

FSN White Paper

Purchase Invoice Automation “Reduce Your Costs with Purchase Invoice Automation (PIA)”



Introduction

What is Purchase Invoice Automation (PIA)?

Barcodes

Optical Character Recognition (OCR)

Routing

Making the business case for PIA

Summary

Introduction

According to a recent Microsoft publication, industry analysts estimate that people spend up to 30 percent of their working day just looking for the data they need. It is a situation very familiar to individuals working in the finance function, whose ability to retrieve information is complicated by large transaction volumes, multi-site operations and the need to regularly reach across functional boundaries.

Purchase invoice management is a good example of a process that is mired in inefficiency. Even modest purchase invoice transaction volumes pose a serious processing burden. The need to manually sort invoices by department or company, photocopy and physically match them with purchase orders and GRNs or work out where to code them to, or whom to pass them to for checking are all onerous tasks. Furthermore, tracking 'missing' invoices after they are sent for authorisation and approval can quickly turn into a massive paper chase. It is one of the reasons that average transaction costs, i.e. processing cost per invoice, can be as high as £50 in some industries.

But inefficient processing can also be costly in terms of business reputation. Lost purchase invoices, an inability to pay suppliers on time, or the need to ask for duplicate invoices can dent business relationships and lead to disputes. To make matters worse, research has shown that the burden of disputed transactions can cause the cost of a transaction to rise 80 percent, ignoring the 'opportunity cost' of lost settlement discounts.

On the other hand Purchase Invoice Automation (PIA), a unique combination of technology, process automation and revised procedures can provide substantial benefits for a finance department seeking to maintain service levels in the face of growing transaction volumes and impromptu demands for information.

In this white paper we explore how a modern PIA approach can improve data validation and audit controls, automate the application of business rules for approval of invoices and speed up the month end close process by supporting easier supplier statement reconciliations (referring to invoice images where necessary) and more complete identification of committed costs and accruals.

But in addition to these 'soft' benefits, PIA can deliver sizeable quantifiable benefits resulting from the ability to reduce headcount or redeploy resources, as well as cater for business growth without adding to headcount, reduced physical storage and paper transportation costs and increased claims for settlement discounts.

What is Purchase Invoice Automation (PIA)?

In broad terms, PIA is the process that governs the automatic capture and processing of supplier invoices, from receiving a document in the post, through data entry, checking, matching, authorising and posting into the ledger. Furthermore, imaging and storage of supplier invoices ensures that an organisation no longer needs to retain the physical documents but can retrieve faithful images of the invoice on demand, using a variety of search criteria.

Integrated with accounting or ERP systems, PIA promotes accounting best practice by ensuring that the records are updated as soon as practicable and that the company has recorded all liabilities for goods and services received.

The PIA approach is complementary to accounting systems because it leverages information held in supplier master files without duplicating data. Furthermore, PIA allows invoice images to be circulated around the organisation without the need to invest in accounting software licences for every individual who merely requires occasional access to invoices, for say, approval or query. As such, PIA can help to keep a lid on infrastructure costs as an organisation grows.

Essentially, PIA can be viewed as a subset of the wider 'Purchase to Pay' cycle since the captured invoices form the foundation of an invoice authorisation and review process followed by payments to suppliers. This is particularly valuable, for mid-market accounting packages, which often have limited functionality around invoice routing, approval and authorisation.

Barcodes

The simplest form of PIA is to employ a barcoding system for data capture. Invoices received are registered onto the accounting system and automatically assigned a transaction reference. This information is used to generate a self adhesive barcode which is generated by a specialised printer. The barcode displays the supplier name and the transaction reference in human readable format alongside the barcode in machine readable format. The barcodes are peeled off the ribbon and fixed to each invoice, which is then scanned at rates of up to 50 pages per minute or more. The scanner and software is intelligent enough to cope with double sided invoices, blank pages and all manner of sizes and shapes.

Once scanned, the exact images are stored in a database and cross referenced to the transaction number allocated to the invoice when it was first registered. This process creates an unalterable image and audit trail

which satisfies HMRC (Her Majesty's Revenue and Customs) and allows the paper document to be destroyed.

For many mid-sized companies, that use a manual purchase order and signature process, the barcoding system provides an ideal solution. It ensures that invoices are captured, paper storage is eliminated and if required, the invoice images can be circulated for authorisation without delay.

Butcher's Pet Care benefited immediately from scanning and barcoding

Enormous benefits can flow from the simple expedient of scanning inbound documents and storing them electronically. Butcher's Pet Care Limited, a privately owned company that manufactures pet food for the UK and European market, is a case in point. It processes over 600 purchase invoices a week, which are barcoded, batch scanned, automatically indexed and stored as images on the system. Jeff Martins, Financial Controller at the company comments, "A small modification to our ERP system means that we can retrieve and view supplier invoices from anywhere in the company over the web. There is no paper flying around the company anymore."

It's also allowed Butcher's to accommodate growth without taking on extra staff. "We had reached the point where we needed temporary cover but now we can cope with the people we have and have even removed a part time person," adds Martins.

Optical Character Recognition (OCR)

A more automated and comprehensive approach to PIA is to take advantage of OCR. Over the years this technology has become extremely dependable and more affordable. Previously the preserve of large organisations, intelligent data capture software and the attendant hardware is now an operationally and economically viable proposition for organisations of all sizes with even modest monthly purchase invoice volumes.

Unlike the barcoding approach described above, inbound invoices are scanned straight away upon receipt. The system takes advantage of the fact that the vast majority of organisations use standard invoice layouts, for example, the position of their VAT code, company registration number, and

postcode, appear in the same place on every invoice. The position of this static data is recorded and retained by the PIA system when a new supplier's invoice is received for the first time. Thereafter, the system automatically recognises a supplier from a scanned invoice image and can associate any of the relevant accounting data with information held in the integrated ERP system. So information from any invoice can be automatically captured by the purchase invoice registration system prior to being authorised and subsequently posted to the purchase ledger. As before, the image is rendered digitally and automatically filed away in a database which is cross referenced to the accounting records. In so doing, the process reduces manual data entry considerably.

The best OCR is capable of returning around 70% accuracy straight away, i.e. without human intervention, and with minor operator intervention this rises to virtually 100%. Image enhancement helps to recover data from spoiled invoices and incomplete or inaccurate invoices can be rejected and sent electronically back to suppliers. As well as providing a complete audit trail from ERP systems to invoice image, the software enhances control over the completeness and accuracy of input – a key control in any finance setting – as it validates invoice calculations. Furthermore, the database of images is amenable to searching from within the accounting systems so that individuals can quickly retrieve the 'original' invoice for any expense in the general ledger or purchase ledger. This is a major benefit to external auditors as well. In fact, it is likely that the overall control environment is stronger and more dependable in a PIA regime than the equivalent manual process.

Routing

Regardless of the method of invoice capture; barcoding or OCR, the invoice images are then available to be circulated for authorisation.

Typically, popular mid-market accounting systems only permit one method of routing for authorisation whereas, in practice, companies may need to vary the routing depending on, for example, the type and value of the invoice. By using a PIA process, a virtually unlimited number of routings is permissible and routings can be changed 'on the fly' to cover for individuals unavailable through sickness or holiday leave. Business rules can be embedded governing the authorisation levels required. For example, purchase invoices greater than, say, £5,000 may require more than one signature and of course any of the potential signatories can access the underlying image of the original purchase invoice, if they need to see it. This is particularly valuable for multi-site operations since it completely avoids the problems of physically distributing hard copy and the potential delays and problems of invoices lost

in transit. Furthermore, purchase orders can be decremented in total for approved invoices received.

If invoices cannot be approved for any reason, the PIA technique allows the reason for rejection to be recorded, with as much annotation and commentary as required. This can then be forwarded electronically for information and action to the supplier as a PDF document. Those invoices approved are simply processed in the normal way using the information on the retained invoice image.

Johnston Press incinerates its supplier invoices!

Johnston Press plc, has eliminated paper all together in its purchase-to-pay cycle by using the very latest Purchase Invoice Automation solution from Version One. With over 15,300 suppliers to the group and 175,000 purchase invoices to process annually, the incentives to reduce paper are very high. Michelle Jeffrey, IT Manager for Johnston Publishing Limited, the centralised Accounting Centre for Johnston Press plc, has successfully automated the entire purchase-to-pay cycle, eliminating the need to hold paper versions of purchase invoices once they have been successfully scanned into the system.

The intelligent OCR (optical character recognition) scanning system identifies the supplier on a purchase invoice by correlating a static piece of information such as a VAT number with the information held on the Sage Line 500 system. Having automatically identified the supplier, the system 'knows' the physical characteristics of the invoice and, knows exactly where to look for the transaction information required by the accounting system when the invoice is eventually posted. (New suppliers have to go through a simple one-off set up process "rubber banding" that defines the physical layout of scanned images for the first time so that the system knows how to process invoices from the same supplier in the future). Despite the wide variety of supplier invoices, 80% of them can be processed automatically, leaving mainly handwritten and spoiled documents to be processed manually. Once batch controls have been passed to ensure that every page has been scanned, the image is checked for legibility and the accounting information has been captured successfully, the invoices are security sealed and sent for incineration!

Cleverly, workflow in Johnson Press is driven by a combination of company code, publication, department and cost centre code rather than the more usual approach of sending invoices by email to named invoice approvers and authorisers. The first thing that happens once an invoice is successfully scanned on the system is that it is routed via the company code to the

appropriate person for nominal coding. It is then available to the next person in the approval chain based on the combination of nominal code elements above. Once coded, the invoice is 'registered' on the accounts system. Invoices can be accepted, rejected, accepted with changes, or held pending queries in the normal way, but what is particularly smart about Johnson Press' process is that the purchase-to-pay cycle is not reliant on the email system. If the email system fails, the business can still carry on processing invoices, because approvers and authorisers all have access to their personal list of outstanding invoices by logging directly into the system. It also means that invoice approvers are not burdened by hundreds of emails throughout the day requesting approval – they simply log onto the system when convenient to approve their invoices and send them for a final check by the accounts department before payment.

Another major benefit of the approach is that not only are images of invoices retrievable from the purchase ledger but they are also viewable from a nominal ledger account. "Our Sage system provided very little space for a description against nominal ledger entries which is a real handicap for the accountants preparing monthly management accounts. But using the tight integration between the nominal ledger and the image database, our accountants can look back at an image of the original invoice if they need to," Jeffrey explained. Effectively, the document management system is leveraging and extending the usefulness of the Sage accounting system as well as providing benefits in its own right.

Making the business case for PIA

Making a water-tight business case for many IT investments is often challenging but this is not true of Purchase Invoice Automation. In fact the average payback period is often measured in months and the returns are crystal clear. The principal justification is around the reduced manual effort to enter purchase invoices on the system, conservatively estimated at 60 percent, in effect halving the number of clerical man-hours required and liberating time that can be spent on pressing tasks elsewhere in the finance department. Even for a small business processing 2,000 invoices per month with two data entry clerks costing the organisation £20,000 including benefits and NI contributions, the annual savings would be around £20,000 before taking into account reduced document storage and retrieval costs. Add to this the innumerable benefits of faster processing, fewer lost invoices and supplier disputes, better control over authorisation, higher settlement discounts, stronger audit trails, reduced storage costs and a faster period close, then the business case becomes compelling. In larger businesses the

return on investment (ROI) can be even more attractive as they can take advantage of economies of scale in hardware and other infrastructure.

Summary

The implementation of Purchase Invoice Automation confers enormous benefits on an organisation and as the price of hardware has fallen, the total cost of a solution is now within reach of all but the very smallest businesses. The ability to store invoices electronically and integrate them with popular accounting and ERP systems is central to an organisation's success, especially when coupled with automatic routings for authorisation and approval.

Not all of the benefits of PIA are inward facing. Organisations taking advantage of PIA technology benefit more broadly from better management of supplier relationships and a reduction in paper wastage. In a society increasingly aware of environmental issues, this is a technology that makes a 'green' contribution as well as saving money and improving productivity.

Acknowledgements

FSN would like to thank document management and imaging software author, Version One, (www.versionone.co.uk) for their assistance in compiling this Whitepaper.

About FSN

FSN Publishing Limited is an independent research, news and publishing organisation catering for the needs of the finance function. The report is written by Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire. He is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

Gary.simon@fsn.co.uk

www.fsn.co.uk

Whilst every attempt has been made to ensure that the information in this document is accurate and complete, some typographical errors or technical inaccuracies may exist. This report is of a general nature and not intended to be specific to a particular set of circumstances. FSN Publishing Limited and the author do not accept responsibility for any kind of loss resulting from the use of information contained in this document.

© FSN Publishing Limited. All rights reserved 2007.