HOT TREND:
ACCOUNTS PAYABLE AUTOMATION

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Alex Keene, BBVA Compass
Agenda

Accounts Payable Goals
Accounts Payable Challenges
How A/P Automation Works
A/P Automation Savings
The Cost of Doing Nothing
Action Plan
Evaluating Different Providers
Accounts Payable Goals

Goal: Reduce Costs

Source: 2013 A/P Automation Study by Institute of Financial Operations
Accounts Payable Goals

Goal: Reduce Cycle Time

Cost Reduction per Transaction

<table>
<thead>
<tr>
<th>Traditional PO Method</th>
<th>Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>$90.77</td>
<td>$17.24</td>
</tr>
</tbody>
</table>

81% Reduction

Cycle Time (Days) Reduction per Transaction

<table>
<thead>
<tr>
<th>Traditional PO Method</th>
<th>Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.10</td>
<td>3.6</td>
</tr>
</tbody>
</table>

70% Reduction

Sources: 2012 Purchasing Card Benchmark Survey by RPMG Research Corporation
Accounts Payable Goals

Goal: Lower Risk of Payment Fraud

Payment Method Used  Targeted by Fraudsters


Sources: 2014 AFP Payments Fraud and Control Survey by Association of Financial Professions (AFP) and 2013 AP Automation Study by Institute of Financial Operations

60% of all companies surveyed by AFP were targets of payment fraud in 2013.
Accounts Payable Goals

Goal: Fully Automate Process from Invoice to Payment

**Purchase Order & Invoice Receipt**
- Email
  - Mail
  - Fax
- EDI
  - XML
  - Batch

**Paper Invoices**

**Electronic Invoices**

**Automated Workflows**
- Workflow engine
- Customized business logic

**Custom Workflow**
- Purchase Order Based Matching
- Exception Management
- Non-PO based routing approval hierarchy

**Company’s ERP**

**Payment**

**Integrated Payables**
- ACH
- Wires
Accounts Payable Goals

100% Digitization of Invoices

Working Capital Optimization

- Upload to ERP or Accounting System to Issue Payments
- Complex Search Capabilities to Expedite Exception Handling & Dispute Resolution
- Interface with Purchase Order & Receiving Systems
- Rule-based Automated Approval Workflow
Accounts Payable Challenges

Challenge: Paper Dominates in A/P

What percentage of your total invoice volume is paper-based?

Source: Institute of Financial Management (IOFM) A/P Automation Survey, July 2013
Accounts Payable Challenges

- Many PO/Invoice/Receipt matching exceptions
- Little visibility to exceptions in the process and their status
- Business rules not uniformly enforced
- AP Staff challenged to keep up with growth
- Processing delays lead to missed early payment discounts
- Manual approval routing
- Significant data entry at the line item level
- Duplicate payments
- Approval delays due to travel and vacations
- AP Staff challenged to keep up with growth

Common Pain Points
How A/P Automation Works

1. Supplier sends invoice either in paper or electronic format
2. Paper documents prepped and scanned
   Data elements captured, indexed and enriched
3. Invoice data is validated against specific rules and purchase order and/or receiving data as applicable
4. Invoice images and data are electronically routed to the appropriate contacts based on customized workflow queues. In some systems, this only applies to exception items.
5. Approved invoices are sent to the ERP system for payment processing, which sends payment instructions to Integrated Payables (card, ACH, wire, check)

This is a sample representation of how an A/P Automation system would typically work. There are variances between provider systems.
How A/P Automation Works

Key data elements
1. Vendor Name
2. Vendor Number
3. Invoice/Account Number
4. Amount
5. Tax
6. Freight
7. Gross Amount

Purchase Order Matching
1. Valid PO # (Validation file)
2. Line Item Detail
3. Matching (Quantity, Price, Receipt)

Reference Matching
1. Validate data to initiate workflow
   a. Name
   b. Zip Code
   c. Division
2. General Ledger Coding by Chart Field
   a. Company
   b. Department / Cost Center
   c. Account
   d. Additional (Property, Tenants, etc)
How A/P Automation Works

Electronic Invoicing

- Suppliers
- Buyer
- Print
- Finish
- Post
- Sort
- Prepare
- Scan
- OCR
- Input / Repair
- Archive

Any to Any Mapping
Purchase Order Delivery and Conversion
Invoice Status

Required Fields and Structure
Purchase Order Validation
Data Enrichment
How A/P Automation Works

Vendors submit invoices electronically or in paper format.

Uses OCR technology to parse invoices into customer-defined fields.

Tables by vendor that correlate each individual line item to a GL code.

Unmatched items are considered exceptions for review and approval.

Once approved, the invoice is downloaded into the AP module as a voucher.

Status breakdowns based on individual client’s business rules.

Auto-matched invoices are flagged for easy PO line item adoption.

Document images available for entire retention period of 7 years.

Full routing and approval history.
How A/P Automation Works

The Ideal Invoice Automation Back Office

Suppliers

- Supplier with < 100 invoices/month

Receiving Operations

- Paper invoices
- E-Mail and Fax
- Direct Supplier Integration
- Web Entered Invoice Data
- Through Other Networks

A/P Automation Technology

- Intelligent Optical Character Recognition (IOCR) Platform

System of Record

- Matching, Workflow & Archive Platform

ERP
A/P Automation Savings

Reasons for High Demand of A/P Automation

- Up to 70% Lower Invoice Processing Costs
- Bigger Card Rebates
- 80% Faster Invoice Validation
- Cost-of-Goods Savings
- Time Savings Due to Few Supplier Inquiries

Up to 70% Lower Invoice Processing Costs

80% Faster Invoice Validation

Cost-of-Goods Savings

Time Savings Due to Few Supplier Inquiries

Bigger Card Rebates
# A/P Automation Savings

## ACCOUNTS PAYABLE (A/P) DEPARTMENT STATISTICS

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Best in Class (20%)</th>
<th>Average (33%)</th>
<th>All Others (47%)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per Invoice</td>
<td>less than $6.00</td>
<td>$14.21</td>
<td>$17.61</td>
<td>Fully loaded cost includes sorting the mail, routing invoices to the correct approver, researching accounts for general ledger distribution, identifying duplicate invoices, entering invoice details to ERP system and a myriad of other tasks to process invoices plus document storage.</td>
</tr>
<tr>
<td>Invoices Processed per Employee (per month)</td>
<td>4,814</td>
<td>2,308</td>
<td>1,408</td>
<td>In a manual A/P environment, teams spend time repeatedly resolving exceptions from the same sources instead of eliminating them.</td>
</tr>
<tr>
<td>Invoice Processing Cycle Time</td>
<td>3.7 days</td>
<td>12.4 days</td>
<td>17.1 days</td>
<td>Measured from the time of invoice receipt to payment generated.</td>
</tr>
<tr>
<td>Invoice Exception Rate</td>
<td>8.0%</td>
<td>13.1%</td>
<td>16.4%</td>
<td>Even a small reduction in the invoice exception rate has a substantial impact in productivity.</td>
</tr>
<tr>
<td>Total Percentage of Invoices Processed Using Straight-through Processing (STP)</td>
<td>50.3%</td>
<td>27.0%</td>
<td>12.3%</td>
<td>STP refers to &quot;touchless processing&quot; wherein purchase order (PO) based invoices match all of the pre-configured business rules and can be processed without any human intervention and scheduled for payment.</td>
</tr>
</tbody>
</table>

Survey Demographics: 192 A/P Professionals represented as follows: 56% Large (revenue > $1 billion); 22% Middle Market (revenue between $250 million and $1 billion); 22% Small (revenue < $250 million)

Source: Ardent Partners, ePayables 2014: The Quest, published May 2014
A/P Automation Savings

All-in Automated Invoice Processing Cost (per invoice) $4.00
• Per invoice fee includes scanning of invoices in color, indexing of key fields, customized and automated workflow, electronic alerts, online presentment, image archive of invoices, 7-to-10 year online storage, image downloads, business intelligence reporting, receiving system interface, purchase order system interface and accounting/ERP system interface.

Internal Review Cost (per invoice) $1.33
• Systems that include 3-way matching, GL distribution, duplicate detection and approval routing mean that, on average, 50% of invoices require no human intervention, and the rest take 9 minutes or less of employees' time
• Payscale.com estimates that an Accounts Payable Clerk earns an average wage of $14.23 per hour + 25% in benefits = $17.79

Total Cost per Invoice $5.33
This is a sample representation and varies substantially by provider
### A/P Automation Savings

<table>
<thead>
<tr>
<th>Invoices per Month</th>
<th>700</th>
</tr>
</thead>
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<tr>
<td>Invoices per Year</td>
<td>8,400</td>
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</table>

<table>
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<th></th>
<th>Invoice Automation</th>
<th>Average</th>
<th>All Others</th>
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<tr>
<td>Cost per invoice</td>
<td>$5.33</td>
<td>$14.21</td>
<td>$17.61</td>
</tr>
<tr>
<td>Annual Cost</td>
<td>$44,772</td>
<td>$119,364</td>
<td>$147,924</td>
</tr>
<tr>
<td><strong>Invoice Automation Savings</strong></td>
<td></td>
<td><strong>$74,592</strong></td>
<td><strong>$103,152</strong></td>
</tr>
</tbody>
</table>
The Cost of Doing Nothing

- **Lost Invoices**
  - Vendor stoppages
  - Poor vendor relations
  - Negotiation issues

- **Data Inaccuracies**
  - Manual data entry errors

- **Problem Resolution**
  - Time spent on responding to vendor calls
  - Time spent on low-value tasks

- **Handling Paper**
  - Costs of filing, pulling & searching files

- **Routing Paper Invoices**
  - Costs of Moving Paper
  - Inefficiencies (time lost)

- **Slow Payment Process**
  - Same problems as lost invoices
  - Missed discounts

- **Approvals & Purchasing Control**
  - Purchase orders created after receipt of invoice
  - Circumventing controls
Action Plan

1. Gain Executive Support
2. Document Existing Process, Cycle Times & Associated Costs
3. Evaluate Opportunities for Improvement
4. Gather Budgetary Numbers for Potential Solutions
5. Document a Business Case
6. Line Up Resources
7. Gain Approval and Move Forward
Evaluating Different Providers

Optical Character Recognition (OCR)
- Template driven or Intelligent learn-by-example
- Line item capture or Header and footer data only
- Scanning responsibility

Workflow
- Predefined process or configurable to different company processes
- Three or four way matching with PO, Receiving and GL applications
- Security, audit logs and user access
- Disaster recovery and failover backups
- Flexibility to handle future changes and growth

Integration, Searching & Reporting
- Integration to existing ERP and other systems
- Document Image retention and retrieval
- Full-text contextual search capabilities
- Intelligent business reporting or need for 3rd party reporting tools

Pricing & Implementation
- All-in per item fee vs Nickle-and-Dime approach
- Implementation / One-time fees
- Custom programming needs
- Equipment – scanners, post office boxes, etc
Summary

- Shifting Landscape of A/P: Doing More with Less
- Paper Still a Major Issue
- Digitally Automate Business Processes in AP
- Path to Automated Payment Processing
- Reduce Costs & Strengthen Fraud Control Measures