Driving **More Value** from ERP System Investments: Automating P2P Processes and Beyond in SAP

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Introduction

In today's competitive business environment, even small and medium sized companies are investing in process automation in efforts to reduce costs, increase efficiencies, and maintain customer satisfaction. The universal directive to businesses to "do more with less" is being increasingly satisfied through the application of software.

According to a 2012 report by Gartner, Inc., worldwide spending on enterprise application software will total US$120.4 billion in 2012, a 4.5% increase from 2011 spending. And now, Gartner reports, as organizations are looking for ways to shift spending from capital expenditures to operating expenditures, spending is moving toward the automation of processes. [1]

Many organizations begin ERP-related process automation efforts in Accounts Payable departments and are interested in automating other critical financial processes where gains in efficiency and effectiveness can just as readily impact bottom-line performance. This white paper explores the exponential benefits that can be gained from automating all document-driven and transactional processes tied to an SAP enterprise resource planning (ERP) system—in AP and beyond.

How to drive even more value from an ERP system

Indubitably, ERP software suites enable companies to operate more efficiently. But even the most comprehensive ERP implementations have limitations that impact an organization's daily activities. When there remain a high volume of manually handled transactions, issues such as poor visibility into processes, low rates of user acceptance, and inability to audit process management can prevent companies from achieving optimal use of their ERP suite—and reaping the greatest return from their investment.

ERP optimization is not an unattainable goal, however; one route to achieving it is through the use of certified add-on solutions that provide a single software platform to automate a series of processes directly within the ERP system for greater efficiency. For SAP users, this type of solution offers more than integration with the ERP system; it provides the exact same look and feel as any other SAP transaction. It can be presented inside of the SAP GUI, offering a real-time view of workloads, pending tasks, document inflow, ongoing transactions, and up-to-the-moment validation against SAP data. Solutions like this have proven to help users become more cost efficient, improve control over financial processes, and shorten total processing times.

A philosophical approach to process automation

Many organizations choose Accounts Payable as an area to begin process automation in SAP, as it can deliver a rapid return on investment. But, following the success of AP automation, those organizations are often unsure of how to leverage that success in other highly manual processes. With ERP systems demanding such hefty investment costs, businesses would be remiss to

overlook the potential returns to be gained from automating the bulk of their
ERP-related processes, further increasing process efficiency and accuracy.

When it comes to automating business processes, *the whole is more than the
sum of its parts*. For Aristotle, this concept of holism meant seeing each living
organism in the universe as part of an interconnected whole, incapable of
existing independently. For Finance departments, this concept of holism can be
applied by expanding process improvement efforts via automation from
Accounts Payable processes to the entire purchase-to-pay process chain. And to
realize transcendental benefits, automate beyond P2P and into other critical
finance areas of order-to-cash processes, as well as master data management.

Maximizing the ERP investment

As reported by PayStream Advisors in a Q2 2012 report, "Two glaring
problems with ERP systems is that workflow often requires a high level of
customization that can be costly and take a long time to roll out. ERPs were not
designed to handle unstructured content such as documents." Additionally
noted, ERP systems can have a hearty lifecycle—fifteen years or longer.
Automation solution add-ons allow users of older ERP systems to benefit from
the latest document process and workflow technology. [2]

While some process automation is possible in ERP systems such as SAP,
maximum efficiency gains come from implementing add-on software solutions
that operate inside the ERP system yet offer greater functionality and ease of
use. These solutions have the capability to automate and optimize inefficient
manual processes so process chains as a whole deliver stronger performance.

A recent case study published by Gartner in March 2012 exhibited the type of
benefits that businesses achieve by bringing finance-related manual processes
inside their ERP system through use of a third-party solution. The company in
the study implemented an APIA (accounts payable invoice automation)
solution that was SAP-certified and utilized SAP interfaces to provide a
seamless, user-friendly experience inside the ERP system. The results achieved
from this automation project included accrual for unpaid invoices reduced by
US$1 million, average invoice turnaround time reduced from 32 to 6 days, and
the average cost per transaction from US$30 to US$7. [3]

So what happens if you don't automate
processes?

Process automation is no longer a desirable solution for modern businesses; it is
essential. Without automation, processes that traditionally use phone, email,
and paper trails to support and feed ERP systems with information are managed
with little or no control. Manual data inputting is universally laborious, costly,
and error-prone.

So what are the implications? Take master data management, for example.
When vital master data is incorrect, it negatively affects service level quality as
well as the reputation of the Finance and Purchasing departments. Without
accurate and timely visibility into processes, there is reduced transparency, so
maintaining compliance becomes difficult and time-consuming at best. The
combination of these effects can have significant impact on a business in the
long term.

How to be best-in-class

What can be learned from those organizations classified as "best-in-class"?
They automate. Global research firm Aberdeen Group issued directives to
organizations on how to have best-in-class AP performance: "Pursue
comprehensive AP automation to drive continued performance improvement.
Even for the highest-performing enterprises, there is room for improvement." [4]

Best-in-class invoice processing performance, according to Aberdeen Group's
report, delivers:

- 80% lower invoice processing costs
- 75% faster invoice processing cycle times
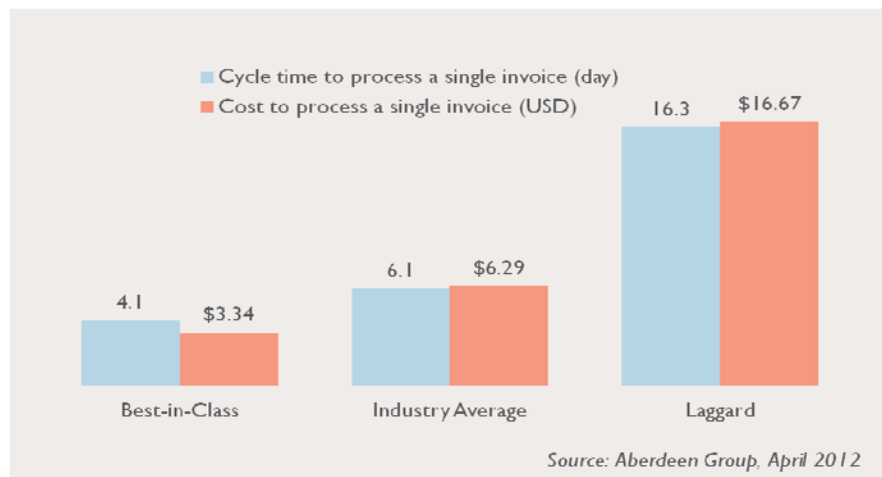
Source: Aberdeen Group: AP Invoice Management, April 2012

The Accounts Payable Network took it a step further in a 2012 report,
addressing CFOs' top concerns today, which it says are consumer demand and
the government agenda and policies: "Most of the internal concerns that CFOs
have about their own companies are things that impact the operation of
accounts payable. The reality is that the CFO's key goals cannot be supported
by AP without its use of automation. Without automation it is costly and time
consuming to achieve visibility into the process." [5]

The report went on to state that worker productivity in recent years has doubled
due in large to much process change and technology that's been newly
implemented at companies. But there remains much room for improvement
within internal operations, where productivity gains are yet to be realized. The
following chart shows that while progress has been made by the median and
laggard companies in recent years, there still remains much room for
improvement.

"Automation's Effect on Cost"

	2009		2011	
	Cost	Cycle Time	Cost	Cycle Time
Best in class	$3.47	3	$2.05	4
Median	$16.91	15	$5.41	10
Laggards	$36.51	33	$10.26	25

Source: The Accounts Payable Network

The report drew a conclusion that *"The key to obtaining the optimum results is for the individual processes in the procure-to-payment ("P2P") cycle to work as a single process."*

Automation of single processes vs. whole process chains

Aristotle's centuries-old concept of holism is not outdated in today's business climate. According to a recent study by The Hackett Group, as process efficiency is relatively easy to quantify, it has traditionally been the basis of business cases for process improvement. But broadening the scope of initiatives to encompass end-to-end processes opens up a far wider set of effectiveness-related cost drivers. [6]

Consider the entire purchase-to-pay process. According to The Hackett Group, the potential returns from P2P effectiveness improvements (seen through improved service levels and operating excellence) can have significantly greater impact than what is gained from improving the effectiveness of individual processes within P2P (measuring the direct process cost reduction).

The Hackett Group hypothesizes that, by improving process efficiency *and* effectiveness in P2P processes, a $10 billion consumer goods company could potentially save $3-$5 million in direct process cost savings, yet save an additional $41-$61 million in service level improvements. Thusly, it can radically benefit a company to broaden the scope of its improvement efforts from individual process areas to entire process chains.

Value drivers and savings potential in P2P for typical $10 billion consumer packaged-goods company

Value drivers and savings potential in P2P for typical $10 billion consumer packaged-goods company

VALUE DRIVERS

OPPORTUNITY

Strategic business enablement

- Improved/protected customer service, revenue, profit
- Brand protection: compliance risk; supply/supplier risk
- Opportunity cost of management time

Service level excellence

- Maverick spending reduction
- Supplier non-compliance to contract
- Demand management (consumption reduction)
- Demand management (spend influence)
- Sourcing savings via better spend visibility from P2P
- Cost of capital from DPO improvement
- Early payment discounts
- Rebates from purchasing cards
- Reduced cost of P2P errors for purchased finished goods
- Reduced cost of P2P errors for raw materials
- Reduced supplier late payments penalties

$41-81 million

14X

$3-5 million

Process cost reduction

- Transactional purchasing process cost reductions
- Accounts payable process cost reductions
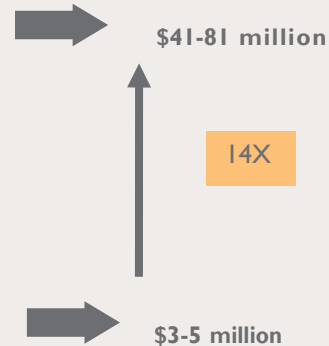
Baseline process cost: $26 million

Total: $44-66 million

Source: The Hackett Group

Key areas for process automation

So where should process automation begin? Or, if you've already automated some or all of P2P processes in SAP, what's next? Blake Evans, ReadSoft Director of SAP Technologies, provides the following recommendation:

"AP can be the "low-hanging fruit" for automation projects, but by continuing to build on process automation, companies can continue to improve efficiencies and reduce costs in other business process areas.
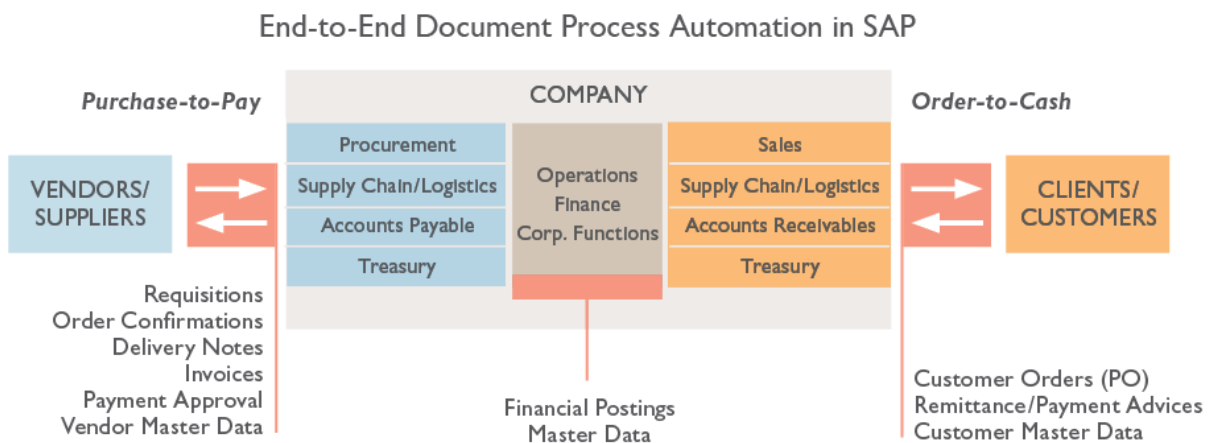
Oftentimes, additional upstream automation can enhance the investment downstream in AP automation by helping to eliminate approvals in invoice processing and reduce discrepancy handling.

Order-to-cash areas such as sales order handling increase the efficiencies of the order entry departments and reduce costs while providing better control and visibility throughout the entire process.

Master data automation helps to support the core business functions used to support the transactional processing. A single automation solution that can provide expansion into other business areas is an ideal scenario to leverage total cost of ownership and provide synergies in functions and processes."

Blake Evans, ReadSoft Director of SAP Technologies

According to Evans, a quick return on investment can be gained through process automation in the following areas:

End-to-End Document Process Automation in SAP

Purchase-to-Pay	COMPANY		Order-to-Cash
VENDORS/ SUPPLIERS	Procurement	Sales	CLIENTS/ CUSTOMERS
	Supply Chain/Logistics	Operations Finance Corp. Functions	Supply Chain/Logistics	
	Accounts Payable	Accounts Receivables	
	Treasury	Treasury	

Requisitions
Order Confirmations
Delivery Notes
Invoices
Payment Approval
Vendor Master Data

Financial Postings
Master Data

Customer Orders (PO)
Remittance/Payment Advices
Customer Master Data

End-to-end automation: purchase-to-pay (P2P)

Automating the entire purchase-to-pay string of processes is one approach to end-to-end automation that can truly enable a company to reap more gain from its SAP system. By starting automation with the purchase requisition process, each of the subsequent P2P processes is improved.

PURCHASING		LOGISTICS	ACCOUNTS PAYABLE	
Create purchase requisition	Process incoming order confirmation	Process incoming delivery notes	Process incoming invoices	Gain payment approval for invoices
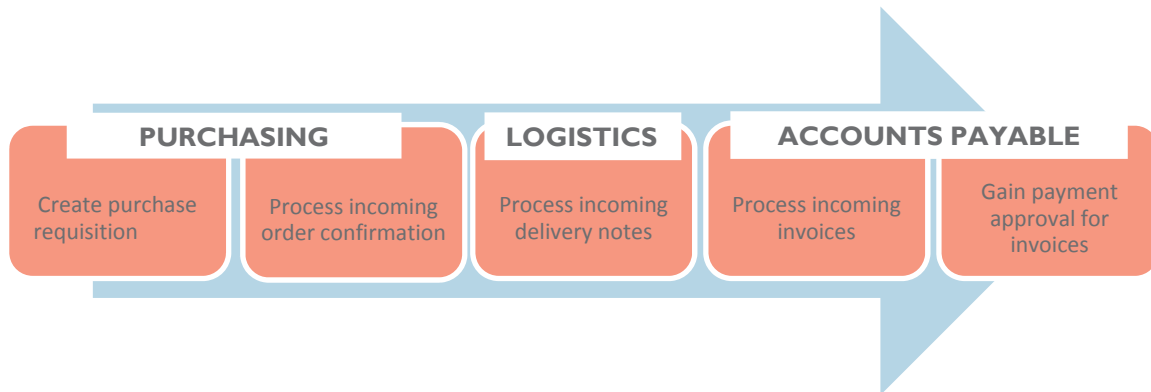
> **"In the past, we spent too much time retyping order data rather than managing processes, control especially, and strengthening buyer relations to achieve better purchasing terms."**
>
> *Customer Purchasing Manager*

Real customer example

One of ReadSoft's European customers reduced its indirect procurement costs by 50 percent through P2P process automation, while increasing control to ensure compliancy and more accurately identify exceptions.

Process area > Procurement / Purchase requisition

It's estimated that 30%–45% of indirect purchasing in organizations is "maverick" purchasing, with price costs averaging 35% more than agreement prices. Standard purchase requisitioning processes employ the use of an internal document that contains a description and quantity of the goods or services to be purchased, a required delivery date, an account number, and the maximum cost. Even the names of suggested supply sources can be included.

Manual purchase requisition processing

A person inside the organization generates a purchase requisition to notify Procurement of items needed via phone, email, sticky notes, etc. (In some organizations, a person may order an item directly via phone, sidestepping the requisition process altogether.) The requisition is normally sent to a superior for approval in a non-standard process lacking visibility. Upon approval, the requisition is processed by Procurement, and a purchase order is created inside SAP.

Automated purchase requisition processing

An authorized person creates a purchase requisition for any approved item via an SAP interface or an easy-to-use, simple web application with access to existing online catalogs. An automated workflow for approval is immediately

initiated, and approvals are recorded in a visible audit trail. Upon approval, an
approved purchase order is generated automatically in SAP.

Advantages of automating:

- Reduced costs for purchasing, logistics, and accounting
- Optimized supplier selection
- Better basis for price and contract negotiations
- Easier process for personnel, enabling greater compliance and user
  adoption
- Improved incoming invoice processing and reporting ability
- Low total cost of ownership as automation process is fully integrated
  with the ERP system

Process area > Order confirmation

This incoming document confirms, with or without qualifications, a supplier's
ability to fulfill the requirements of a purchase order. Automating the
processing of order confirmations enables organizations to manage their supply
chain with efficiency and accuracy—providing total transparency into the status
of orders.

Manual order confirmation processing

The manual processing of order confirmations typically takes place in the
Procurement department, where an incoming order confirmation indicates that
the purchase order will be filled as requested. Later, when the corresponding
delivery note is received, any variances from what was documented in the
purchase order stage must be manually processed and entered as credit notes
into SAP, then manually approved. Discrepancies between the purchase order
and the confirmation that demand immediate action (such as a supplier's
inability to fulfill the order on time) are often not discovered until it is too late
to take remedial action.

Automated order confirmation processing

When order confirmations arrive, they are easily scanned, and the pertinent
information on them automatically captured and matched against the
corresponding purchase order and existing master data in SAP. Confirmations
with 100% matches are automatically posted to SAP. Confirmations with
discrepancies are flagged for manual approval, and purchase orders are updated
accordingly in the discrepancy resolution process. Once validated, order
confirmations are posted to SAP, and an audit trail of the process remains
available.

Advantages of automating:

- Order confirmation processing times reduced to a minimum
- Improved data quality
- Automatic matching of order confirmation data with corresponding
  purchase order
- Transparent and traceable procedure
- Minimizes risk of production stops or oversupply
- Timely information if a supplier cannot meet the order terms

Process area > Delivery note processing

Each shipment of goods that a business receives is typically accompanied by a delivery note. This note is matched against purchase orders and used to create a subsequent goods receipt note (GRN). A signed copy of the delivery note is usually returned to the seller or consignor as proof of delivery.

Manual delivery note processing

The delivery note typically arrives as a paper document attached to a goods delivery from a supplier. It is compared with the delivery and forwarded to the Purchasing or Logistics department. The data from the delivery note is entered into SAP as a goods receipt entry and matched against the purchase order. Discrepancies are resolved in time-consuming processes.

Automated delivery note processing

Upon receipt, the delivery note is digitally captured, and required data fields are extracted. The data is transferred into SAP, where the digital image, linked to the SAP transaction, is automatically archived. The note is compared with the delivery in the warehouse and adjusted accordingly within SAP. In the case of discrepancies, workflows for resolution are automatically initiated before the GRN is finally posted.

Advantages of automating:

- Safe and automatic posting of deliveries with extensive consistency checks inside SAP
- Early identification of errors/exceptions and more accurate data for other P2P processes
- Reduction of manual data entry
- One-click retrieval of historic documents from SAP transactions to add transparency for Accounting, Receiving, and Purchasing departments as well as suppliers
- Shortens processing times and lowers costs through delivery note archiving

Process area > Invoice processing

Vendor invoices are incoming documents that are used for subsequent matching against the purchase order (in line with the order confirmation and delivery note) and used as a basis for remittance advices and payment.

According to data from Aberdeen Group, nearly 77% of all incoming invoices are still paper-based, demonstrating that the area of invoice processing holds great potential for driving savings to organizations through process automation and technology adoption. After surveying adopters of AP automation solutions, Aberdeen Group found that those adopters reported invoice processing costs 21% lower than others, and secured twice as many early payment discounts on more than twice the number of transactions. Automation makes this possible. [7]

Manual invoice processing

Invoices enter the organization via post, email, etc., and are entered manually in SAP via slow and labor-intensive data entry processes. Invoice data is determined, validated, and checked. Invoices with exceptions like missing or

incorrect data are passed into a manual workflow and processed. Once the
corrected invoice is approved, it is manually posted in SAP.

Automated invoice processing

Incoming invoices are captured, and the required data extracted and indexed.
The data is automatically matched and verified against existing purchase order,
master data, and goods received information in SAP. If there is a complete
match, the invoice can be posted automatically. Invoices with discrepancies are
routed to a workflow, where a real-time overview of the workflow and
corresponding invoice image make resolution and approval swift and painless.
(Non-PO invoices are routed for coding and approval.)

Advantages of automating:

- Automated consistency checks and validations against purchase order,
  vendor, quantities, and amounts
- Improved productivity throughout the P2P process chain with saved
  time, reduced costs, and reduced errors
- Shorter invoice processing time, improved cash management, and
  more easily negotiated discounts
- High transparency and usability with invoice data and image available
  throughout each step in process
- Efficient reporting enables reliable analysis and KPI measurements

Process area > Payment approval

This internal process, often controlled by the Treasury department, consists of
generating payment proposal lists for review and approval before payment
transactions can be finally sent to the bank.

Manual payment approval processing

Invoices are gathered in a document and circulated for approval. Appropriate
persons approve line items one-by-one. When the process is complete,
information gathered during the workflow is manually transferred to the
payment proposal and then executed as a payment run in SAP. The payment
run results in checks being printed or wire transfers executed.
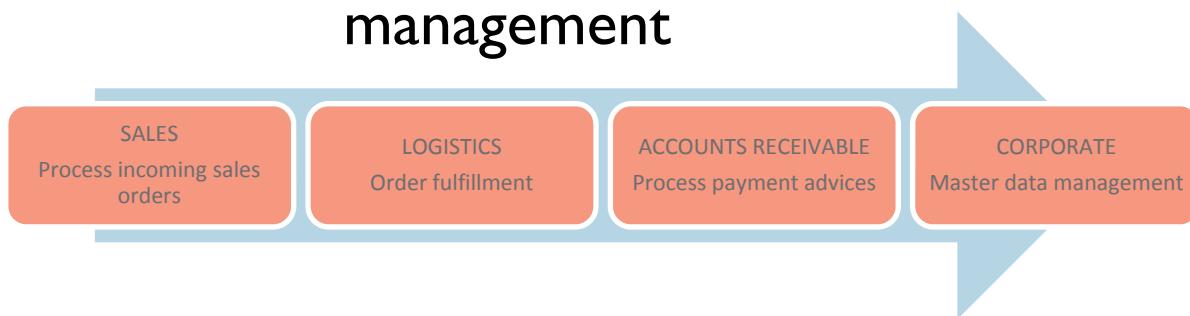
Automated payment approval processing

Proposals are brought into a single ledger and an automated workflow to gather
approvals is initiated. Appropriate persons can view the proposal at line-item
level, with an image of the original invoice also available. When the workflow
is complete, information gathered during the workflow is then transferred to the
payment proposal. A workflow history of the entire payment approval process
is stored with the SAP payment run and remains available, fulfilling SOX
requirements.

Advantages of automating:

- No paper documents are printed
- Easy access to workflow tasks in SAP via a web browser or mobile
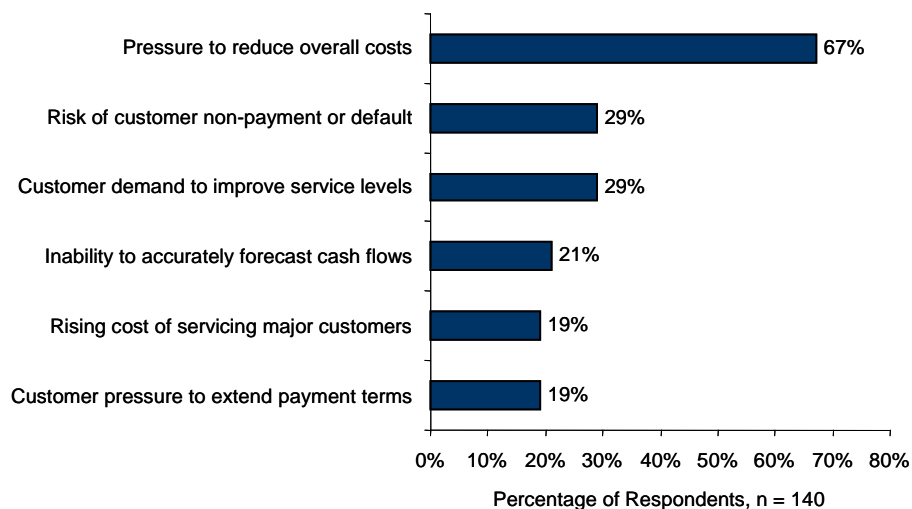 device

- The original invoice image and related information are directly accessible in the workflow
- Higher user acceptance of process, compared to ERP-only transactions
- Ensures payment approval meets business requirements and rules
- Fulfills SOX payment approval requirements similar to those for invoice approval

End-to-end automation: Order-to-cash and master data management

| SALES
Process incoming sales orders | LOGISTICS
Order fulfillment | ACCOUNTS RECEIVABLE
Process payment advices | CORPORATE
Master data management |

While AP processes are considered a go-to area for efficiency and effectiveness improvements through automation, organizations are also placing pressure on process owners within the order-to-cash cycle for improvement, with reducing overall costs as the main driver:

Pressures Driving Focus on Order-to-cash Improvement

Pressure	Percentage
Pressure to reduce overall costs	67%
Risk of customer non-payment or default	29%
Customer demand to improve service levels	29%
Inability to accurately forecast cash flows	21%
Rising cost of servicing major customers	19%
Customer pressure to extend payment terms	19%

Percentage of Respondents, n = 140

Source: Aberdeen Group, June 2011

According to Aberdeen Group: "Once the foundation has been laid with well-designed processes, the natural next step is to reduce the amount of manual work required to complete them. Responding companies who have automated major steps in the Order-to-Cash process reported volumes of disputed invoices 27% lower than others. On average, they are also able to process 14% more invoices per month with 9% less staff than their non-automated peers."[8]

Process area > Sales order processing

A sales order is created by translating an incoming customer order into an organization's own product codes and inventory requirements. Sales orders are internal documents used for filling the order as well as a basis for invoicing.

Manual sales order processing

The customer sends in an order for goods/services. Order data is manually keyed into SAP. The entered order data is validated against stock availability, agreed pricing, etc., and processed into a sales order. The creation of the internal sales order triggers production and/or sales and shipment processes. Each of these stages carries the risk of transcription error.

Automated sales order processing

Orders arriving from customers are automatically captured (regardless of format). The pertinent information is checked and validated against SAP data such as stock availability, pricing, discounts, and master data. When discrepancies arise, the order is entered into an automated workflow for resolution. Once validated, order data is transferred to the order management application, and a sales order is created. The order image and data are stored in SAP, and an order confirmation can be sent to the customer.

Advantages of automating:

- Increased process control and full transparency
- Earlier identification of errors and exceptions
- Safe and automatic creation of orders by extensive consistency checks
- Shorter processing times
- Lower costs in the order receipt process
- Increased customer satisfaction due to optimized order process

Process area > Payment advice

A payment advice, also known as a remittance advice, is an incoming document that accompanies a customer payment, stating which invoice is being paid.

Manual payment advice processing

A payment, with or without a remittance advice, arrives in Accounts Receivable by post or electronically. If payment is for multiple invoices, A/R processors must manually key in each invoice entry from the remittance advice to SAP to create the payment advice that is used to clear the line items on a customer's account with the customer's payment. Once reconciled, the payment advice document is then posted in SAP. This is a time-consuming, labor-intensive process that results in high amounts of unallocated cash being left on account, waiting to be posted to the appropriate invoice.

Automated payment advice processing

Upon receipt, payments and paper advices are scanned, while electronic advices are immediately ready for interpretation. Payment data is extracted from the documents for automated matching with the corresponding invoice, and with existing master data. In a swift process, the customer record that corresponds with the captured data is identified, and the data is matched line by line. The process culminates in an automatic creation of the payment advice document in SAP.

Advantages of automating:

- More efficient conversion of receivables to cash
- Automated data entry and intelligent checks shorten processing times
- Improves process handling with earlier identification of errors and exceptions
- Eliminates labor-intensive reconciliation of accounts
- Accounts receivable ledger is updated daily, maintaining accurate records
- Payments received can be tracked within seconds
- Improves auditing and helps streamline collection calls

Real Customer Example

Through automation of the accounts receivable function, one ReadSoft customer began auto-matching 85%–90% of all payments, lowering its unallocated payments by 90% and introducing same-day allocation. Its Days Sales Outstanding (DSO), the measure of the average number of days that a company takes to collect revenue after a sale has been made, decreased by 66%.

Process area > Master data management

Maintaining correct master data is critical for properly fueling business processes and paving the way for continuous process improvement and customer satisfaction. Typical master data types within P2P and O2C are vendor, customer, general ledger account, cost center, and profit center.

Manual master data management

To create or update records manually, a request must be sent to the data owner. This request should be as complete and valid as possible when sent by the requestor. Often, approval is required before a change or new entry can be made in SAP. The approved change request is then processed by the data owner, such as the Purchasing or Accounting department.

Automated master data management

When automated, a simple-to-use web application with a familiar SAP interface acts as an entry point for controlled collection of all maintenance requests. An automated workflow for approval of requests is integrated in line with established business processes. There is a single point of processing and a full overview of active requests for all parties involved.

Advantages of automating:

- Reduction in uncontrolled inbound processes (via phone, fax, email) for master data change requests
- Easy collection of all current requests through single request procedure
- SAP-integrated approval routines in line with established business processes
- Improved visibility with a single point of processing and full overview of requests
- Improved reporting for better compliance management and measuring service level quality

Conclusion

Organizations can gain real business advantage by automating end-to-end processes such as purchase-to-pay and order-to-cash—much more than can be gained from automating single processes within these process chains. As demonstrated in this paper, the application of automation to financial processes and beyond is proven to reduce costs, drive process compliance, and improve visibility through end-user ease of use and adoption. Users of SAP systems seeking to drive more value from their ERP investments should consult experts in document process automation such as ReadSoft to explore the potential value to be gained from this technology within their organization.

About ReadSoft

ReadSoft is the leading global provider of software solutions for document process automation. Founded in 1991, ReadSoft's vision is to contribute to businesses' success by providing the ideal software solutions for automating document-driven and transactional processes. Its flexible and easy-to-use solutions for purchase-to-pay, order-to-cash, and master data management processes dramatically shorten cycle times and provide real-time visibility into transactions—helping its customers reduce costs, increase efficiency, and improve decision-making control. ReadSoft's automation solutions also feature a single point of access to a friendly and intuitive interface that can be used by any authorized user.

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