

Exposé



Cost-Benefit Analysis

- Increase in the Touchless Quote per invoice within a company
- Increased savings through the optimization of cash discount utilization



Application of the Ventum Maturity Model

- Vision
 - Roadmap
 - Quick wins
- for your invoice verification process



Potential risks

- Organizational changes can be difficult due to well established processes
- Increased processing effort during the changeover period to optimize the usability of the technology



Ventum's Recommendation and Offer

- The complete digitalization of the invoice verification process establishes the basis for transparency and KPI development.
- We recommend focusing on the following three KPIs on an annual basis:
 - Cost per billing transaction
 - Processing times per transaction type
 - Automation rate
- Following our best practice approach, the cost per billing transaction can be as low as 2€, even for companies that are still in the early stages of e-Invoicing.
- For companies with an e-Invoicing quota of more than 50%, our best practice approach further reduces the costs per transaction to less than 1€.
- Development of an individual vision for the invoice verification process for your organization and processes, based on the Ventum Maturity Model.



Key question

- How can minimizing the use of auditors and a decrease in the number of flawed transactions (to be handled by auditors), lead to efficiency gains?



Read our findings and the details of our best practice approach and learn more:

- A detailed description of how best-in-class companies organize their invoice verification process and what the financial benefits of this optimization are
- The Ventum Maturity Model for invoice verification
- The major players in the market
- Our model for the development of your shortlist suppliers
- Ventum's key experiences

Short Management Summary

Invoice verification refers to the process of verifying whether an invoice has been posted accurately. This means that each invoice must comply with the provisions of "§ 14 VAT Act" (formal audit) and be booked in accordance with the respective order and delivery (factual audit). Such a task, which comprises several points of contact between the different entities within a company, is typically the largest cost center of a financial organization. For companies that still receive most of their invoices on paper, there are average processing costs of up to 15€ per invoice. Following our best practice approach, the cost per invoice transaction can be as low as 2€, even for companies that are still in the early stages of e-Invoicing. For companies with an e-Invoicing quota of more than 50%, our best practice approach can further reduce the costs per transaction to less than 1€.

A completely automated and efficient invoice verification process requires the development of points of contact between the relevant departments, the modification of processes, and the implementation of the latest technologies.

Fundamentals and Principles

The invoice verification process is an essential business process. This process ensures that no more is paid for goods and services than is required – that is, only what has been ordered, approved and received, gets paid for on time. Sounds simple and straightforward, at first.

In auditing process, every invoice is checked for formal and factual errors. The formal check determines whether all of the legally required entries of an invoice are presented and correct. This is a law given prerequisite to receiving a deduction on input tax on incoming invoices. If the invoices that are received, do not comply with the accounting regulations, the companies will not qualify for a deduction and will be required to make additional payments. The factual check, however, is the verification that all of the information on the invoice is correct: do the delivered goods correspond to the goods that were ordered (in the case of an invoice with a reference to the order) and do the invoice

entries match the entries on the order/delivery notes. This exam describes the so-called „3 way matching“ process.. This process, as expected, requires a lot of time and effort, especially considering that larger corporations (with several billions of euros in yearly sales) have to handle large quantities of receipts that amount to up to six-figure numbers every month. As the audit processes many various departments and persons concern it is reasonable to expect that they take a comparatively longer time than necessary, if done manually. As a result, the incoming invoices get “lost” inside of the company and do not get processed on time, the cash discount rate does not get used or the interest on arrears has to be paid in addition. If payments to suppliers are always delayed, the credibility and liability of your company will be impaired. On the other hand, if the payment terms are not considered and incoming invoices get paid too early, this can have a negative impact on the company’s liquidity. All of the challenges described above, can be avoided by automated invoice verification.



Ana Ivanovic-Orron
Consultant

Role of the audit in the cost savings

According to statistics, the cost discrepancies of financial functions between top-performers and low-performers could be as high as 2.4% of total revenue.

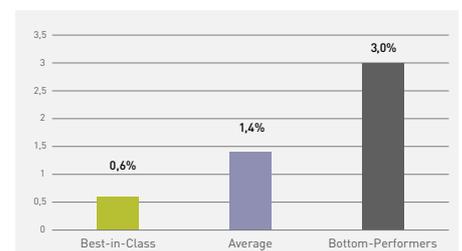
The automatization of processes not only reduces costs, but also reduces the time that auditors spend on repetitive auditing tasks. The resulting increase in time-savings could alternatively be used to acquire commercial insight, improving overall business results.

Essentially, companies distinguish between value-adding, transactional and control activities. „Value-adding activities are activities tasks and processes, that are linked to value creation, such as strategic planning, business and talent management, capital planning or budgeting/forecasting. These activities bring new insights and create important added value for the company.

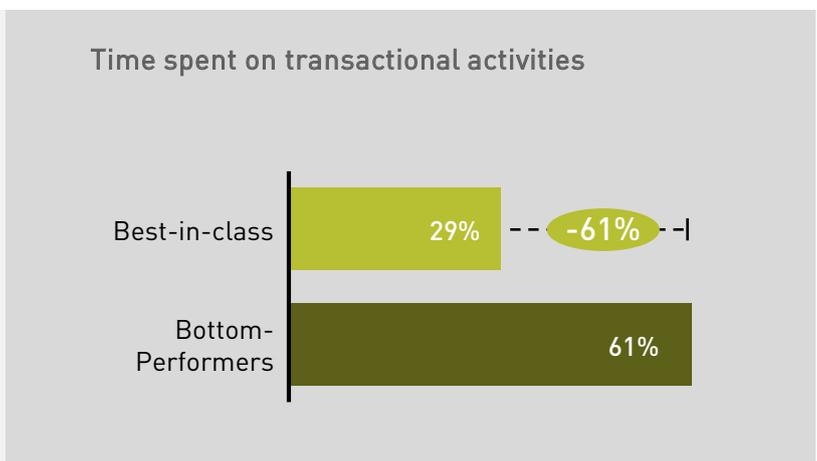
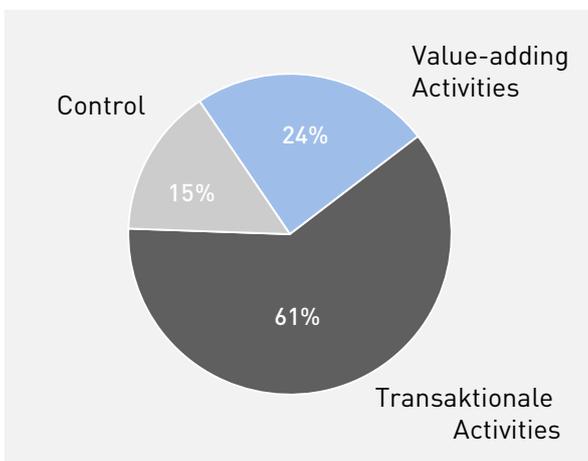
On the other hand, transactional activities comprise of: general and subledger accounting, consolidation and closing, payroll and transaction processing. The objective of automation is to significantly reduce transactional activities, freeing up time and resources for other value-adding activities. This is what separates best-in-class companies from bottom-performers. Most of the midsize companies nowadays, spend 50 to 60 percent of transactional activities dealing with the invoice verification process. This means that one-third of time and money is spent on processes that do not provide significant economic value to the company. These activities include tasks such as:

- Formal invoice verification
- Factual invoice verification
- Clarification of variations
- Invoice release or
- Rejection letter

Therefore, the invoice verification process plays an important role when it comes to cost-savings within a financial organization.



Costs of financial organization according to the cost efficiency: The difference between best-in-class and bottom-performers amounts to 2.4 percentage points of Total sales



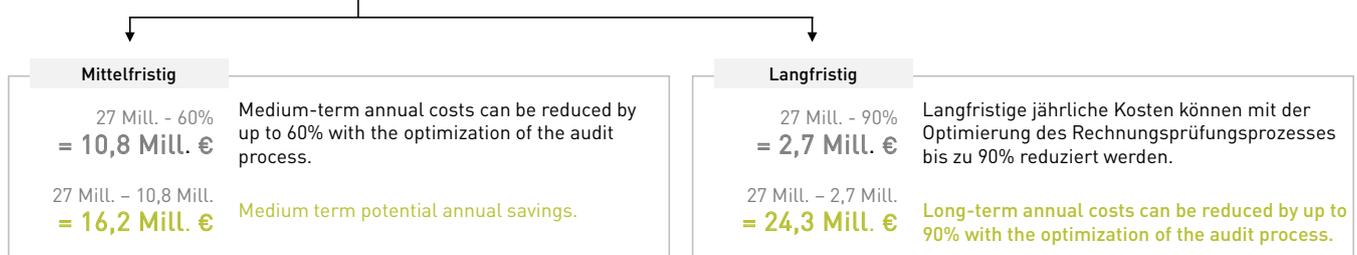
The differences between top and bottom performers

Sample Case Study

 Companies with € 3 billion in total revenue

3 Bil. x 3% = 90 Mill. € 3% of the total revenue is spent for financial organization

90 Mill. x 30% = 27 Mill. € 30% of this is attributable to the audit and approval process



In our experience, the optimization of auditing process is one of the most effective levers in increasing the cost efficiency of the financial organization, as audit very often constitutes the largest cost block.

Example study: Cost savings

Here we present an exemplary case study based on statistical values of many medium-sized companies with an annual turnover of up to three billion euros. In this case, three percent of the total turnover is being spent on the financial organization. As already mentioned, one-third of that amount is used for invoice verification/ audit processes. This corresponds to processing costs of 15 € per invoice in a medium sized company that monthly receives 150,000 invoices (assuming most invoices come in paper form).

Partial automation of processes – such as the receipt of invoices, scanning of invoices and initial content verification based on master data, formal and factual invoice verification – reduces the need for manual intervention. The processes run automatically and are more transparent and less prone to errors.

Like this the average processing costs per invoice can be reduced up to 60% (from 15 € to 6 €), which in the medium-run adds up to 16.2 million euros of annual savings. In the long-term, through a fully automated invoice verification process, process simplification, standardization, use of shared services, or outsourcing of sub-processes and tasks, it would be possible to save up to 90% of the costs. Today, the best in their class pay one tenth of the cost per invoice, or even less, than most companies in Germany. This illustrates the full potential that a fully automated invoice verification process can offer. With the help of the newest technologies, it is possible to automate the invoice verification process by up to 90%. It is important to align the implemented technology with the organization and the processes within the company, creating a perfect synergy.

Lessons Learned: Integration with existing ERP

The optimization of technology and processes is neither simple nor clear. In overcoming the possible obstacles one solution would be to learn from the best-in-class companies. 90% of invoices in Germany are still sent in paper form, which is why companies are using shared services to convert paper documents to a digital format, by means of Optical Character Recognition. Optical Character Recognition (OCR) is the process of converting received or scanned PDF invoices into machine-encoded text. As a next step, the data is interpreted. Interpretation is defined as the mapping of machine-encoded text passages to data fields, providing a technical and standardized understanding of invoice document data. The invoice data is automatically matched with the supplier master and order data. The way in which these documents are read and interpreted improves with time due to the machine learning component in OCR. This component can memorize and record the invoices specific to a supplier

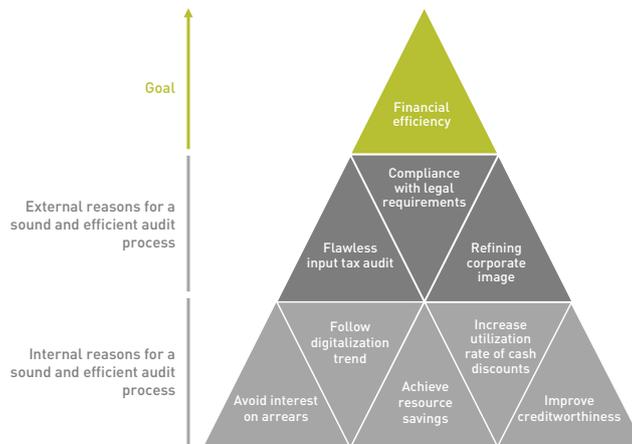
and use them in order to improve its performances. In order to improve the quality and quantity of supplier data without additional internal effort, suppliers are connected through the online supplier onboarding portal. As a result, time and resources can be saved and processes can be standardized. Plausibility checks and input tax checks are then carried out. The system checks whether the values depicted are plausible from a business point of view. Business logic can be controlled by mapping tables. Since these checks can be controlled by tables, they can also be activated or deactivated at any time, or changed if necessary, by a system administrator.

The audit of input tax verifies that the invoice document

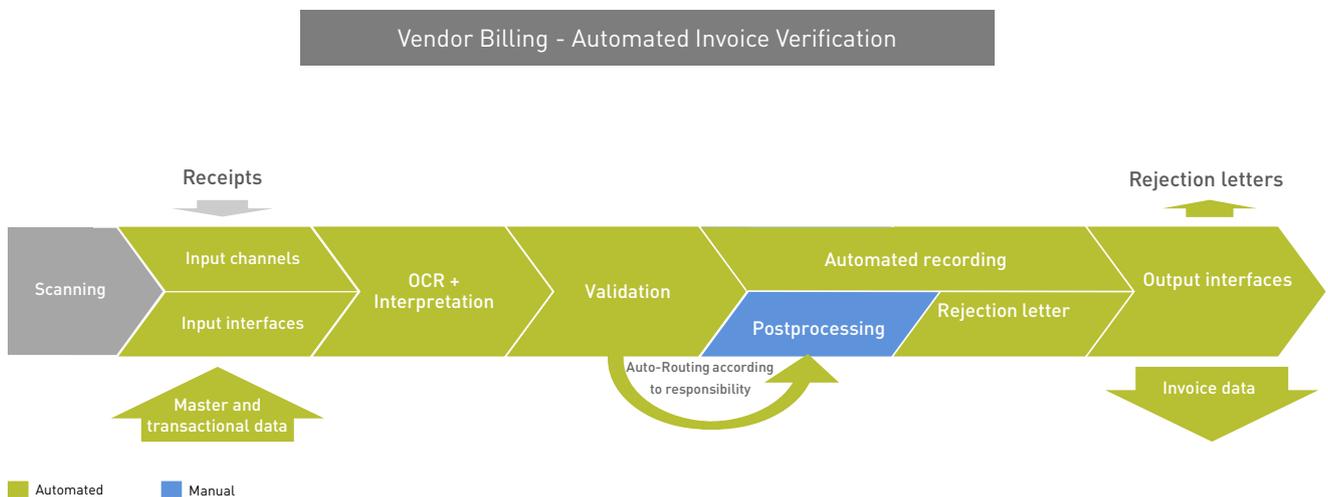
complies with the provisions of the §14 VAT Act. If the invoice is correct, the company is eligible for a deduction in input tax. Based on these checks, every supplier can be checked for every invoice received. This allows the accuracy of the invoices received from various suppliers to be monitored. Only suppliers who send out permanently incorrect invoices, are processed manually. In addition, recurring errors can be detected, directly identified and permanently corrected.

Automated processes ensure that every invoice is checked with transparency and that the four-eyes principle is fulfilled. The manual and automatic transfer of invoices to predefined processing departments, responsible for different processes, ensures that the invoices end up with the designated processor, eliminating the likelihood of circling around the company for weeks. The criteria for automatic routing can be entered into the system, and also controlled

by the mapping tables. Any form of post-processing can also be outsourced to shared services. Companies specialized in invoice verification and approval will be able to complete the verification process much more quickly and with fewer errors. Our experience has shown that organizing audit in this way can lead up to 300% increase in effectiveness. In addition, within a company, a group can be set up to provide audit services on a global scale. This allows several departments to be merged, reducing technology-, administration- and IT maintenance costs. The communication and invoice verification with suppliers is also time consuming, and in most cases, is done manually. Although, it can be automated by up to 90%.



Ventum Consulting Pyramid: Achieving Financial Efficiency



Vendor Billing - Automated Invoice Verification

In the event that the document data does not match the defined criteria in the interpretation process steps, plausibility check or input tax check, a rejection mail with a predefined message is automatically generated and sent to the supplier. This results in time savings and transparency in the processes, since all employees involved can see at what stage the invoice was rejected and for what reason. External as well as internal communication is simplified. The e-mail correspondence is archived and can be retrieved at any time as part of the invoice history. Lastly, the invoice data is forwarded to the ERP system in the desired format, where further checks can be carried out: 3-way matching, invoice clearing, invoice posting, payment run, archiving of invoices.

Tip: The standardization of important business processes leads to fewer manual interventions. The labor cost component of the total financing costs is on average 60%. A reduction in the number of people used for manual data processing, leads to a decrease in the above mentioned costs. In addition, e-Invoicing will continue to establish itself in Germany. Now is the time to start preparing your company for automatic invoice verification in order to be prepared for the emerging e-Invoicing technology and be able to realize the cost and process advantages.

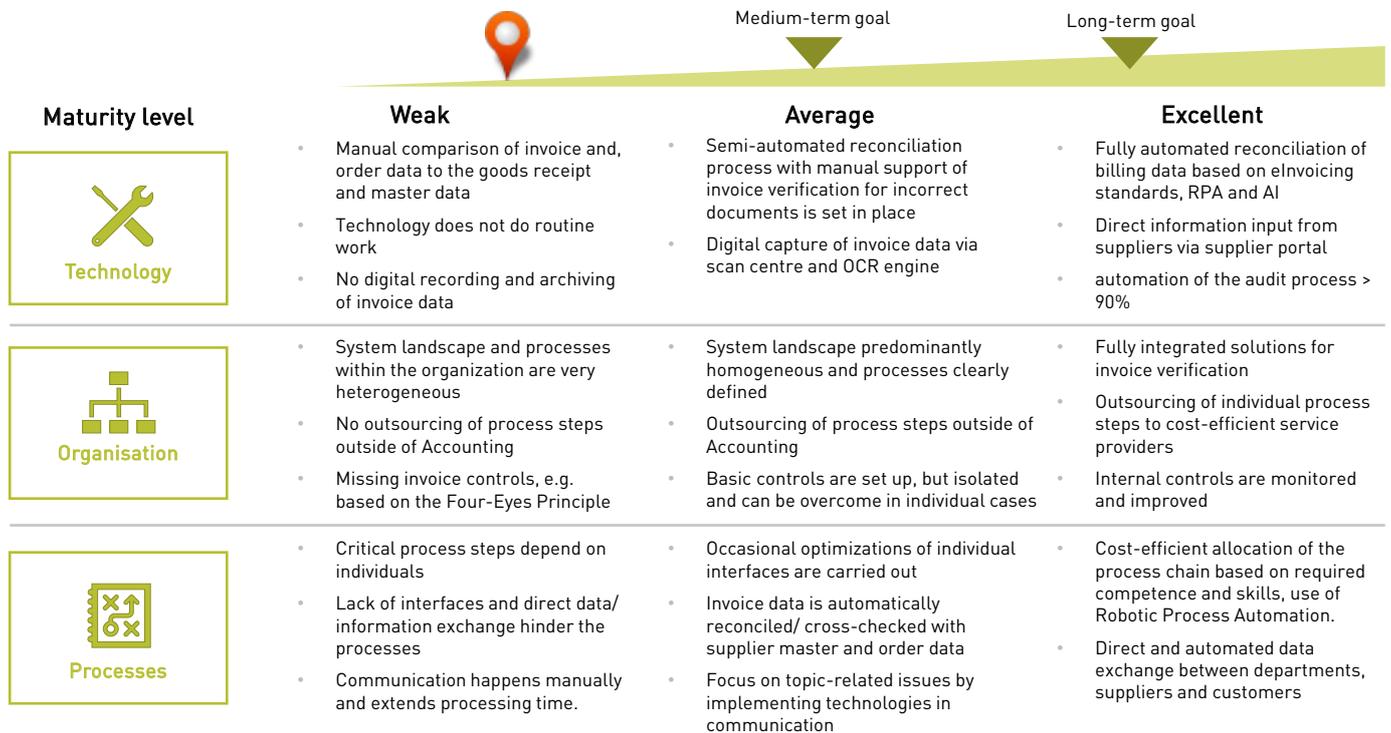
Defining Maturity level for implementation

By means of a benchmark for a maturity level model, you can discover your company's weaknesses and strategically map the road to maximizing financial efficiency. At this point, it is important to position the company on the maturity level line, with a focus on technology, the organization and its processes, and to recognize where the company is currently standing and to define the short- and long-term goals. With this tool planning and implementing the change is made easier, while at the same time continuing to focus on future goals.

A complete, or even step-by-step automation of the invoice verification process, leads to fundamental changes of the

tasks. As opposed to solely focusing on master data administration and accounting, a strong focus on the control and supervision of the entire process is now required.

That's why it is very important to lead the change strategically, paying attention to the current technological circumstances in the company and planning their future development. This makes it easier to define which interfaces should be automated first, which processes outsourced or conjuncted and how the organizational parts have to be adapted. Furthermore is it important to have the perfect symbiosis between technology, organization and its processes.



Maturity level for implementation



Balint Tolnay
Partner

With the help of the latest technologies, it is possible to automate the audit-related processes by up to 90% and significantly reduce invoice processing costs. In addition to the technological adjustments, the adaptation of the enterprise organization and possible changes in internal process are important and necessary requirement. In addition, the trend of electronic invoicing in Germany continues to rise. Automated invoice verification allows you to save costs, makes the processes in the company more transparent and less error prone, and prepares you for the coming trend of E-invoicing.

Have we sparked your interest?

Ventum Consulting supports you in the selection of the most fitting project approach by combining theoretical knowledge and extensive practical experience in traditional project management, as well as in agile methods. Together, we will identify the optimal approach to project success.

Please do not hesitate to contact us if you have any questions:

Balint Tolnay
Partner
tel.: 0176 133 133 13
e-mail: balint.tolnay@ventum.de

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