ZYCUS
COGNITIVE PROCUREMENT

Navigating the Path to AP and Financial Excellence Through Artificial Intelligence

TABLE OF CONTENT

Setting the Stage

The corporate impact of the AP and P2P process is significant. The P2P process is evolving from isolated functions to a single process in which purchasing and AP are becoming automated and analytical functions adding value to the organization. This evolution aligns with the needs and goals of organizations in these tight economic times to reduce costs and realize productivity increases.

AP and P2P processes are no longer viewed as a "back-office" function but one of tremendous value since the process can greatly impact an organization by providing opportunities for strategic sourcing, automation, improved controls, and business partnerships which can greatly reduce risk and improve working capital.

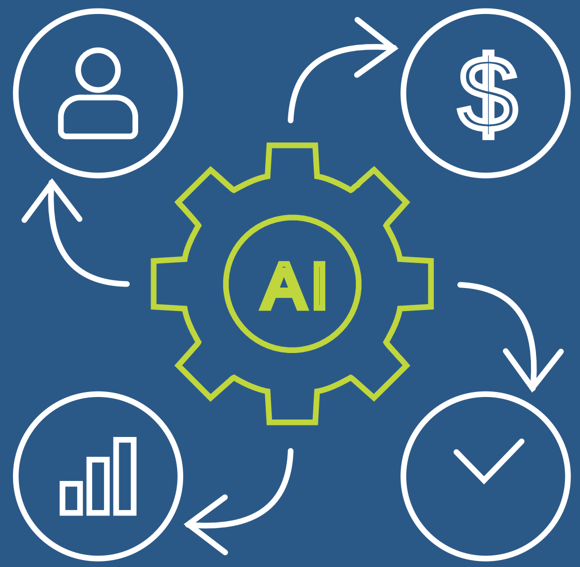
How a Digital Strategy can Address P2P Process Challenges

Some of the challenges that both P2P and finance professionals face are included in Table 1 below.

Table 1 – P2P Automation Challenges

Limited Automation	This is probably the most overarching problem among organizations. While there may be an ERP system in place, the AP process may not be fully automated. It is important for organizations to eliminate any manual parts of the process and move to full automation.
Multiple Systems	There could be multiple legacy systems that are not fully integrated into a single ERP system. This creates a need for constant reconciliation and additional checks and balances throughout the AP and P2P process.
Adoption	Even if companies don't have the above problems, it can sometimes be difficult to get everyone on board with adopting the new software or automated process. Identifying the gaps in your organization that are still allowing old or manual ways to get through is the first step.
Lack of Visibility	Companies often do not have an accurate read on their spend. This is sometimes due to multiple software or systems or can even be blamed on invoices with missing purchase order (PO) numbers or supplier information. Getting control of this visibility can be tricky but with an automated payments system, the P2P process can be more efficient.
Invoice issues	And as Discrepancies in invoices can be a huge headache for finance teams, whether it's missing PO numbers or payments not matching up.
Internal Controls and Risk	The lack of automation impacts the accuracy of the financial close and creates additional risk in the AP process.

How does the AP and P2P Process Impact the Financial Close



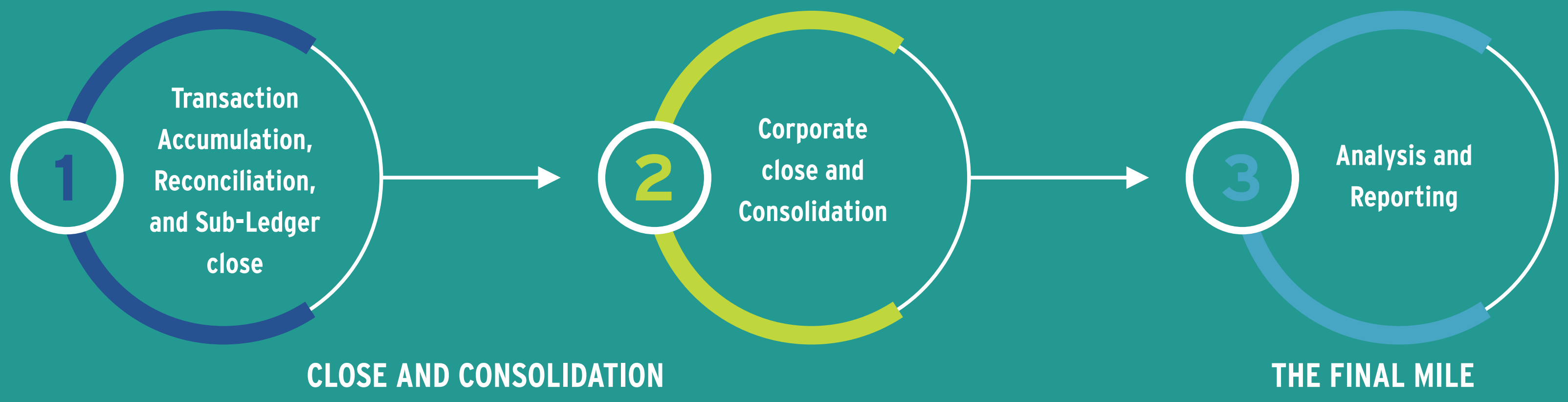
Most companies recognize the impact that the P2P process has on the organization. They see how the alleviation of manual processes can speed up the fiscal closing process and can help to ensure the accuracy of a transaction at the cut-off point. AP and P2P automation helps to reduce accruals and ensure the accuracy of liabilities. Let's see how.

The Fiscal Close: The fiscal close process starts with: **1)** Transaction Accumulation, **2)** Reconciliation, and Sub-ledger Close process component and is pictured in Figure 1, The financial closing process focuses on recording and reporting accounting transactions during a specific and defined period – monthly, quarterly and annually.

When the P2P process is automated, there is a good chance that transactions will be more accurate and will meet required cut-off dates. Why? Because all activities that comprise the fiscal close are driven by cutoff dates that ensure fiscal results are accurately reported as part of the Close and Consolidation Process.

The Corporate Close and Consolidation component is considered part of the fiscal close and consolidation process and includes the close of business units and the completion of the adjusted trial balance, and the first pass of consolidated financial statements. The "Final Mile" of the process is the **3)** Analysis and Reporting Cycle.

Figure 1 – The Financial Close Process



Examples of P2P Automation Solutions

There are several types of automation solutions for the P2P process. We'll look at the some of the solutions available today and will highlight the benefits.

1. E-Invoicing

Emerging financial solutions that enable trading partners to seamlessly exchange transaction-related information and funds are about to indelibly change the invoicing and payables landscape. Enabled by new Internet tools and best-of-breed systems, a new crop of invoice networks are beginning to make significant inroads into reducing inefficiencies and driving costs out of companies' financial operations through the elimination of paper. Demand for these new networks, which facilitate real-time collaboration between buyers, suppliers and banks, are being driven by organizations' appetite for hard dollar operational savings and the opportunity for enhanced working capital management capabilities.

Electronic invoices significantly compress invoice receipt-to-payment processing cycles by eliminating mail latency and desk float. Additionally, with faster approval times, finance managers have a greater ability not only to take existing discounts and but the opportunity to create new ones. These working capital factors have sharply increased organizations' interest in automation solutions that streamline and optimize some or all of the P2P functions, including those that deliver Electronic Invoicing, electronic payment and discount management capabilities.

Electronic Invoicing solutions streamline the invoice receipt-to-pay cycle by enabling organizations to electronically exchange purchase orders and invoices, use sophisticated workflow tools for approval processing and make electronic settlement against approved invoices. The various solutions featured in this report offer electronic invoicing, payments automation or both in order to create an end-to-end solution that integrates with enterprise and other legacy business applications. Key benefits of e-invoicing include:

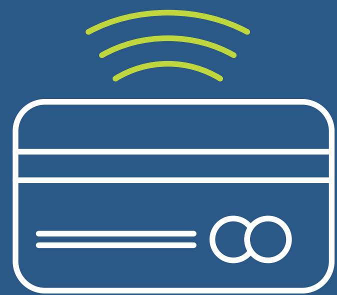
- Further reduce AP costs by minimizing paper conversion.
- Receive electronic line item invoice data for more accurate matching and reporting.
- Decrease your ‘Days Payable Outstanding (DPO) to drive early payment discounts.
- “Go Green” by doing business in a more environmentally-friendly way.
- Reduce inbound calls related to invoice status.
- Eliminate issues that inevitably come with paper-based processes such as misplacing or losing paper, duplicating or overpaying invoices, or making late payments. With visibility is instantly improved with online notifications that remind approvers that an invoice needs to be processed. This improves the audit review process as well because AP departments can quickly provide access to invoices based on internal and external audit requests.

2. ERP Integration

Better ERP integration can improve automation of the entire P2P process by eliminating wasteful steps between buyers and suppliers, according to analysts, suppliers, and users who have done it. Incoming business connectors allow data to be transmitted electronically. This ensures that important information such as supplier address, PO data, receiving data, and GL chart of account data are in sync between their software and the organization’s ERP or AP financial system before approved invoices are interfaced back to the system of record.

3. Electronic Payment: ACH

Payment via ACH is easy to set up and use, and the process is safe and cost effective. Getting paid electronically means cash flow is more consistent and easier to forecast. Supplier satisfaction is improved if invoices are paid electronically. Benefits include:



- Enables automated receivables and payables
- Provides additional internal controls
- Transfers funds securely to and from the organization's bank accounts
- Instills reliability and certainty
- Reduces risk of lost or fraudulent checks
- Helps protect the environment

4. Supplier Portals

Supplier portal is an interactive, enclosed web-based environment that the organization's suppliers access after logging in. The environment is fully dynamic, meaning it can be linked to an ERP system (without being dependent on it), and continually updated. It's also available 24x7x365, allowing the organization to always have needed information available to customers, suppliers, suppliers, etc. A myriad of self-service options become available, depending on the organization's needs. Portals are ideal for providing better service, more efficiently, and for less capital expenditure. A cumbersome and manual process is automated which reduces risk and cost. An AP staff member no longer has to answer most invoice questions – the entire array of invoicing information can be seen at one's fingertips. Here are some common functions:

- Customer Service Inquiries
- Payment Inquiries
- Invoice Status Inquiries
- Order Information
- Shipment / Logistical Information
- Supplier Validation and Compliance Screening
- Supplier Information (applications, documents, etc.)
- Two-way Communication

5. Artificial Intelligence (AI) based solutions

Manual AP processes are repetitive, time-consuming and typically require high levels of involvement from employees. As such, Artificial Intelligence (AI) is an excellent fit for the automation of AP processes.

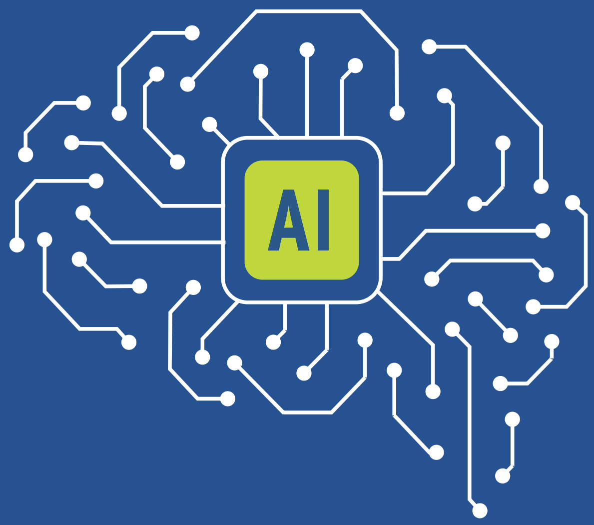
Like other automation solutions, AI is not a one-size-fits-all solution for all companies, the technology has the ability to help companies streamline their financial tasks in order create enhanced efficiency and operational control. Here are some of the challenges to consider if you are looking into an AI solution.

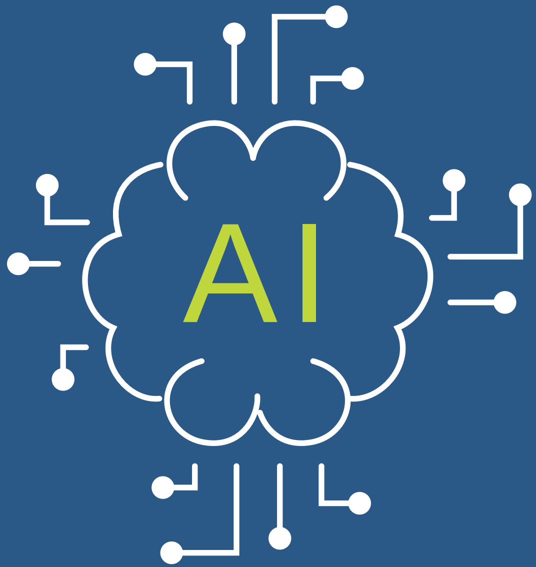
Non-standard Invoicing: Invoices that companies receive from their suppliers sometimes still arrive in multiple different formats: as a paper copy, a Word document, a PDF email attachment, or a fax. Because invoice formats are not always standardized, it is often a challenge for companies and automation software to handle them in the same way each time.

Unstructured Data: A company's finance team is responsible for transferring the data from various invoice formats into the company's database. The AP staff is also responsible for manually dealing with any discrepancies between the bill of lading, purchase order, and invoice as well as approving payments.

Automated Reconciliation of Matching Errors: A large, time-consuming burden for a company's AP staff is error reconciliation. This can include discrepancies in purchase amount or vendor contact information between various essential documents, such as invoices and purchase orders. By automating most of this manual matching, artificial intelligence can reduce the amount of oversight and exception handling that this required by employees. This means that employees will be able to focus on more critical finance responsibilities, such as budgeting and planning.

High Scalability: AP workflows designed with AI can be replicated or reused across different business departments and between locations, meaning that quick scalability can be easily achieved.





Rapid Fiscal Close Requirements: AI software can be used to automate data input, error reconciliation, and some of the decision-making required by a company's finance staff. Not only does the use of artificial intelligence reduce the number of errors made in closing accounts, it also means that account reconciliations can be completed much more quickly and without as much human intervention.

Corporate spend analysis provides insight into a company's purchasing results and can be used to determine strategic sourcing opportunities that will increase purchasing power. But many global organizations have experienced significant challenges when combining their procurement and AP functions to form truly integrated P2P process models.

Disconnects between supply chain and finance, the two larger areas responsible for procurement and AP respectively, are not a new phenomenon. Inherently, business drivers of the two functions are different: supply chain aims to create processes which reduce cost and deliver goods and services in a timely manner, while finance strives to establish processes which improve control, simplify accounting processes, optimize working capital, and ensure proper purchase order authorization.

In addition to these functional alignment challenges, internal customer adoption can undermine even the best P2P implementations. As a result, companies must effectively manage service with control/cost savings – often with inaccurate or incorrect corporate spend data.

The full value of a P2P transformation is much more than just transaction efficiency. To that end, the area of sourcing through improvements in spend aggregation spend analysis and focused category management (e.g., strategic sourcing) can unlock significantly greater value than initial savings achieved from P.O. and invoice transaction optimization efforts.

The Benefits of Visibility to Corporate Spend

Organizations with clearer spend visibility into their sourcing activities and processes can use these insights more to drive performance, and to make informed and timely business decisions. Spend visibility goes beyond tracking spending as it gives both a detailed and holistic picture of how money is moving through your company.

To get started, the stakeholders or users of the spend data need to be identified. Additionally, the data needs to truly reflect what occurred in the P2P process from both a supplier and payment perspective. The following definitions are also integral to understanding your companies spend.

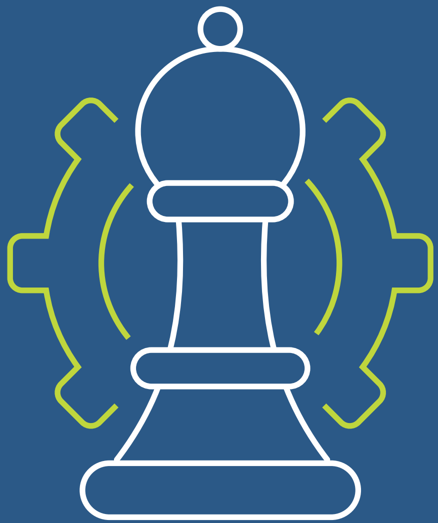
Spend Category: A spend category is the logical grouping of similar expenditure items or services that have been clearly defined on an organizational level

Spend Taxonomy: The spend taxonomy is the way a procurement organization classifies spending into hierarchies. One way to view spend categories is like a tree with many branches for different levels or sub-categories of spend.

Developing a Spend Map: As mentioned, the first step in defining your spend map is to identify your stakeholders. All the steps are listed below and included in the following diagram.

1. Identify your stakeholder
2. Category analysis
3. Item analysis
4. Payment analysis
5. Supplier analysis
6. Contract analysis

Figure 2 – Developing a Spend Map



Using Spend Data for Strategic Sourcing

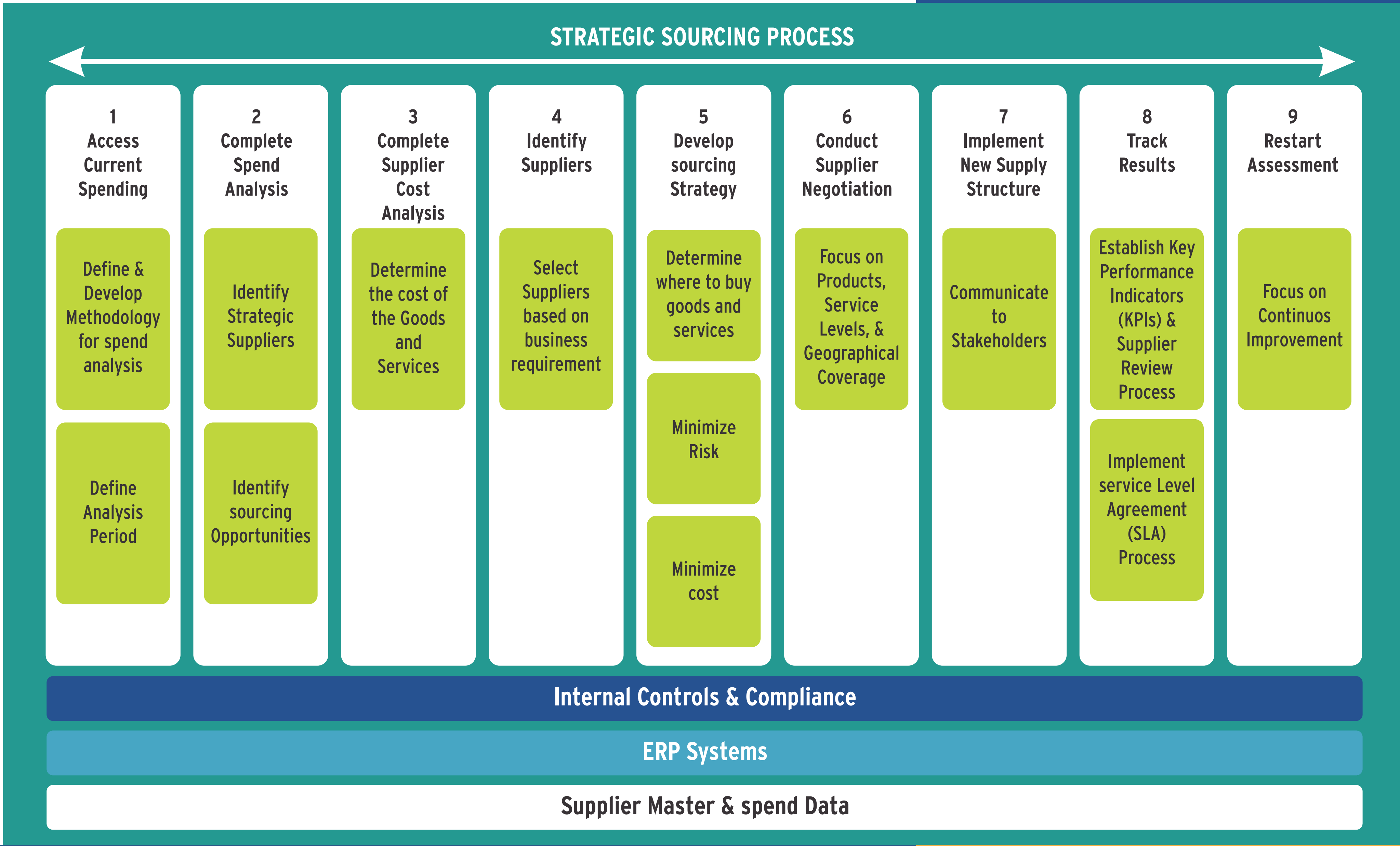
Given that the average Fortune 1000 company buys approximately 400-500 commodities and maintains a global supplier base of over 50,000 suppliers, this means that there is an average of over 100 suppliers per commodity. This is clearly not optimal from procurement or AP standpoint. Those organizations that have been successfully optimized their supply base have addressed the following challenges:

1. Senior management understands and supports the quantified impact that an aggressive strategic sourcing program has on earnings per share;
2. The procurement organization has the necessary systems and the support of senior management to capture global spending, and routinely quantifies the financial savings from sourcing projects;
3. Preferred supplier agreements are in place for 80 Percent or more of the organization's common purchases;
4. The proper structure and/or incentives have been implemented to ensure employees use preferred suppliers.

The diagram below provides a look at the strategic sourcing process. The steps include:

1. Access Current Spending
2. Complete Spend Analysis
3. Complete Supplier Cost Analysis
4. Identify Suppliers
5. Develop a Sourcing Strategy
6. Conduct Supplier Negotiation
7. Implement New Supply Structure
8. Track Results
9. Restart Assessment

Figure 3 – Strategic Sourcing Process



The Path Forward

Most companies recognize the impact that the P2P process has on the organization. They see how the alleviation of manual processes can speed up the fiscal closing process and can help to ensure the accuracy of a transaction at the cut-off point. P2P automation helps to reduce accruals and ensure the accuracy of liabilities.

In the future and on a global basis invoices will be connected to the payment process. This can occur when the P2P process is digitized with well-defined business rules and controls. The P2P process is evolving from isolated functions to a single process in which purchasing and AP are automated and now provide analytical functions that add value to the organization. This evolution aligns with the needs and goals of organizations in challenging economic times to reduce costs and realize productivity increases and supports the direction of a “digital transformation.”

Besides the impact of AI on P2P and AP processes, there are five best practices to consider as depicted in Figure 4 below, The concept of shared performance metrics should be considered to support the path to financial excellence. Idealization sessions can also establish the path forward. The implementation of a cross-functional specialist team can break down the siloes along with vendor awareness programs and periodic connect points.

Figure 4 – The Path Forward

Shared Performance Metrics
Re-classified select performance metrics as shared responsibility of procurement and accounts payable teams

Ideation Sessions
Quarterly forum to brainstorm on identifying process improvements, and for discussions on best practices in other clients' business in both procurement and accounts payable areas

Cross-functional Specialist team
High performer identification for training on both procurement and accounts payables, and deployed as a cross-functional specialist team with set roles and responsibilities

Vendor Awareness Program
Awareness sessions for vendor teams on specific issues that are straining the relationship

Periodical connect
Monthly governance to review status on process improvement, projects, action items to resolve issues, etc

Closing Thoughts

Increasingly, the P2P process is viewed as more than a series of supply and demand transactions. It has become a strategic advantage and catalyst for business growth. New responsibilities for procurement grow with the market.

To remain competitive, P2P and AP professionals need to step up and embrace their new roles as enablers of business strategy, agility, innovation, and cost reduction. This important P2P transformation can support new partnerships with the CEO, CFO, and other internal stakeholders. Besides alleviating internal process disconnects and siloes, a digitized P2P process enables the development of local, sustainable, and ethical sources; collaborate with vendors and suppliers to create innovative products and services; and the delivery of cost optimization.

"More than ever before, P2P is taking advantage of new technology like artificial intelligence and machine learning. But what specific features should you add? Where in your P2P process do you incorporate them? Will certain steps remain manual? Finance leaders can cover all that in their digital strategy. But surprisingly, only 32% of companies have a proper digital strategy, found The Hackett Group. Be sure to schedule time for you, the procurement lead and other members of the executive team to organize a clear, outlined vision. Then that vision can be broadcast and fulfilled throughout P2P." [1]

[1] "Procure-to-Pay: 3 Overarching Areas to Set Your Sights On Now," by Alyssa Evans, posted on February 27, 2020 on CFO Daily News, accessed on November 18, 2020, https://www.cfodailynews.com/articles/procure-to-pay-trends/

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The Hackett Group's report "Five Essential Actions to Take Now" includes the following recommendations.

1. Protect your employees and keep them informed and engaged.
2. Defend your financials.
3. Safeguard your supply chain,
4. Preserve your cash.
5. Fortify your infrastructure. [2]

In conclusion, a digitized P2P process using AI technology provides a reduction in cost and connects the invoice with the payment. A digitized P2P process supports The Hackett Group's recommendations since accurate data is readily available for decision making and more efficient supplier management is possible. Within the process of collating, cleansing, categorizing and analyzing expenditure information, spend analysis should provide consistent spend visibility information on suppliers, spend and compliance. A summary of the benefits resulting from our path to excellence is included in Table 2.

Table 2 – Establishing Financial Excellence – The Benefits

1	Identify savings opportunities and realize savings
2	Align and streamline P2P processes across the company
3	Manage risk and maverick spending to ensure compliance
4	Evaluate supplier performance for better relationship management
5	Benchmark performance internally or with industry peers
6	Enable data-driven strategic sourcing

[2] "Five Essential Actions to Take Now - 2020 Disrupted," The Hackett Group, Report dated March 2020, accessed on November 19, 2020, https://links.imagerelay.com/cdn/2925/ql/8bb37157abe44e2489dbdec99573dc3e/Hackett-2020-Disrupted-2003.pdf

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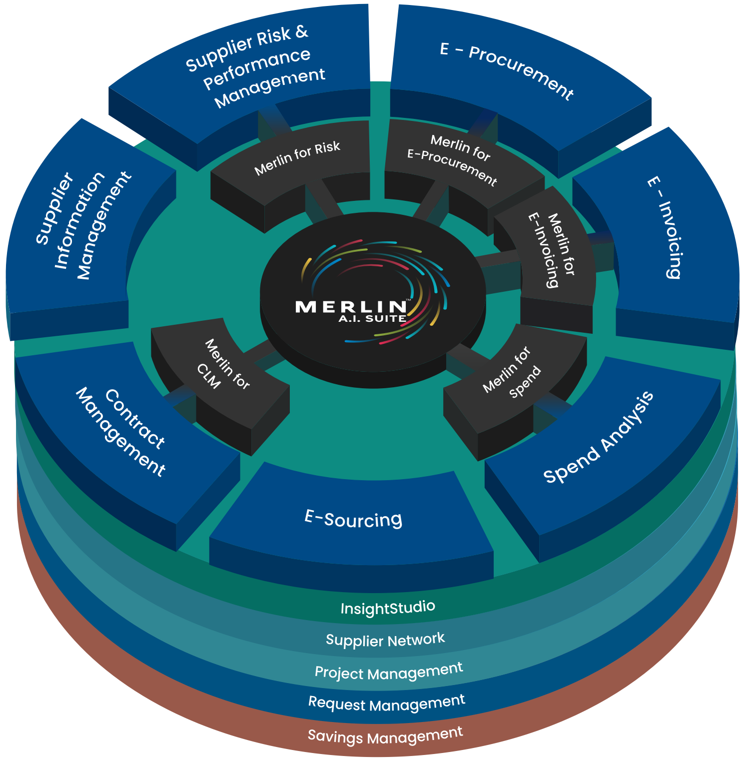
Our spirit of innovation and our passion for helping procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.



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