

# FSN White Paper

How automating the 'Procure-to-Pay' process  
delivers business advantage



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## Introduction

Private sector and public sector organisations are similarly driven to save costs and maximise service delivery. So improving an organisation's efficiency is a high priority. Experience shows that automating the 'procure-to-pay' process is one of the easiest and most effective ways of driving significant benefits for an organisation, irrespective of whether it is a large public entity or a small trading company.

The traditional 'procure-to-pay' process is extremely manually-intensive and costly as it involves the processing and distribution of large numbers of documents, for example, placing purchase orders, processing purchase invoices, gaining budget holder approval and paying suppliers. Printing information onto pre-printed stationery and posting paper documents has traditionally been the way to create and distribute purchase orders, remittance advices and cheques, but it is costly. Similarly, when purchase invoices arrive from suppliers, manually intensive and paper-based internal processes are involved when processing, approving and coding the relevant purchase invoice data. For all of these reasons, the cost of retrieval and document storage can quickly spiral, exacerbated by the requirement of HM Revenue and Customs (HMRC) to store all relevant documents for seven years.

A completely automated e-Procurement solution may be considered ideal, but in practice this is difficult to achieve. However, electronic document management (EDM) technology can help organisations quickly realise efficiency gains in their 'procure-to-pay' process, allowing them to bridge the divide between paper and electronic processes whilst reducing costs.

## Employing EDM Solutions

Commonly, there are four distinct phases of the procure-to-pay process, each involving different documents. The initial *communication with suppliers* involves purchase orders and remittance advices; *data capture* from supplier documents such as purchase invoices; *authorisation and coding* of internal documents and finally; *making the payment* using cheques. However, using EDM, organisations can generate significant savings from each of these stages in the process.

### *Supplier Communication*

Moving away from pre-printed stationery is the first step in reducing document production costs. Desktop form publishing tools can be used to merge data from a finance system with a graphical overlay, providing plain paper laser printing. Complex business rules can also be employed, such as varying delivery details or terms and conditions, providing far greater levels of flexibility over and above traditional methods. Data look-up facilities to other business systems can also automatically merge relevant data, without the need for complex system integration.

Whilst plain paper gives the most cost effective print solution, even greater cost reductions can be gained through the electronic delivery of documents. Both automated fax and email delivery significantly reduce costs as well as

reducing delivery times. An automated fax solution provides secure and reliable document delivery, as well as an audit report. Conducting business using email communication is now also accepted and provides the cheapest form of document delivery available. In addition to merging data into the body of the email, providing the document as a PDF attachment is becoming increasingly standard. Once the creation and distribution of documents has been automated, organisations can look to complementary messaging to deliver additional document copies at no cost to other business users – reducing the number of queries placed on the finance team.

For regulatory reasons, copies of these documents need to be retained for several years. However, with EDM available there is no need to print and file office copies or distribute internally. An exact image of the document produced can be stored electronically and made available to the appropriate users directly through a finance system or intranet.

### *Data Capture*

Controlling documents generated in-house and the associated costs is only one part of the paper process. Typically, purchase invoices are sent to organisations in paper form and this represents its own challenges and costs for an organisation. The key difference here is data. With internal documents, a company already possesses the originating data, whereas with external supplier documents, it is totally reliant on inbound paper documents for the data it needs. In order to process this data, finance departments typically have to re-key the information into their own finance systems. This data re-keying is time consuming and expensive, so EDM can be used to facilitate automated data capture.

To automate this process, purchase invoices are scanned and converted into electronic images. Images are then passed through an Optical Character Recognition (OCR) process and key data is captured and verified. Firstly, unique data such as the VAT or Company Registration Number is analysed to identify the supplier. Once the supplier is validated against the finance system, header and line-level data from the purchase invoice is extracted before being validated against purchase order data already held (if available). Once validated, the data can be presented to the user, alongside the purchase invoice image, for any final checks before the data is automatically loaded into a finance system for final processing.

The result is a dramatic reduction in manual keying effort, data automatically loaded into the finance system and an image of the purchase invoice available 'on-tap' for electronic retrieval.

### *Internal Authorisation*

Once a purchase invoice is processed by the finance operation, there is often a requirement for input from budget holders to approve the purchase invoice for payment and/or to add nominal ledger codes for budget allocation. Again, the typically manual process of photocopying the document, sending it out in the internal mail and waiting for a response is time consuming and extremely

costly. EDM can be used to automate this process, using the document images already captured.

An electronic authorisation process can be triggered automatically, and an email sent to the appropriate user indicating they have a task to complete. By clicking on a link contained within the email, the user is presented with the purchase invoice image, a summary of the data and fields to add coding information, if required. A user can then accept, reject or query the entry as required. Multiple levels of authorisation can be configured, to handle multiple budget holders if appropriate. Once given final approval, the data entered can be automatically imported into a finance system, to update the purchase invoice status. Email reminders can be generated automatically, if no user response is detected within the allocated time period. The EDM keeps an audit trail of the users and their data and stores this as a permanent record against the purchase invoice for future reference and audit purposes.

For users who are frequently out of the office, modern smart phones give them the ability to access all these processes quickly and easily, regardless of their current location. For example, whilst waiting for his flight, a Financial Director could approve purchase invoices on his PDA.

#### *Secure Payments*

The purchase invoice transaction is now approved and coded on the finance system and awaiting payment to the supplier. Traditionally, payments were, and sometimes still are, made via manually written cheques. Some organisations use pre-printed cheque stationery with impact printers. The BACS-iP system is the most cost-effective method for making payment and maximises efficiency through secure electronic payments. Batches of payments are produced by the finance system, and the BACS-iP solution validates the data against known sort and account codes before requiring a digital signature to approve the payment run. The digital signature is provided by a secure chip-and-pin system. Reports are then made available electronically, so mistakes in supplier payment details can be quickly identified and rectified.

If electronic payments cannot be made, an EDM solution can still help with cheque payment efficiencies. By combining APACS approved MICR printers with secure, blank cheque stationery, an efficient laser printing cheque solution can be employed. In a similar manner to the purchase order documents, business rules can be used to automate the cheque production process, so one type of stationery can be used for multiple bank accounts, and data can be merged from other systems.

#### **Benefits**

As highlighted earlier, EDM can be used throughout the 'procure-to-pay' process to support and image-enable manual procedures. Organisations are implementing this technology to realise savings around:

- document production and distribution costs which are slashed when moving to electronic methods. (An organisation typically saves up to

£1.00 per document when it is sent electronically rather than in the post).

- the electronic storage of documents in the EDM system resulting in negligible storage costs, retrieval costs and internal distribution costs.
- automated data capture which can save organisations in excess of £10 per purchase invoice processed when compared with manual keying.
- the electronic routing of documents for authorisation which removes all the costs associated with internal copying and distribution.
- automating secure payments (through BACS-iP or laser printed cheques) which maximises efficiency and cuts costs.

In addition to this, organisations that have implemented EDM to support procure-to-pay are also highlighting a range of other additional benefits, such as:

- more timely purchase invoice approval which enables supplier discounts to be achieved and late payments penalties to be avoided.
- improvements to audit processes as all the documentation can be made available electronically, rather than the traditional time-consuming trawl through paper archives.
- faster purchase invoice processing which results in more timely budget and financial data on which sound business decisions can be made.
- reduced requirements for document storage as documents stored electronically free up space occupied by filing cabinets and storage boxes. This space can then be used for additional desks and office facilities.
- establishing credentials around Corporate Social Responsibility, especially the environment. Paper use is significantly reduced when documents are delivered electronically, and EDM storage means there is no requirement to print off file copies. Energy use, and hence an organisation's carbon footprint, is also reduced due to less printing and copying of business documents.
- Improved levels of business continuity as electronically stored documents can be easily backed up and stored off-site for contingency planning.
- reduced levels of cheque fraud by moving to electronic payments and secure laser cheque printing

## **Conclusion**

By implementing electronic document management (EDM) within a 'procure-to-pay' process, cost savings become increasingly obvious across the organisation. From the simplest step of the electronic delivery of documents, through to image storage, automated data capture and electronic authorisation of documents, efficiency and productivity gains are quickly and easily achievable.

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## **About FSN**

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