

## Business Case – Proactive Reconciliation of Supplier Accounts

The purpose of this document is to discuss the benefits of supplier statement reconciliation and why Accounts Payable departments should be more proactive.

### The Challenge

Accounts Payable resources are limited, so the priority is always to process invoices through to payment on time. Suppliers share the same priority and consume significant AP resources, following up invoice submission with queries to check invoices have been received and when they are going to get paid. Paying any suppliers late increases the workload in AP as suppliers submit duplicate invoices, further queries and ultimately disruption to the business if they put the account on stop.

All of this leads to Accounts Payable being largely a reactive process, which makes it difficult to ever free up enough time to be more proactive and drive efficiencies as a result.

Reconciling supplier statements is a key control that enables Accounts Payable to check if all invoices/credits have been received and if there are any errors on the ledger to resolve in order to pay suppliers accurately and on time. Reconciliations are all too often done on a reactive basis, on request by suppliers or when AP recognises a supplier account needs to be cleared. If Accounts Payable could routinely reconcile their top supplier accounts, proactively on a monthly basis, then all the errors would be resolved before they become an issue - More suppliers will be paid on time, queries and duplicates will reduce which improves relationships with suppliers and reduces workload in AP.

The process of reconciling statements manually is very time consuming and it's the first thing to suffer in a busy AP department, so we cannot reconcile anywhere near the volume of statements we should be doing. There is no visibility, audit trail or reporting to manage the process, so we don't know how many or what types of errors there are, whether they have been followed up and what the next actions are.

Automating the process would enable a much higher volumes of statements to be reconciled, significantly improve controls, proactively identify and resolve issues, reduce supplier queries and gain valuable insights into AP processes to identify where controls could be improved to fix root cause. Reconciling higher volumes of statements will also ensure profits are maximised based on the following:

- Ensure all credits are received and applied
- Ensure miss-postings and duplicates are cancelled
- Ensure debit/credit miss-postings are cancelled
- Improve payment on time to reduce supplier queries, being put on stop and improve relationships with suppliers.
- Reduce supplier queries by sharing reconciliation reports and/or providing access to invoice status via Statement-Matching.com portal extension.
- Improve cash flow forecasting by identifying missing invoices/credits on a timely basis.
- Prompt clearing of GRNI (Goods Received Not Invoiced) Account

- Using a system to perform automation provides a structured process that you can report on to quantify errors received by supplier and focus on resolving the root cause in order to reduce errors over time.
- Maximise early payment discounts
- Minimise late payment fees
- Minimise interruption to the business resulting from supplier's putting you on stop
- Reduce 3<sup>rd</sup> party audit recovery fees

## Key Business Benefits

Reconciling supplier statements is the ultimate control to close the loop in Accounts Payable to ensure supplier balances are accurate. However, any seasoned AP Manager will know that reconciling statements delivers far more benefits than the headline suggests, the majority of which add value to the wider business in addition to improving AP KPI's.

The table below details the business benefits as a result of AP reconciling supplier statements. Reconciling supplier statements proactively is the key as this will identify issues early, improving the chance of resolving it in time, which benefits the business, Accounts Payable and suppliers. Quantifying the issues and identifying the root cause drives continuous improvement to reduce errors, which benefits all parties again.

<p><b>Accurate supplier liabilities</b></p>	<ul style="list-style-type: none"> <li>• Accurate financial reporting</li> <li>• Key control for audit and SOX compliance</li> <li>• Reliable cash flow forecasting and accruals</li> <li>• Target, reduce and stay on top of top suppliers aged GRNI/GRIR balances, improving the P&amp;L.</li> <li>• Ensure credits agreed between the supplier and the business have actually been received and applied.</li> <li>• Obtaining and processing missing invoices/credits in the correct period avoids nasty surprises.</li> <li>• Another chance to spot duplicates before they are paid.</li> </ul>
<p><b>Paying suppliers on time</b></p>	<ul style="list-style-type: none"> <li>• Avoid business interruption from being on stop or losing supplier altogether</li> <li>• Maximise any early payment discounts</li> <li>• Improve trust in supplier relationship and therefore more likely to give you favourable terms and treatment when you need something from them.</li> <li>• Supports contract negotiations</li> <li>• Fewer queries from supplier directly to business contact and fewer queries (often a repeat) from the internal AP query team.</li> <li>• Identifying issues that might cause late payment early enough to reduce the running around an emergency payment causes.</li> <li>• Reduce duplicates that may slip through and be charged to budget holder.</li> <li>• If the issue holding up the payment is down to something the business hasn't done, which more often than not it is,</li> </ul>

	then reporting from statement reconciliation process is another opportunity for management to be made aware of the root causes to reduce all of the above in the future.
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### Objectives for Accounts Payable

Automating the process will enable Accounts Payable to reconcile Key Supplier lists proactively every month and higher volumes of statements on an adhoc basis. Coverage objective is to reconcile Key Suppliers that represent 80% of the AP ledger value.

Errors will be identified, actioned and followed up to ensure resolution is complete. Reconciliation reports will be shared with suppliers to request missing documents, provide invoice status, including due dates for payments and payment references, which will reduce supplier queries.

Users adding notes to the recs provides an audit trail and supports analysis to identify where internal controls need improvement or vendor issues.

Reporting will quantify the errors by supplier to target improvements through root cause analysis. Quantifying the errors when the statement is first uploaded can be compared to the results at the end of the month to measure the value of reconciling statements. KPI's can be used to monitor performance and ensure errors reduce over time.

The table below details the deliverables required from a solution and the benefits.

Deliverables	Benefits
Automated reconciliation process for Excel, Paper & PDF statements. Reconciliations automatically updated on a daily basis.	<ul style="list-style-type: none"> <li>• Higher volumes of statements can be reconciled compared to manual process</li> <li>• Users only have the exceptions to manage</li> </ul>
<b>Exception Management</b> <ul style="list-style-type: none"> <li>• Reconciliation results highlighting what's matched and in error</li> <li>• Reports to share results with suppliers showing invoice status</li> <li>• Add notes and follow up actions</li> <li>• Select statements based on user criteria and priority</li> </ul>	<ul style="list-style-type: none"> <li>• Request missing documents on a timely basis and follow up to ensure resolved.</li> <li>• Resolve incorrect postings on a timely basis and follow up to ensure resolved               <ul style="list-style-type: none"> <li>○ Wrong vendor account</li> <li>○ Duplicates</li> <li>○ Debits/credits wrong way round</li> <li>○ Invoice date, invoice number and currency entry errors</li> </ul> </li> <li>• Audit trails provide visibility of previous actions when following up.</li> <li>• Provides structure for team to manage process and management to ensure process is completed.</li> <li>• Reduce supplier queries by sharing reconciliation reports</li> </ul>
<b>Reporting</b> <ul style="list-style-type: none"> <li>• List statements by error reason for prioritisation.</li> <li>• Critical supplier reports</li> </ul>	<ul style="list-style-type: none"> <li>• Provides focus for team to resolve errors with most financial impact.</li> <li>• Ensure critical suppliers are reconciled</li> <li>• Target areas for improvement based on error volumes</li> <li>• Monitor performance over time to see errors reducing</li> </ul>

<p>to ensure all are reconciled each period.</p> <ul style="list-style-type: none"> <li>• Number and value of errors by supplier and overall</li> <li>• Audit reports with supplier balance vs ledger balance</li> </ul>	<ul style="list-style-type: none"> <li>• Measure value achieved by reconciling statements</li> </ul>
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Reconciling supplier statements proactively will identify the following issues and resolving them will ensure AP ledgers are accurate, profits are maximised and supplier queries are reduced.

- **Missing Credits** – Request copies from suppliers and set follow up actions to ensure the credit is received. Credit notes can get suppressed from statements or cancelled by suppliers if you don't take them on a timely basis. Improve the bottom line and ensure the business gets what it's owed.
- **Missing Invoices** - Request copies from suppliers and set follow up actions to ensure the invoice is received. Resolves an issue where the supplier may end up putting you on stop and/or sends you duplicates, which creates even more work. Improve payment on time, maximise early payment discount opportunities and maintain accurate supplier balances.
- **GRNI Clearing** – If statements are 'Fully Matched' (all invoices received and no un-paid invoices on vendors account dated before the statement date); any Goods Receipts Not Invoiced with a posting date prior to the statement can be cleared based on our rules.
- **Miss-postings** – Un-paid invoices on the vendors account that are not on the vendors statement need to be investigated and either cancelled or re-posted to the correct vendor account. These are potential duplicate risks and impact the bottom line if they are paid.
- **Data Errors** – Invoices on the system where the invoice number, invoice amount, invoice date or currency are different to what the supplier has on their statement. These are potential duplicate risks, over-payments or under-payments waiting to happen.

### Components of a Business Case

Building a business case to automate supplier statement reconciliation is more about improving controls and best practice rather than hard, tangible savings. However, it's always difficult for Accounts Payable departments to get funding for their projects, so you have to justify any investment and there should be no arguments from management about the benefits of reconciling higher volumes of supplier accounts and there are tangible savings to target as part of an investment case. The table below provides some input for discussion.

Business Case Component	Target
<b>Reduce Supplier Queries</b>	<ul style="list-style-type: none"> <li>• How many supplier queries do you receive now?</li> <li>• What percentage are invoice status related?</li> <li>• How many FTE's and cost?</li> </ul> <p>Target 20% reduction on supplier queries</p>
<b>FTE Saving – Manual Reconciliation</b>	<ul style="list-style-type: none"> <li>• Estimate how long it takes on average to reconcile a key supplier account manually including follow up.</li> </ul>

	<ul style="list-style-type: none"> <li>Extrapolate to determine time and cost to reconcile the volume of statements you would to achieve on a monthly basis</li> </ul> <p>Target 10x volume of statements per person if process is automated</p>
<b>GRNI/GRIR Clearing</b>	<ul style="list-style-type: none"> <li>What is the current value of your Top 50 GRNI/GRIR balances?</li> </ul> <p>Target 30% reduction of the value returned to profit</p>
<b>Reduce duplicates</b>	<ul style="list-style-type: none"> <li>Estimate percentage of duplicates received</li> <li>How much is the processing/rejection cost?</li> <li>Estimate 0.5% of annual spend is duplicates that either get recovered or go un-noticed.</li> </ul> <p>Target 20% reduction in duplicates</p>
<b>Missing Credits</b>	<ul style="list-style-type: none"> <li>What is the value of credits processed per year?</li> <li>Estimate 15% of credits may have been missed – What is value?</li> </ul> <p>Target 5% credits missed instead of 15%</p>
<b>Audit Recovery Cost</b>	<ul style="list-style-type: none"> <li>If you use a 3<sup>rd</sup> party audit recovery company then what was the cost last year?</li> </ul> <p>Target 50% reduction for the next audit recovery</p>

### What is the proposed solution to automate the reconciliation of supplier statements?

Statement-Matching.com is a cloud based solution for automating statement reconciliation and managing the exceptions. A proof of concept enables potential customers to try the solution with their data to prove it meets the business requirements and also to provide input for the business case. Why use Statement-Matching.com? A summary of the key benefits to consider:

- Easy to setup** – No software or hardware to install or maintain, users access the solution via their browser. The proof of concept environment is a live system, so it's already configured and the AP users are trained. To go live with all of our data, we need a data extract report to be configured and setup to run automatically overnight. A secure FTP process is required to push daily extract files to keep in synch. Statement-Matching.com is hosted on Microsoft's Azure platform in the data centre location of choice. There is no connection between Statement-Matching.com and our systems as we are pushing the daily files to an FTP account and no write backs to our ERP.
- Automated Reconciliation** – Excel statements are uploaded by the AP users, paper and PDF statements are forwarded to a managed service for data extraction and loading to Statement-Matching.com within 24 hours. Statements are reconciled automatically and an overall status is allocated as well as a status for each line on the statement. Statements are automatically re-reconciled every time the daily file is uploaded, so the reconciliations are

always up to date. Statements are by default reconciled against all documents or an as-at date can be entered to reconcile the statement to a specific date.

- **Managing Exceptions** – Reports can be run to list the Top-x suppliers by invoice value to ensure they are reconciled every period. Suppliers can also be flagged as critical suppliers on the system and again reports can be run to ensure critical suppliers are reconciled every period. Users can list statements based on the error eg. Statements with Missing Credits, Missing Invoices, Debits/Credit miss-matches, Documents on system that are not on statement and so on. Users can also select statements based on legal entity and vendor split. Users can send status reports to suppliers to request copies of missing documents and to let the supplier know the status of each invoice, due dates for payment and payment references for invoices that we've paid, which will reduce the volume of supplier queries received. The daily files from our ERP will contain new documents from the previous day and changed documents, so any missing documents we subsequently receive and any updated documents will be uploaded to Statement-Matching.com and the reconciliations will be updated automatically as a result.
- **Management Reporting** – Reporting tells us how many statements received, completed and values reconciled. We can also see the number of and values of each error type eg. missing credits, missing invoices etc.. to monitor progress of reducing errors. KPI reports to measure the errors identified on initial upload of statements and subsequently measure the value of errors resolved after the statement has been worked on (missing documents requested and received and internal errors such as miss-postings, incorrect amounts and currency errors fixed). Use reporting to identify the same errors occurring on the same suppliers every month in order to resolve root cause and reduce errors over time.

### **Proof of Concept (POC)**

Complete a Proof of Concept for up to 10 suppliers using production ERP data and supplier statements. Anyone in Accounts Payable can provide the data required and detailed instructions are available on request from Statement-Matching.com

Write up the results of the POC for the business case based on the following:

- Time saving compared to manual reconciliation process.
- Quantify number and value of missing invoices, credits, miss-postings, incorrect amounts, currency errors and invoice date/invoice number entry errors.

To-be process worked on with customer to agree supplier coverage for reconciliations, working practices for AP team and KPI reporting to measure benefits and achieving business case objectives.

Build in Statement-Matching.com Portal extension and Duplicate-Matching.com into the business case for potential future development and overall justification.

## **Technical setup and implementation.**

Beyond the Proof of Concept stage, an automated daily file transfer will need to be setup to synch the Accounts Payable ledgers with Statement-Matching.com. This needs to be setup on the customer side and it's a one way push of data to an FTP account with no requirements to write any data back, so there is no direct connection between Statement-Matching.com and customer networks.

There are no setup or training costs on the Statement-Matching.com side as this is done remotely, so the only setup cost is any internal costs on the customer IT side.

Statement-Matching.com works with any ERP application and customers can be setup with multiple ERP systems and any add-on systems customers use for invoice processing where documents are entered before posting on the ERP system(s).

The requirements are the same regardless of system and this is how it works for any ERP system:

Statement-Matching.com requires daily invoice header and supplier data files from the customers ERP system. The daily files will be output overnight as a scheduled task and automatically transferred to an FTP (SFTP/FTPS) account provided by Statement-Matching.com. This will be an automated process that requires no input from the business and Statement-Matching.com support team will notify the customer if there are any problems with the files or no files are received on a given day. Statement-Matching.com provides a technical specification for the data extract requirements, which the customers IT team needs to review in order to estimate the internal cost and time to develop the extracts and setup the FTP process. Once the data extract report is ready to run in production, Statement-Matching.com will be up and running within 7-10 days, so implementation time is minimal on their side.

The AP team or at least the AP Super Users will have already been trained and have extensive knowledge of Statement-Matching as a result of the 4 week POC. However, time will have passed getting approval after the POC, implementing the full data extracts and working on the to-be process design, so the implementation approach is to start from scratch. Training will be provided via webex (1-1.5hrs) once the production data is loaded and weekly calls provided to work through issues, receive additional training and change configuration settings. Weekly calls will revert to monthly calls once the application is ready for Business As Usual

## **What's included and how does pricing work?**

Statement-Matching.com is a cloud based application and there are no setup costs. The only costs to use the solution are:

**Fixed Monthly Subscription** – Based on annual invoice volumes.

**Variable Monthly Statement Charge** – Based on the number of statements processed per month.

Invoicing is monthly with each invoice having a line item for the fixed monthly subscription in advance and monthly statement charge in arrears.

There is no limit to the number of users. All of the updates are included in the monthly subscription as well as helpdesk support.

Monthly Service Reviews are also provided to help us get the most out of the system.

### **Future Development Opportunities**

The data-set used by Statement-Matching.com for supplier statement reconciliation can also be leveraged to further improve the Accounts Payable processes. There are two additional solutions that use the same data-set as Statement-Matching, see below. The solutions are available on the same monthly subscription basis and no additional setup is required on the customer side. The user interface is similar to Statement-Matching.com, so training is minimal for the Accounts Payable team to use them. Both solutions are available on a proof of concept basis.

**Supplier Portal** – Suppliers can see the status of all their invoices (VIM and SAP) and submit messages, integrated with existing email addresses used for supplier queries. Suppliers can also view payments and see the invoices that relate to their payments. Suppliers can also upload their own statements and we can see the results in Statement-Matching.com. Supplier Portal is free of charge to suppliers and the monthly subscription for us is 75% of the fixed monthly subscription cost on core Statement-Matching

**Duplicate-Matching** – Configurable duplicate identification reports and workflow to manage recovery/prevention process. Reports can be run on all data (open, paid and no date range) or run against data for period of time eg. Yesterday only to identify potential duplicates at the earliest opportunity to prevent them being paid.

Statement-Matching are also about to release a new module for Sales Ledger Reconciliation to enable Accounts Receivable to reconcile the sales ledger against statements obtained from or uploaded by customers. This is in effect the reverse of what we're doing with Statement-Matching in AP whereby we obtain statements from our suppliers to reconcile against the purchase ledger, so there are real benefits on both sides.