

Process Automation for Accounts Payable

ORACLE WHITE PAPER | NOVEMBER 2015





Executive Summary

As organizations seek to reduce costs and improve efficiency, paper-intensive processes such as accounts payable (A/P) invoice processing are likely candidates for automation. At many companies, A/P processes are still largely manual and paper-intensive. When the volume of invoices increases, these manual procedures start to show their limitations. While some firms have automated portions of the A/P process by receiving invoices electronically via electronic data interchange (EDI), typically many manual validation and approval steps remain. Companies wrestle with the challenges of receiving paper invoices and matching them against purchase orders (POs) and general ledger (GL) coding. Lack of automation ultimately leads to bigger business challenges associated with accruals for financial closing and lack of visibility into corporate spending. Chief financial officers (CFOs) and corporate controllers need visibility into the A/P process to improve cash management, simplify reconciliation, streamline accruals, and produce more-accurate financial statements.

This paper explains how finance officers and line-of-business managers can transform accounts payable processes through automation. Learn how your organization can:

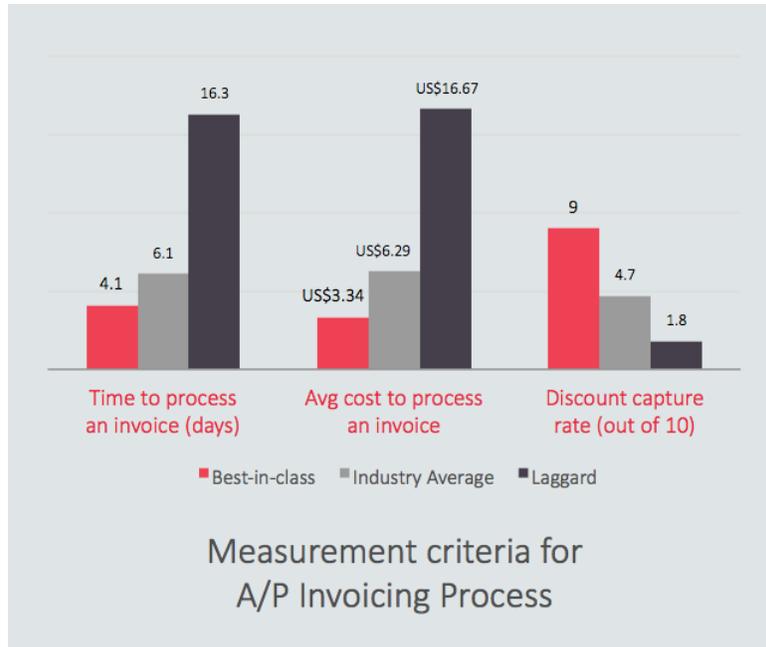
- Minimize the time and effort it takes to process invoices
- Eliminate manual data entry and associated errors
- Avoid rework from having to rekey or reprocess invoices
- Simplify exception processing when invoices aren't matched to POs or aren't coded correctly
- Improve vendor relationships
- Optimize payment terms
- Increase visibility throughout the A/P process
- Improve reconciliation, streamline accrual processes, and produce more-accurate financial statements

The Need for Better Cash Management

A digital business strategy creates value and revenue from digital assets. It goes beyond process. According to Aberdeen Research; a typical A/P user can process about 20 invoices per day. Once you consider the loaded cost of these workers, plus ancillary costs for managing the associated manual processes, each invoice costs an average of US\$17 and takes about 16 days to process.¹ This is a huge

¹ "A/P Invoice Management in a Networked Economy," Aberdeen Group, May 2012.

cost for a company receiving hundreds, thousands, or even millions of invoices each year. These statistics from Aberdeen are illustrated below.



Because of the unrelenting workload, many A/P users are overburdened and thus prone to making errors during data entry. Invoices “slip through the cracks” in such manual processes. It also becomes difficult to detect related payments. As a result, the A/P staff may fall behind, which causes the company to lose opportunities for early payment discounts—or be required to pay late penalties and fees. Approximately 22 percent of vendors offer early payment discounts, but many organizations aren’t organized enough to take advantage of them.² In addition, manual A/P processes often lack long-term storage, retention, and disposal policies mandated by state and federal regulations.

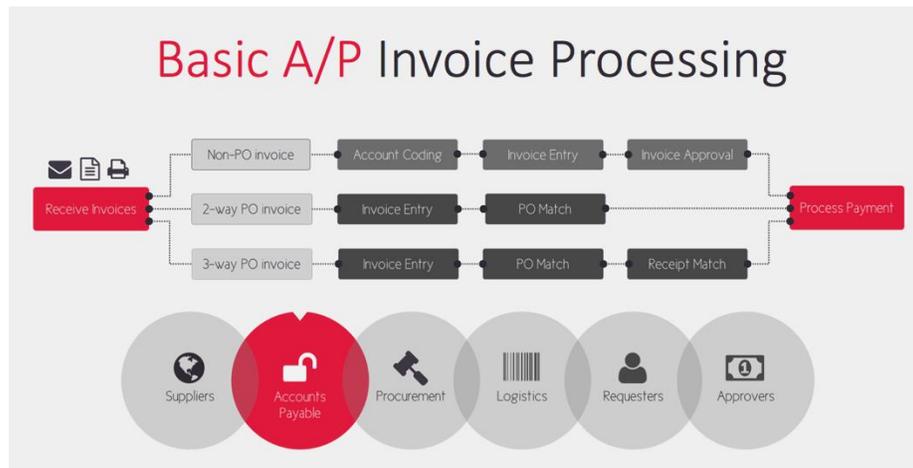
While A/P users wrestles with manual processes, financial officers don’t get the necessary visibility into corporate spend and hence cannot manage cash effectively. They don’t know the complete extent of corporate liabilities until the invoices are approved and entered into the enterprise systems of record. With so many invoices outstanding and little visibility into their status, getting accurate information about accruals becomes tedious, time-consuming, and difficult. Without accurate accrual reports and limited visibility into spending and distribution, financial closing becomes tedious, expensive, and vulnerable to audits—especially SEC audits, during which auditors scrutinize accruals to verify financial reports. The process gets even more difficult in the wake of an acquisition, when financial officers must merge multiple financial systems or contend with more than one A/P process, yet still issue unified quarterly statements to the SEC.

Assigning more people to handle manual A/P processes is not a viable or scalable solution to the problem. To automate A/P activities in an orderly way, you need well-engineered business processes

² *ibid.*

that integrate with established information systems such as Oracle E-Business Suite, Oracle's JD Edwards and PeopleSoft applications, SAP R/3, Microsoft Dynamics, and Infor (Lawson).

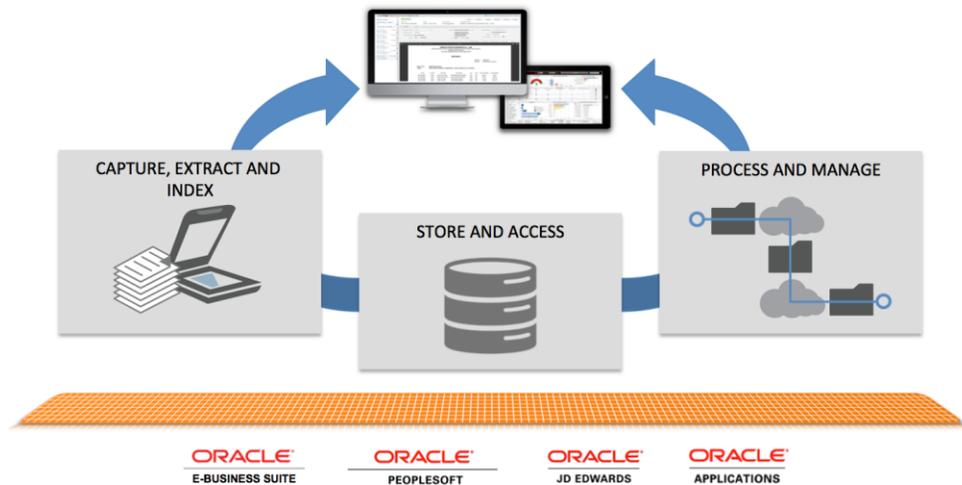
Most organizations receive invoices via many channels including mail, fax, e-mail, and EDI. Some of these invoices are already in electronic form. However, most arrive as paper documents that must be entered into the financial system, routed for approvals, matched against purchase orders or coded to GL accounts, and filed. No matter how these invoices are received, typical A/P processes include a familiar series of steps: capture the invoice, manually rekey the data, code the invoice against purchase orders or GL accounts, route the invoice for approval, and issue payments against the invoice. This basic cycle is illustrated below.



Automating Accounts Payable

A/P departments can work smarter by relying on automated capture, imaging, and workflow technologies to streamline repetitive, time-consuming tasks. You can remove paper from this multistep process by electronically capturing the documents, converting them into images, and creating workflows to govern the approval lifecycle and integrate the data with your enterprise systems of record.

A/P INVOICE AUTOMATION



The essential ingredients of an automated workflow system for A/P invoice processing.

Capture, Extract, and Index

Automating invoice processing first starts with turning paper into “business ready” information. Electronic capture technology can be used with a document scanner to scan paper invoices—or to import faxed or e-mailed invoices—and convert them to electronic images. Optical character recognition (OCR) technology minimizes manual tasks associated with indexing documents and entering the data, typically eliminating 80 percent of all data entry. But extracting characters from a document is only the first step. You must be able to make sense of the data. For example, an intelligent document capture system can distinguish an invoice number and a PO number, look up that PO number in the enterprise resource planning (ERP) system, and validate the invoice details against the purchase request. This type of system also lets workers securely store, search, and retrieve documents, as well as annotate the images before routing them around the organization—saving time and avoiding costly errors.

Ideally, these systems should permit you to classify each document as an invoice, correspondence, credit memo, or other type of document, and then automatically extract header and line item information for storage in the business systems of record. Each indexed field can be configured to simplify searching later on. For example, the Purchase Order Number field can be linked to an accounting database to return the vendor name associated with the PO number. This ensures data integrity since the values entered in each field can be validated against data in the system, with automatic line pairing between the invoices and purchase orders. You can ensure, for example, that a supplier isn’t charging more for the received goods than the unit price specified in the purchase order.

Once the electronic capture solution has extracted the correct information, it is stored in a content management system along with an image of the original document. Authorized users can search for these documents and view them online, either through a web browser or in the context of enterprise



applications. As invoices are archived they can be attached to workflows and retrieved through other enterprise applications, such as the Oracle Payables user interface in Oracle E-Business Suite or another ERP system. Workers can annotate the documents and route the revised images to other workers, perhaps attaching an expense receipt or noting a line-item discrepancy. These automated capture, extract, and index technologies save time and improve accuracy for all concerned.

Process and Manage

Once you have extracted and recognized the data, you need automated methods for processing the invoice. This includes distinct processes for managing non-PO and PO invoices, GL coding, two-way matching, and three-way matching. You also need automated methods to route the invoices for approval, and to enter the data in the back-end A/P system, along with an image of the original invoice.

Business process management and workflow technology automate manual tasks. These technologies also improve visibility into individual work items and the overall performance of the A/P operation. After invoices enter this systematic workflow, financial personnel can track the invoices to see who is sending them, what the totals are, when they are due, who modified them, who approved them, when they were approved, and the amount of the total liabilities. Every invoice follows this workflow and there is a complete audit trail of all the steps. This enables workers to easily identify system and approval bottlenecks, ensure that service-level agreements (SLAs) and discounts have been met, and easily answer vendor and auditor inquiries.

Store and Access

An enterprise-class content management system can securely store any type of document from any source, and then make these documents accessible on demand via enterprise applications or through a simple web browser. Rather than having multiple paper copies of an invoice floating around, you can have a single source of truth, with all invoice and image data stored online. All modifications and annotations can be captured in the content management system. Security settings based on roles ensure that items are only viewable by the appropriate parties at any point in time.

Such a system alleviates mistakes and makes invoice information instantly accessible to all authorized users. Invoices can be retrieved at any time with a simple search function. POs and invoices are matched in the system, along with references to pertinent transactions, which simplifies adjudication. It is easy to search for entire documents or individual bits of data within those documents, such as a certain vendor name, job, part, or city. This helps A/P users easily track each invoice in the workflow, and it helps managers gauge performance and adherence to service-level agreements, such as ensuring that invoices get paid on time. Users have a complete picture, with all documents, records, approvals, transactions, and payments indexed and stored for easy access. Auditors love this level of detail. In some cases, they can be given self-service access to view records in the system.

In most states, financial regulations generally require invoices to be stored for seven years. A complete storage and access system lets you specify retention periods to make sure that records and images automatically adhere to corporate retention policies, without human intervention. This is far superior to storing invoices in filing cabinets or archiving boxes of documents offsite, which is expensive,



vulnerable to loss, and difficult to search and retrieve. Automating invoice storage and access not only simplifies compliance activities, but also helps the organization avoid costly fines, simplify decision-making, and resolve account discrepancies in the future.

Integrate with Enterprise Resource Planning Systems

A/P automation is valuable, but true economies of scale come through integration with the underlying enterprise business systems that drive the accounting process. You need to be able to extract the relevant data from your A/P process and connect it with your chosen enterprise applications to speed up invoice processing and get a better handle on your corporate spend and fluctuating cash position. According to Aberdeen, companies that have connected their A/P and ERP solutions report straight-through processing volumes more than twice that of other companies.³

A complete solution should be able to capture invoices from multiple channels, create and store electronic images of those invoices, retrieve electronic copies from within the context of familiar applications and work tasks, extract information from images to populate invoice fields, perform account coding, automatically match invoices with purchase orders, and integrate the results into enterprise applications and systems of record. Data entry chores are minimized, enterprise applications contain more-accurate information, and account coding and matching tasks become more consistent.

Case in Point: Texas Industries

To address a recurring challenge of decentralized and manual processes for entering 180,000 vendor invoices annually, Texas Industries (TXI) deployed an automated A/P solution from Oracle to accelerate processing, reduce errors, cut invoice storage and routing costs, and increase visibility into payables liabilities. Previously, invoice entry was a time- and resource-intensive process that entailed significant personnel requirements. Now TXI has centralized the invoice processing system and routes documents electronically. TXI boosted efficiency by reducing the number of hands required to touch an invoice before it is paid. In addition, the company expanded visibility into its total spend to leverage better pricing, as it can more quickly pay invoices and take advantage of vendor discounts.

TXI's smart routing solution enables users to capture invoices electronically with Oracle WebCenter Capture and then uses Oracle WebCenter Forms Recognition and the Oracle WebCenter Imaging workflow to send the invoices to Oracle Financials for approvals and processing. This solution has significantly lowered resource needs for payables processing and improved cash flow and visibility into payables liabilities. For example, tighter controls and consolidated purchasing have enabled the company to optimize its US\$500 million annual spend—much of which is for raw materials and parts used in its manufacturing plants—by taking advantage of total-spend visibility to negotiate volume discounts with vendors.

³ Aberdeen, *op. cit.*



"Entering and manually processing more than 180,000 vendor invoices annually was time and labor intensive. With Oracle WebCenter Imaging, we have automated and centralized invoice entry and processing at our corporate office, improving productivity by 80 percent and reducing invoice processing cycle times by 84 percent—a very important efficiency gain."

—Terry Marshall, Vice President of Information Services, Texas Industries

TXI also streamlined accounting and purchasing activities by centralizing processes in one system that provides relevant information to all production facilities. Customers can view and pay invoices and track shipments via TXI Online, which has contributed to a reduction in days sales outstanding (DSO). TXI expects to increase productivity by 80 percent and reduce invoice processing cycle times by 84 percent—from 20 to 30 days to just 3 to 5 days. They have achieved a 25 percent reduction in paper invoice storage costs now that invoices are captured digitally, and enabled a 50 percent reduction in shipping costs since the company no longer has to send paper invoices between headquarters and production facilities for approvals. TXI also expects a significant reduction in the risk of duplicate processing through a more consistent process and detailed audit trail.

Solutions from Oracle

Intelligent business processes and contextually managed content enable engaging digital experiences. In Oracle's A/P automation solutions tie content and business processes together to create automated workflows that move invoices through a well-defined series of tasks and approvals—and integrate the results with your enterprise systems of record. For example:

- Oracle WebCenter Imaging enables users to scan, index, view, print, highlight, fax, annotate, and add redactions to invoices
- Oracle WebCenter Forms Recognition provides the OCR/ICR recognition engine that enables the system to automatically recognize, categorize, and extract information from paper documents, forms, faxes, and electronic documents
- Oracle Business Process Management Suite (Oracle BPM Suite) creates cross-application business processes that combine automated and human workflows
- Oracle Business Activity Monitoring provides a customizable dashboard to improve visibility into invoice and other financial business processes
- Oracle WebCenter Content enables authorized users to easily retrieve documents and images within the context of familiar information systems—such as Oracle E-Business Suite, PeopleSoft, and other enterprise applications

As part of an enterprise platform, Oracle's A/P automation solutions integrate financials, content management, and workflow capabilities into configurable solutions that can be tailored to the needs of each customer. These integrated middleware solutions work together to enforce data integrity, optimize A/P efficiency, and increase the security of sensitive financial data.



Conclusion

A digital business strategy creates value and revenue from digital assets by forging connections among A/P departments are motivated to simplify the tedious cycle of processing invoices, from initial receipt to final payment. Automating invoice processing reduces reliance on paper forms, faxes, and documents. It also enables you to take advantage of dynamic discounting, accelerate payments, and eliminate late-payment fees. Finally, it gives finance officers greater visibility into liabilities, cash management, accruals, and financial close processes.

Reducing paper in financial processes can immediately impact your bottom line. By combining document capture and imaging technology with advanced workflow capabilities, you can empower A/P users and other knowledge workers to manage unstructured, unpredictable processes in a simple and intuitive way. Automated processes not only save paper and reduce postal costs—they also increase accuracy, helping to avoid costly errors and minimize risk.

A/P automation is a total solution enabled by key technologies. By correctly implementing and integrating these technologies, astute companies can reduce process cycle times by more than 50 percent and save millions of dollars in operational costs.

Please visit oracle.com/webcenter and oracle.com/bpm to learn how Oracle WebCenter and Oracle BPM Suite drive successful A/P automation solutions.



CONNECT WITH US

-  blogs.oracle.com/webcenter
-  facebook.com/oracle/webcenter
-  twitter.com/oraclewebcenter
-  oracle.com/webcenter

Oracle Corporation, World Headquarters

500 Oracle Parkway
Redwood Shores, CA 94065, USA

Worldwide Inquiries

Phone: +1.650.506.7000
Fax: +1.650.506.7200

Hardware and Software, Engineered to Work Together

Copyright © 2015, Oracle and/or its affiliates. All rights reserved. This document is provided for information purposes only, and the contents hereof are subject to change without notice. This document is not warranted to be error-free, nor subject to any other warranties or conditions, whether expressed orally or implied in law, including implied warranties and conditions of merchantability or fitness for a particular purpose. We specifically disclaim any liability with respect to this document, and no contractual obligations are formed either directly or indirectly by this document. This document may not be reproduced or transmitted in any form or by any means, electronic or mechanical, for any purpose, without our prior written permission.

Oracle and Java are registered trademarks of Oracle and/or its affiliates. Other names may be trademarks of their respective owners.

Intel and Intel Xeon are trademarks or registered trademarks of Intel Corporation. All SPARC trademarks are used under license and are trademarks or registered trademarks of SPARC International, Inc. AMD, Opteron, the AMD logo, and the AMD Opteron logo are trademarks or registered trademarks of Advanced Micro Devices. UNIX is a registered trademark of The Open Group. 1115