and unplanned delivery cost support
- Tracking and reporting capabilities to monitor invoice processing activities
- Electronic indexing and archiving of original document image for easy search and retrieval
- Link to the archived document available directly from SAP transaction screens
- Invoice entry notification and warning when unprocessed orders are sitting for too long in someone's task list
- Out-of-office management

Software as a Service for AP automation

As an alternative to hosting the solution in-house, organisations can leverage the capabilities of the Esker platform as an on-demand service. Because there is no server or desktop computer setup, Esker on Demand Accounts Payable automation can be up and running quickly. Following initial sign-up and solution configuration to match your internal process, Esker will set up users and permissions, upload data, and train your staff. This option can help to preserve even more capital by automating Accounts Payable processing without additional It complexity or associated expenditures:

- No software
- No hardware
- No maintenance

Esker on Demand Accounts Payable automation offers rich functionality to streamline the process of capturing, submitting, approving and paying vendor invoices to reduce invoice processing times, help ensure accuracy and control, and provide real-time visibility of each invoice in the payment cycle. The service also offers value beyond AP by opening the door to other Esker on Demand services, including outbound fax and postal mail delivery of documents such as invoices and purchase orders.

Key benefits

- Lower purchase-to-pay process costs by as much as 40–60%
- Receive and enter vendor invoices up to 65% faster
- Take full advantage of fast-payment discounts
- Prevent late and duplicate payments
- Improve response to vendor inquiries concerning invoice status
- Improve cash-on-hand planning
- Eliminate redundant ERS invoice processing
- Benchmark metrics such as vendor cost and employee performance
- Access to information for reporting and analysis to balance workloads and identify process bottlenecks

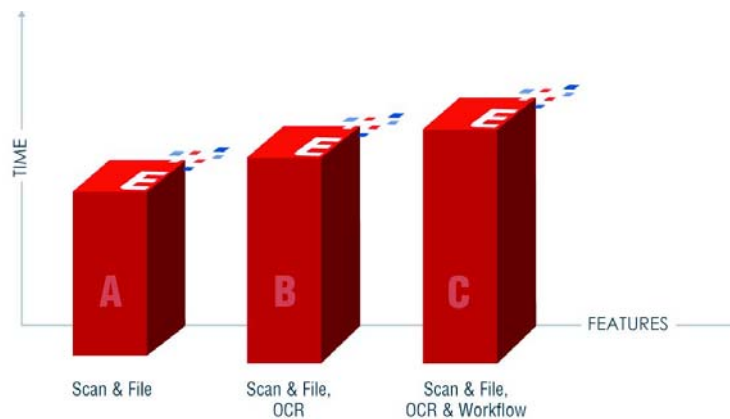
Typical savings



Implementing the Solution in Phases

Automate at your own pace

Esker solutions enable a phased approach to implementing automating Accounts Payable processing. For companies who mainly want to get rid of paper, the first phase makes copies of invoices readily accessible. The intermediate phase leverages data capture technology to make the invoice archiving and indexing process even more efficient. And the third phase adds approval workflow capabilities to automate vendor invoice processing from end to end.



Level A: Quit paper

- Invoice data is manually entered into the ERP system
- Index information is manually keyed into the Esker web client
- A scanned image of the invoice indexed and archived electronically for easy retrieval

Level B: Automated data capture

- Invoices are scanned and put through content-based Dynamic Document Capture
- Data is automatically extracted and verified
- Data is made available in XML with the invoice image, so no additional data entry is necessary

Level C: Process automation

- Invoices are automatically processed from receipt to posting
- Approval workflow to ERP entry and archiving

About Esker

Document process automation leadership

Esker is a recognised leader in helping organisations eliminate manual processes, gain visibility and control, and reduce the use of paper by automating the flow of documents into, within and out of the organisation. With its comprehensive platform and patented technology, Esker delivers the advantages of automated document processing either as a powerful on-premise solution or as an on-demand services (SaaS) leveraging Esker-hosted infrastructure. Customers achieve significant and immediate operational efficiencies, cost savings and measurable ROI in as little as three to six months.

As an established SAP software solution partner with certified integration, and SAP customer itself, Esker has made serving the needs of SAP customers a top priority. The results of the SAP and Esker partnership are demonstrated around the world by SAP customers who have automated document processes with Esker solutions. Esker has a dedicated R&D team focusing on SAP applications, and a primary objective to offer SAP customers the best solution for document process automation. Esker's solutions for AP Automation also work with other ERP Systems.

Founded in 1985, Esker operates globally with offices in 10 countries (USA, Europe, Asia, Oceania) and has over 80,000 customers and millions of licensed users. Esker has global headquarters in Lyon, France and U.S. headquarters in Madison, Wisconsin. For more information, visit www.esker.com.au.

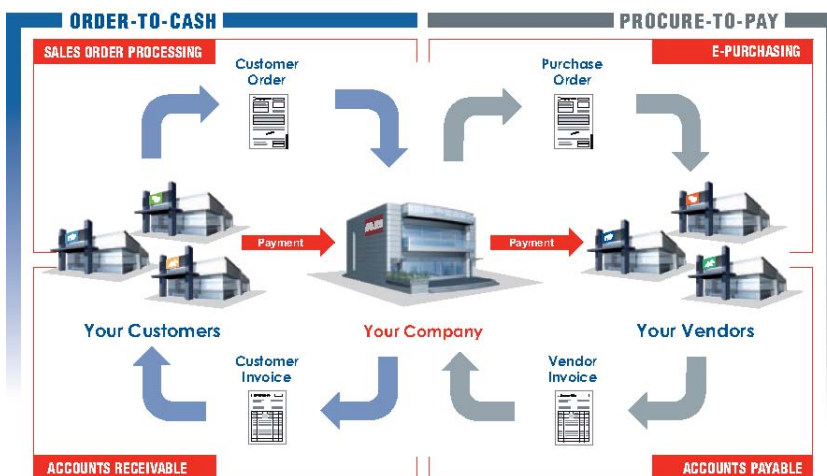


Solutions

Procure-to-Pay and Order-to-Cash and Automation

To help organisations quit paper and speed cash conversion, enhance customer satisfaction, improve supply chain performance, and increase profitability, Esker solutions addresses the specific needs of the procure-to-pay and order-to-cash cycles:

- **Sales Order Processing** to automate entry and routing of incoming customer orders
- **Accounts Receivable Invoicing** to automate delivery of billing documents based on customer preferences
- **Accounts Payable Processing** to automate entry and routing of incoming vendor invoices and other payables
- **E-Purchasing** to automate delivery of supply chain documents based on vendor preferences





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