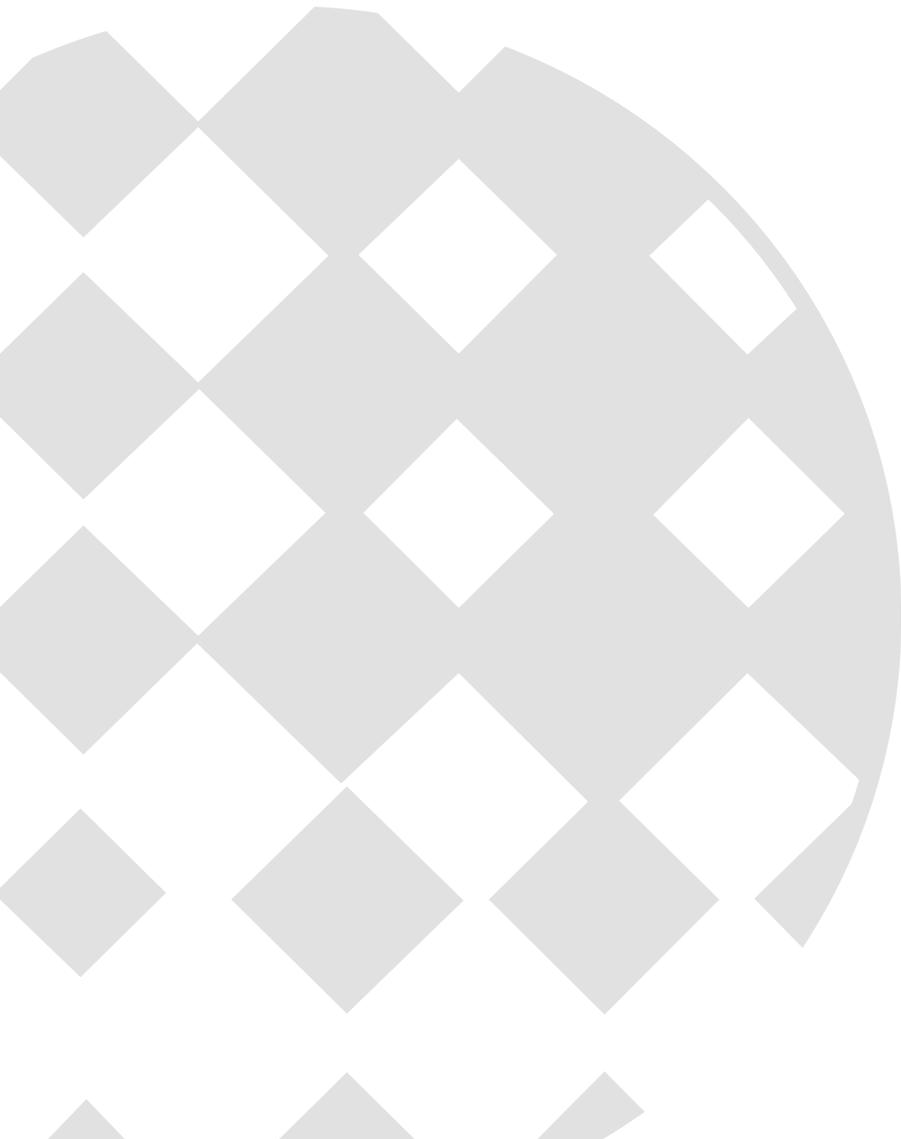




WHITE PAPER

# Overcoming Challenges in Accounts Payable Automation

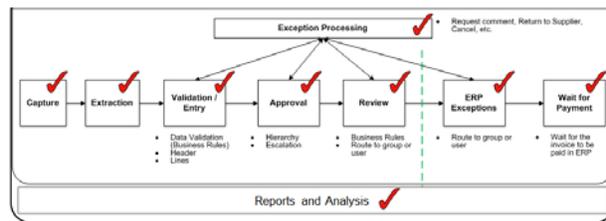


## Overcoming challenges in accounts payable automation

### Executive summary

Accounts payable automation presents unique challenges. It is characterized by large volumes of data, arriving in different formats and media that must be securely received, accurately interpreted and entered into financial systems. Transactions within the process may require discrepancy resolution, accounting coding, approvals, and settlement.

End-to-end automation tames this disorderly process and unleashes information about every aspect and dimension. This positions finance to manage the process to achieve specific outcomes, such as capturing all discounts, paying suppliers on time, meeting commitments on internal service levels and costs, and providing higher value-added services.



*The AP Process*

### Benefits of accounts payable automation

The benefits of end-to-end accounts payable automation are well established:

- ◆ Faster processing
- ◆ Reduced costs
- ◆ Greater process transparency
- ◆ Strengthened internal financial controls
- ◆ Lower error rates
- ◆ Enhanced cash management

These are the dividends of dramatic process improvements, also enabling organizations to achieve strategic goals such as the implementation of efficient and effective shared service centers, enhanced service levels to lines of business, faster financial closes, optimized planning and reporting, and improved cash management. While organizations are highly motivated to reach these goals, they are challenged to determine where to begin, and how to select and implement the right technologies.

## Getting started

In preparation for AP automation, organizations should:

- ◆ Create a management initiative, including a clear vision of the automation goal, the resources to manage the project, and the commitment to a positive outcome.
- ◆ Review and document existing processes. Create process flow maps. Who are the participants? What are their roles? What technologies do they work with in their day-to-day environment? What are the steps in each process? What are the key metrics of today's processes (e.g., time to capture, approve, and pay the invoice, late invoices, error rates, etc.)?
- ◆ Review and document internal controls and regulatory compliance (e.g., segregation of duties, approval authorities, financial reporting).
- ◆ Determine the role of the financial (ERP) system(s). As the repository for all financial data, the ERP is a fundamental component of financial process automation. Which of its data elements are to be leveraged throughout the process? What capabilities are required to augment the ERP environment?

### **Best practices**

Proven in multiple environments, with documented results, best practices are endorsed by industry associations including IFO, IOFM, and TAPN. They are also recognized by benchmarking firms including The Hackett Group and are supported by empirical data. Organizations should strive to embed best practices into the fabric of the automation solution. This ensures their uniform adherence. We have selected a representative sample of best practices that impact accounts payable process automation:

1. Payables processing is largely consolidated within a shared service center (SSC). Most importantly, invoice receipt, data extraction and validation are centralized.
2. Tailor global corporate accounts payable policies for specific geographic regions and cultures within the organization as needed to enable effective and efficient operations.
3. Use imaging technology for document storage and retrieval.
4. Automate workflow of electronic or imaged invoices. Clearly define work rules for workflow of approvals including time to respond, secondary approvals, etc.
5. Use online collaboration tools to document and resolve mismatched or contested invoices.
6. Provide a single online portal for employees to perform all purchasing and AP functionality.
7. Electronic transmission and receipt of invoices.

8. Centrally maintain a single instance of the supplier master file.
9. Automate check request process and approval through online forms.
10. Utilize evaluated receipt settlement (ERS) with two-way match of PO and receipt.
11. Update AP policies to allow payment of invoices below a specified dollar limit to be processed without formal approval.
12. Automate recurring payments.
13. Use low cost electronic methods to settle payment.
14. Maintain well defined procedures for managing sales and use tax to ensure compliance.
15. Establish formal 1099 reporting and compliance procedures.
16. Perform supplier self-service for standard inquiries.
17. Allow suppliers, through a self-service portal, additional pre-defined discounts for approved invoices.
18. Monitor process metrics on the end-to-end P2P process.
19. Utilize a shared service center portal to enable users to pull standard reports or create ad hoc reports as needed.
20. Work in partnership with procurement and treasury to develop and implement supplier payment policies and working capital strategy, addressing both DSO and DPO.

These are the cornerstone for the automation initiative. Organizations can now ask: What best practices will be implemented? Why will some not be implemented?

With these requirements and a thorough understanding of best practices, organizations are positioned to establish a clear vision of their objective, and assess and prioritize the technologies that comprise the automation investment.

### Assessment of available technologies and their providers

There are five distinct profiles among the hundreds of technology offerings for AP automation:

1. **Enabling technologies.** These are horizontal capabilities, such as software development environments, workflow tools, analytical tools, and the software stack of the financial systems supplier.
2. **Component solutions.** These are provided by independent software vendors (ISVs) to address a specific aspect of the AP automation challenge, such as capture/extraction/validation, workflow, or e-Invoice conversion and transmission.

3. **Enabling technologies and component solutions.** This type of integration is needed to create an end-to-end solution. This results in the creation of a system that is highly specific to your organization's unique needs.
4. **Purpose-built solutions.** This is a complete solution, from a single provider, that automates the end-to-end AP process. These are typically delivered as enterprise software applications with limited configurability.
5. **Extensible solutions.** This is a complete solution, from a single supplier, that is easily extensible to other processes and systems. These offer much of the capability of purpose-built solutions but offer much greater ability to extend for your current or future needs.

Each provider's profile should be examined to understand their implementation process and cost. Each has distinct cost and risk profiles due to fundamentally different implementation and support structures. Questions include: What is expected of the organization? Do you have the required skills? Is it a fixed or variable price implementation? How are additional requirements created and delivered? How extensible is the solution? How is ongoing support provided and what does it cost? What are the costs/risks to ongoing operations?

### Enabling technology and component solutions

The acquisition and integration of disparate enabling technologies and component solutions increases the risk, and likely the overall cost, of the automation project. Providers must create custom integrations to exchange information. This results in limitations to functionality and visibility, as well as duplication of data.

Organizations are encouraged to evaluate "complete solutions" from a single supplier. Consider the solution provider's experience, track record and best practices gained from multiple installations across industries—and the ability to effectively leverage new technology trends. In addition to determining how effectively these solutions address the core requirements, organizations should carefully examine their analytics and reporting capabilities.

#### **Purpose-built solutions**

Purpose-built solutions are feature-complete, robust offerings that are typically specific to an ERP system. They do not integrate with multiple ERPs. They require configuration to meet individual customer requirements, and are configured for a specific ERP release. They require an upgrade, including testing and validation, when the ERP is upgraded. Additional functionality is provided through custom development, or is incorporated into the offering and is available via an upgrade. These solutions are not easily extensible to other

processes. Customers rarely enhance or evolve these solutions without assistance from the supplier or a partner.

Purpose-built solutions automate the AP operations of hundreds of large organizations, delivering an attractive return on investment. They deliver the benefits of AP automation – speed, cost, visibility, control, quality, and enhanced cash management. If you have standardized on a single ERP, you should evaluate the purpose-built solutions that target your ERP.

### **Extensible solutions**

Extensible solutions are feature-complete, robust offerings that can be integrated with multiple financial systems. They require configuration to meet individual customer requirements. They are not configured for a specific ERP release, and they do not require an upgrade when the ERP is upgraded. Configuration, enhancements, and extensions can be delivered by the customer or through a partner.

Extensible solutions deliver the same benefits – speed, cost, visibility, control, quality, and enhanced cash management. They deliver an attractive return on investment, and are the only practical solution for multiple ERP environments. Extensible solutions offer an additional set of benefits in ease of deployment, ease of use, and ease of change. Further, their capabilities can be leveraged to automate other processes.

### **The benefits of an extensible solution – Kofax AP Agility**

Kofax AP Agility™ is a smart process application (SPA). SPAs support business activities that are people intensive, and provide the essential link between systems of record (financial systems) and systems of engagement (the ways in which customers and employees interact with an organization), including face-to-face interactions, web portals, mobile apps and social media.

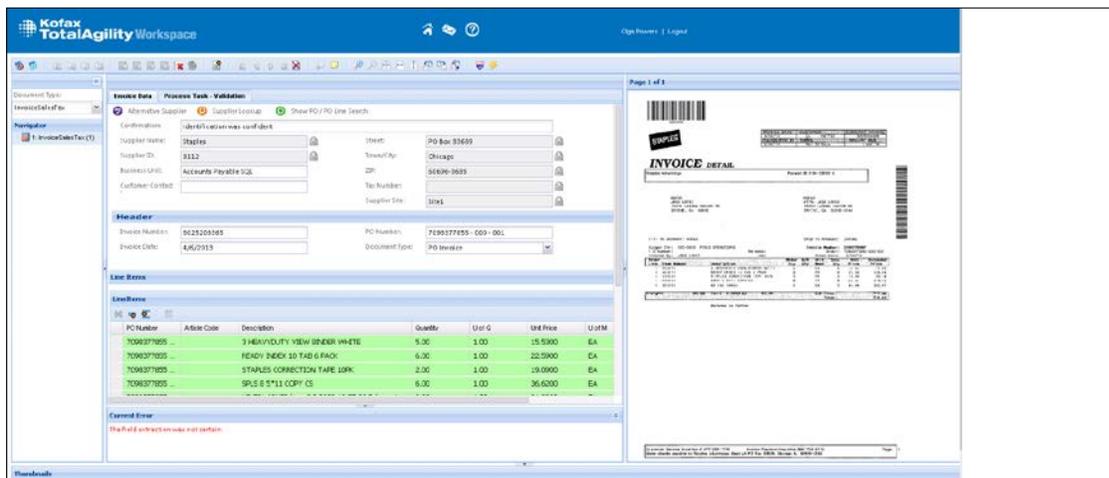
Kofax has leveraged the expertise gained from the AP automation implementation of over 1,000 customers in creating AP Agility. This extensible, best practice implementation delivers all of the required functionality, including:

- ◆ Multichannel invoice capture and extraction
- ◆ Best practice AP workflows
- ◆ ERP integration
- ◆ Analytics and reporting
- ◆ Enhanced supplier interactions

### Multi-channel invoice capture and extraction

Invoices arrive in different formats and media. The majority of invoices are still sent via paper, but email, fax, electronic formats such as EDI and those of supplier networks, and images from mobile smartphones. AP Agility capture and extraction services provide a single, consistent process that ingests all media, and creates an image of the data as it is received. This image is available in the downstream workflows.

The AP Agility extraction service is preconfigured for invoice recognition and its online learning capability further enriches data quality. The extraction service will identify all of the required invoice information for both PO and non-PO invoices. Extracted information is validated to meet the requirements of the financial system and drives actions in the downstream workflows. Extracted information will identify the supplier, and includes invoice number, line items, amounts, tax, freight, etc.



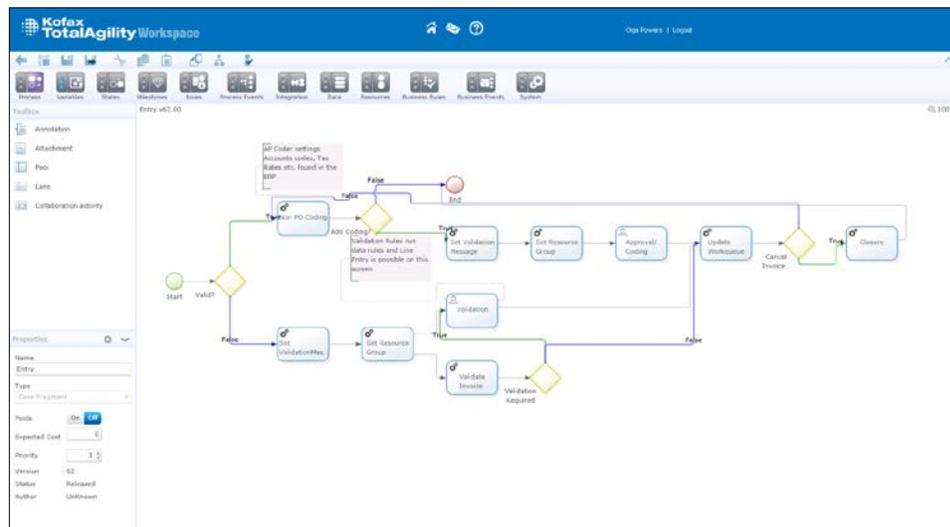
The invoice validation process.

### Validation of extracted invoice data

Most invoices are processed touchless-ly through capture and extraction, however some require review. Capture and extraction will identify data quality issues such as poor legibility on paper, or potentially conflicting information. These are sent to the validation operator who reviews and finalizes the data.

### Benefits

- ◆ Faster entry of invoice information
- ◆ Lower invoice handling and data entry costs
- ◆ Immediate visibility of all invoices
- ◆ Security of confidential information
- ◆ Reduced data entry errors



Non-PO workflow.

**Best practice AP workflows**

Invoice workflows are the face of the AP automation solution. Non-PO invoices require review, accounting coding, and approval. PO invoices must be matched, and any discrepancies must be resolved. Users need to be able to direct invoices to additional employees for comments prior to approval, and there is also the need to return invoices to suppliers for correction of re-submission. A full audit trail of all information must be maintained.

AP Agility provides best practice workflows with a high level of automation that minimizes human touch when it is needed. Internal controls are embedded into the workflows. Original invoice information is available at all times.

The invoice is directed to the individual who authorized the purchase. A quick review of the information leads to approval. Invoices above a configurable threshold are routed for executive approval. Accounting codes are entered to ensure accuracy in cost center reporting. When the quick review raises questions, the individual routes the invoice and the question to the appropriate person, who can then return it for approval.

PO Invoices are matched to PO data, and with a complete match the invoice is touchless-ly approved for payment. Invoice matching is configurable in 2, 3, 4, or more ways (e.g. receipts, waybills, etc.). When discrepancies occur, the invoice is routed to the appropriate person, typically the buyer, for resolution and approval.

Upon completion, invoices are posted to the ERP for payment. Post-approval review may be exercised, and a robust invoice search capability is available at any time.

AP Agility provides the information and tools required to optimize the process. SLAs and tolerances can be established. Escalations occur as defined by SLA tolerances. For example, unapproved invoices within three days of the payment due date can be escalated to a supervisor. Recurring invoices can be processed touchless-ly. Invoices below a value threshold can be automatically approved. Analytics (covered here later) support a wide range of actions.

### **Benefits**

- ◆ Faster invoice approvals
- ◆ Lower handling and approval costs
- ◆ Visibility of all invoices at all times
- ◆ Strengthened internal controls
- ◆ Reduced errors (duplicates, lost invoices)
- ◆ Improved cash management (capture early payment discounts, eliminate penalties, pay on time)

### **Financial system (ERP) integration**

The financial system is the system of record for accounts payable. It is the source of data (e.g., purchase orders, supplier master files accounting coding/GL tables); it encodes the organization's policies (e.g. payment terms, approval hierarchies) and the repository for invoice data (e.g., invoice number, amount, due date, approvals, final PO and non-PO invoice posting for payment). The AP Agility integration framework is designed to integrate with critical ERP data at the appropriate point in the end-to-end AP processing.

There are options for the integration of AP processing with the financial system. They include:

1. Inside the ERP
2. Outside the ERP and tightly coupled
3. Outside the ERP and loosely coupled

Each has its benefits, and the right choice varies depending on internal requirements and the technical infrastructure of the organization. AP Agility supports the last two options.

**Option 1** is good for organizations that have standardized on a single ERP system. The data is always current, and the data is upgraded in tandem with the ERP. Its disadvantage is in the potential for negative impact on the system requirements and performance of the ERP system.

**Option 2** has the benefit of making the ERP's overall view of liabilities, and the AP system's view of ERP data, more current. Its disadvantage is in the cost of implementation and operation; there is a larger initial implementation effort and a more pressing need to keep current with ERP system upgrades.

**Option 3** is the least costly and quickest, and meets the requirements of the majority of organizations. Its principal advantage is that the organization need only ensure that it exports ERP data to a database for AP process interaction. This approach insulates the AP automation project from the risk, expense and speed of real-time ERP interactions. Importantly, it also insulates the AP solution from the upgrade cycle of the ERP system. For many organizations this ease of adoption trumps the benefits of an "inside ERP" approach.

With either approach, Agility AP checks that the supplier is valid, based on ERP table data, and proactively highlights for resolution invoices where the supplier is invalid or unknown. Similarly, line item matching against ERP PO information is automatic and recognized discrepancies are raised for quick resolution. To support this productive ERP integration, data is exchanged with the financial system on a frequency configured by the customer.

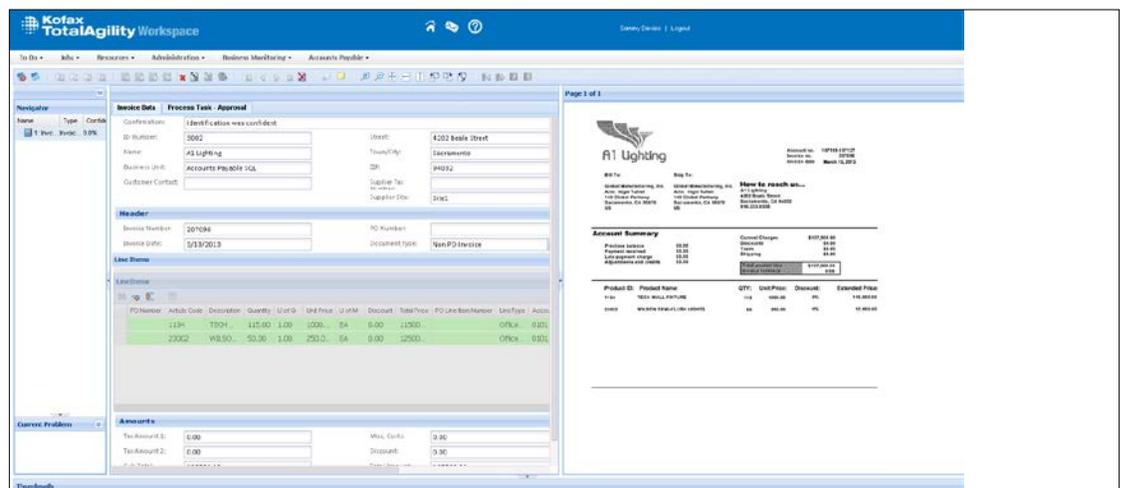
Agility AP allows for the integration of multiple ERPs, a common requirement of organizations that have grown by acquisition. As the ERPs are typically associated with different lines of business or business units, the data exchange can also be configured differently, allowing a single AP process to execute across multiple ERP systems if desired.

**Benefits**

- ◆ Reduced errors (data accuracy)
- ◆ Lower costs (common user interface for invoice review/approval independent of ERP)
- ◆ Business flexibility (easy integration of new lines of business)

**Ease of use**

Agility AP presents the most modern user interface. It delivers a common interface look and feel for all functions.



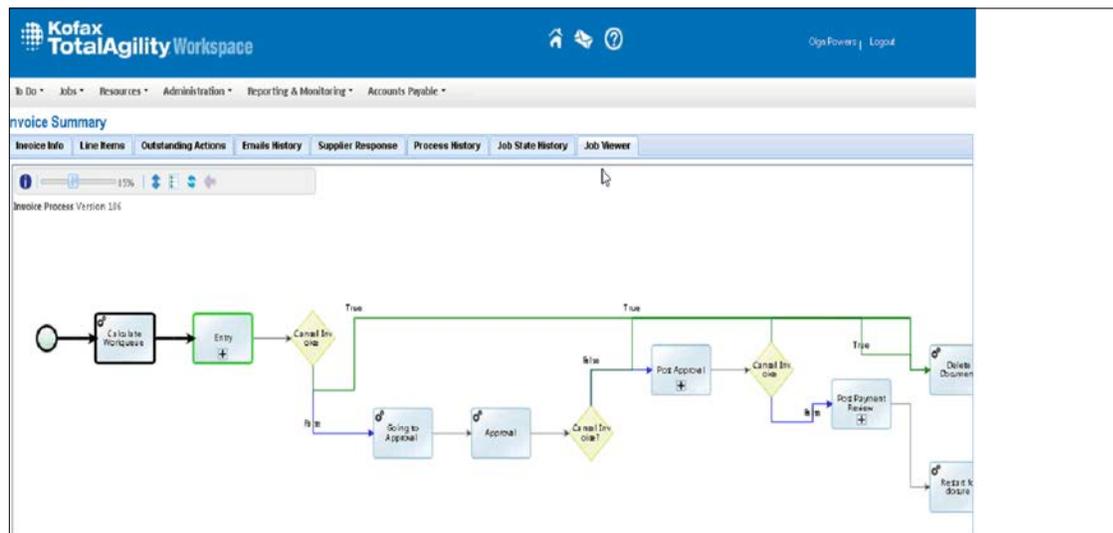
Invoice approval.

Users are presented with all of the data needed to take actions. The close integration of images and workflow data helps them easily resolve discrepancies, approve invoices, assign/re-assign work, and escalate invoices to ensure discount capture. With the extensible solution, organizations can easily change the layout and data presented on screens, ensuring they are delivering the most appropriate information to each class of user.

**Benefits**

- ◆ Reduced errors
- ◆ Lower costs (user productivity)
- ◆ Ease of Deployment

The successful implementation of a financial process automation solution requires the tools and resources to adapt the software to meet the customer’s requirements. TotalAgility is an award-winning smart process application development and deployment platform, providing a powerful set of tools to create processes and forms, to integrate with other systems, and to create and configure business units and approval hierarchies. The AP Agility solution’s reference implementation provides a baseline that dramatically reduces the effort required to meet the requirements.



Visual workflow redesign is fast and easy.

Technical personnel (customer, partner, Kofax PS) evolve the reference implementation by leveraging the AP Agility environment for adds/moves/changes. This includes the Process Designer for business processes and Forms Designer for presentation of data and actions to users, and a host of AP-specific configuration options for items including currency, date formats, tax and freight thresholds, etc.

## Deployment of purpose-built solutions

Purpose-built solutions leverage a different approach to achieve similar results. The purpose-built AP solution does not contain the richness and ease of use of the TotalAgility development and deployment platform. They leverage internally developed tools and processes, and most frequently these are implemented by the provider's professional services resources. AP Agility is designed for use by customer technical personnel and partners, and has a powerful advantage in power and ease of use.

## Deployment options

AP Agility is offered as a hosted multi-tenant or dedicated subscription or on-premise perpetual license, with terms for conversion.

### Benefits

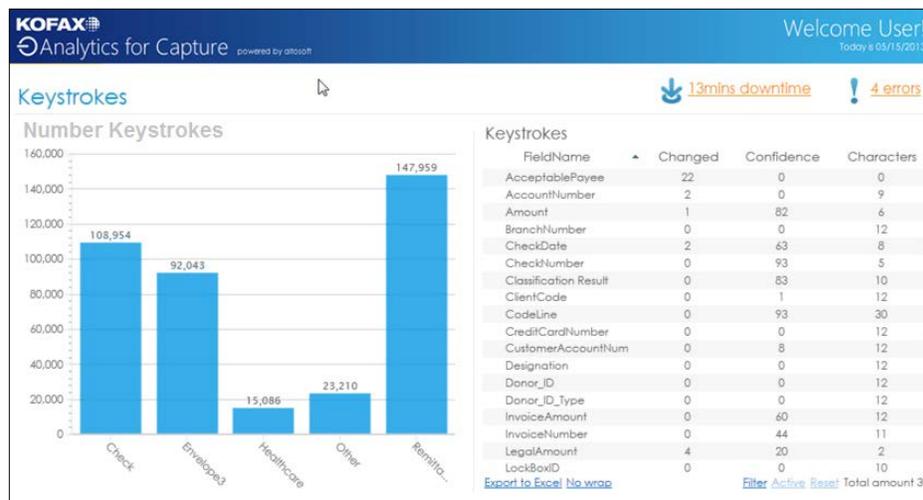
- ◆ Business flexibility
- ◆ Easy integration of acquired lines of business
- ◆ Simple to source technical resources for system evolution
- ◆ Easy to automate additional business processes, purchase and deployment options

## End to end analytics

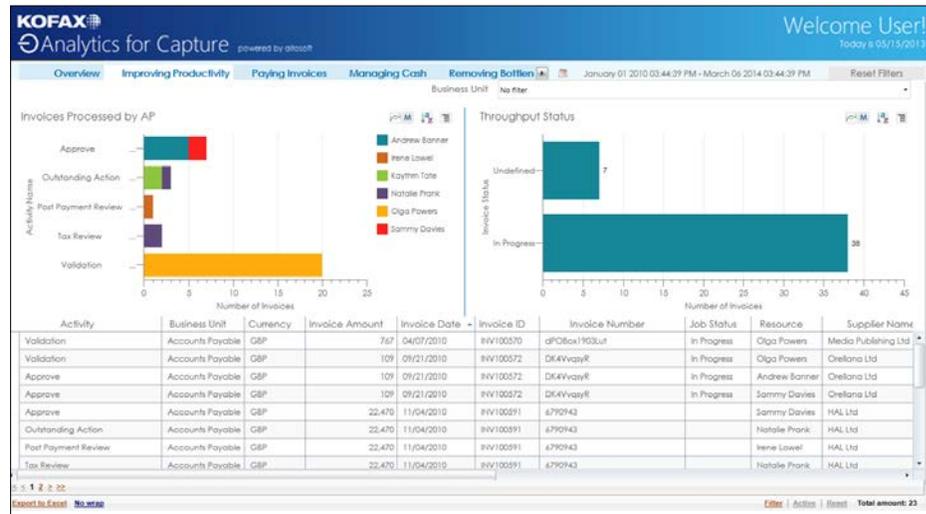
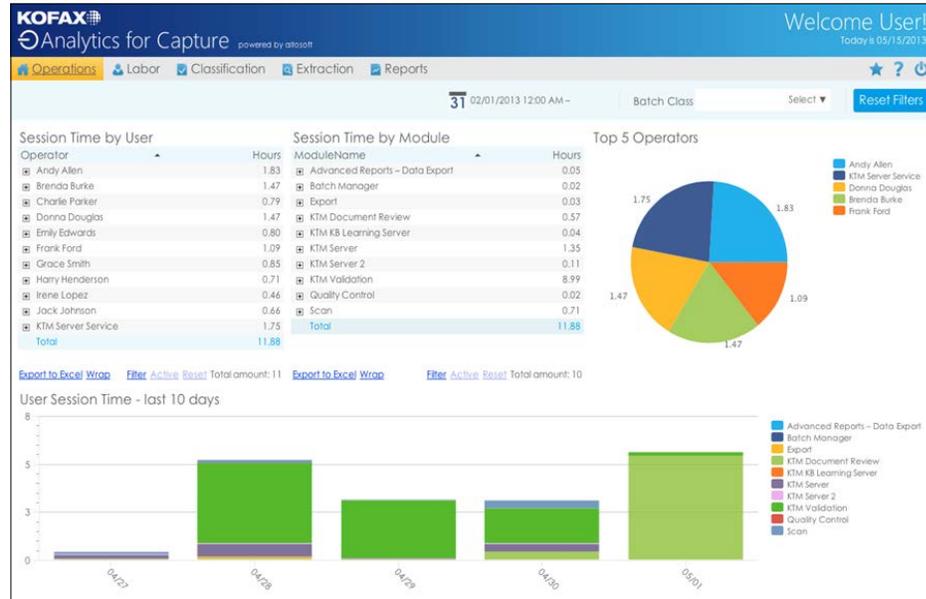
An automated AP process captures all of the data needed to manage and optimize operations. AP Agility contains a powerful set of tools to create and deploy analytics, including historical reports and dashboards. The AP solution configures these into ready-to-use tools for finance managers.

### Work item status

This report examines the status of each stage in the process at the end of a period. It can also compare to the prior period. Customers determine the periods. Other examples include:



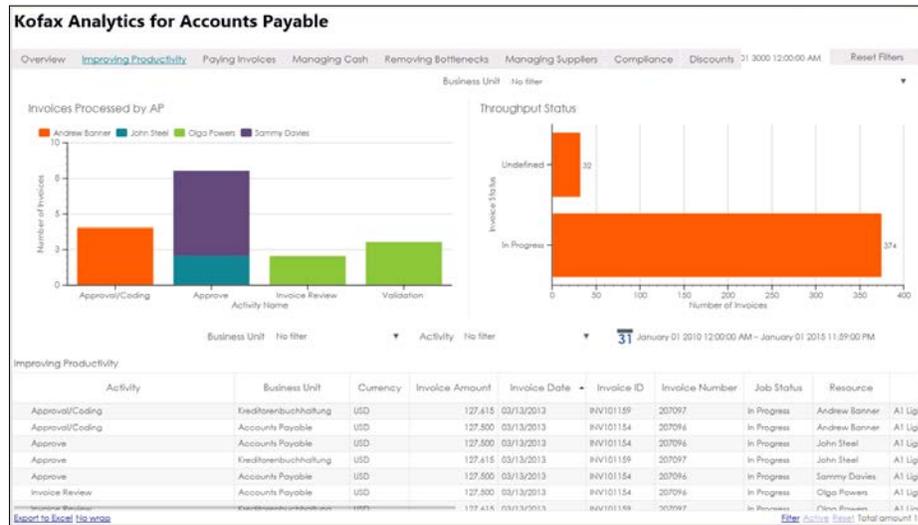
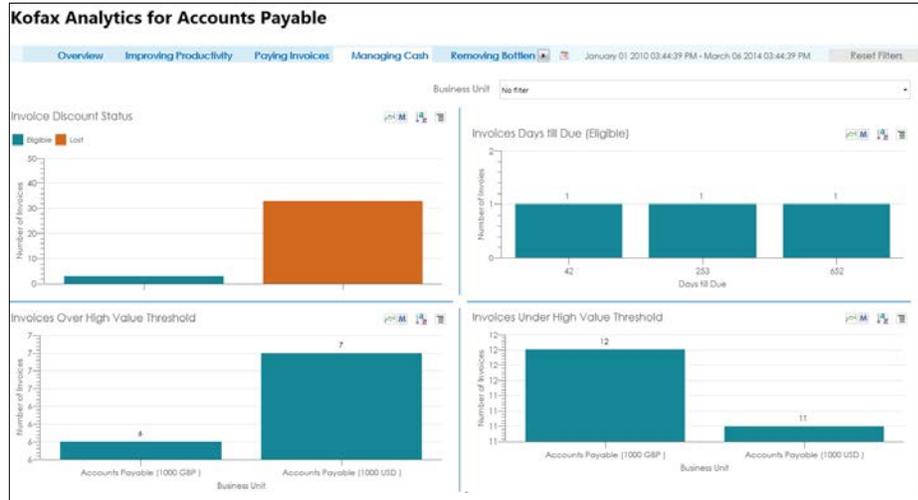
# Overcoming Challenges in Accounts Payable Automation



Capture Session Analysis

## Real-time invoice process status

The power of automation is unleashed to the process owner, whose dashboard displays real-time data on invoices in process, enabling intervention to change course of processing.



## Conclusion

AP automation is best achieved with a complete, best practice solution from a provider with extensive experience. Extensible solutions stand out for their ease of use, ease of change, extensibility to other business processes, deployment options, and deployment approach.

The AP Agility solution's multichannel invoice capture and extraction, best practice AP workflows, ERP integration, and analytics provide AP with these important benefits:

- ◆ Faster processing
- ◆ Reduced costs
- ◆ Greater process transparency
- ◆ Strengthened internal financial controls
- ◆ Lower error rates
- ◆ Enhanced cash management

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