

Automation of Payment Process (F110 & F110S)





EXECUTIVE SUMMARY

Automation has now pervaded a significant part of most industries, whether we consider Banking, F&B, Textiles, or even Education. Accounts Payable, as a function, has also understood the importance of automation - the last few years have witnessed the function changing into an intelligence hub for business-critical data, whereas earlier it was just a back-office function.

Payment process automation is important for three primary reasons:

- Increasing profitability - by reducing overall cost per invoice and decreasing invoice processing time.
- Gathering data on accounts processes - this includes volume and trends pertaining to orders and payments, as well as cash flow analysis and liquidity management.
- Tightening security for unmatched protection - by preventing B2B fraud payment attempts.

Thus, automating payments processes can create greater value, result in crucial cost savings, as well as increased efficiencies across multiple business functions. Getting onboard with automation is undoubtedly the next step to having streamlined Account Payables and saving a fortune on labour - and time-intensive tasks.

INTRODUCTION

The manual processing of payments is a huge task. As the size of an organization increases, the number of payments that have to be made increases as well. This results in a proportionate increase in the time that this requires.

Where an organization's bottom line is concerned, this can affect the business in two major ways - one, it can lead to delayed vendor payments and/or issues pertaining to cash flows, and two, it can increase manual logistical input required to complete the task (inventory backlogging) and thus increase operational costs.

Thus, the idea behind executing an automated payment process using SAP was to achieve reliable results while optimizing on resources and saving time.

TRENDS

Accounts Payable is considered in most organizations to be a cost center, but this is a trend that has been reversed recently. With automation, it becomes possible for AP to actively create organizational value. For instance, using Automated Clearing House (ACH) payments, one customer was able to earn \$270K in cash-back rebates on \$82 million in a financial year. Similarly, another customer received, on \$168 million, a cash-back rebate of \$1.1 million. Given that these savings were not previously accounted for, they can be easily rerouted back into the business, providing an opportunity to take care of cash flow as well as support key business decisions and goals.

Recent discoveries with automation of AP include:

- reducing invoice processing cost
- earning rebates on AP spending
- realizing a hike in early payment discounts
- veritably reducing invoice processing time

In addition, AP is now helping in optimizing efficiency as well. Many organizations today use automation to gain real-time visibility into various data metrics, in stark opposition to manual processes, which would create a scenario in which data could not be captured, reported, or further analyzed. This would lead to a loss of important resources such as money and time, in addition to loss of productivity and agility. By automating the payment process, there is clear visibility on the following items:

- volume, status, as well as trends of invoices, purchase orders, and payments
- cash analysis - including inventory, cash flow, and even forecasting
- liquidity management, including short-term investments and cash (im)balances

Further, security is yet another aspect in which automation can play a noteworthy role. A majority of corporates now say that security concerns are certainly impacting the way they spend their money on technology. Two important factors have contributed to this: there is widespread concern regarding fraud control as well as higher payment security, due to increased cases of B2B fraud payments. Modes of payment on paper are significantly more vulnerable to getting intercepted; with ACH and wire payments, the chances of fraud reduces by as much as ten times.

Automation of payments, therefore, is only one cog in the larger wheel of operations. While on the surface it might seem like automation is the process that drives results, the truth is that it is what underlies automation that really makes it practically feasible. It creates visibility into business-critical information, and that goes a long way in terms of making a difference, contributing to the overall organizational success and growth.



PROBLEM CONTEXT

Customer A is using the SAP application for making payments. The customer has 160+ legal entities across the globe with 16 different currencies to make the payment, and all the payments are made from the head office.

Here, it becomes a necessity to create multiple payment proposals for the same business partner/vendor and to look towards automating the payment process with the necessary approval limits. Within this current process, let us consider that the payment proposals are scheduled to be released/approved daily at 3 PM EST. However, the users may also need to create a new proposal for the same vendor/customer before 3 PM, with the end result being that users cannot create a new proposal, given that the vendor/customer invoices are blocked in another payment proposal. Often, the user may need to post an incoming payment (in this case, the vendor acts as a customer) for vendor/customer invoices. In this case, the user has to delete the existing payment proposal and posts incoming payments, and then finally creates an outgoing payment proposal. This is a lengthy, tedious, and severely time-consuming process.

FIT-GAP ANALYSIS

In the SAP standard application, there is no possibility of creating multiple payment proposals for the same vendors/customers. Moreover, there is no possibility in SAP to create a cut-off time for making a payment. As a consequence, payments for each of the 160+ legal entities across the globe with 16 different currencies have to be made manually. Moreover, no easy solution is available to maintain approval limits (by currency) and then schedule the payment throughout the day, so that the money can reach different countries within one 24-hour cycle. The solution, thus, required an approach that looked at these problems from a singular perspective accounting for all of these factors.

SOLUTION

To accomplish a fully automated proposal as well as approval setup, three important deliverables had to be accomplished:

- The system had to be allowed to create multiple proposals for the same vendor/customer.
- The auto-proposal creation had to be based on a baseline date of type of vendors/customers invoice.
- The auto-payment approval process also had to be designed so they could send XML files to the bank.

In addition to this, we made necessary enhancements to create multiple payment proposals with function module SAMPLE_PROCESS_00001820, and developed a custom transaction to automatically approve payment proposals. The custom program had to be developed with reference to a standard transaction F110S (Automatic Scheduling of Payment Program).

We delivered a three-pronged solution, which included setting up a multiple proposal setup process, an auto-proposal creation step, as well as an auto-approval process. The three steps together delivered complete automation, requiring no manual input to be given.

A. Multiple proposal setup process

First, the SAP system had to be allowed to create multiple proposals for the same vendor/customer in automatic payment program (F110). Here, we made necessary enhancements to create multiple proposals with function module below:

- In transaction FIBF, maintain customer product entry 'ZFIMP' under Product->Of aCustomer .
- Copy Function Module SAMPLE_PROCESS_00001820 to ZFIBTE_PROCESS_00001820.
- In fact, we created ZF110N by copying F110, so that the F110 process does not affect the existing process.

The logic behind this approach is that the system should be able to create a new proposal for one vendor/customer number if the company code, document number, year, and line item are not considered as blocked (or are a part of an exception list) in the previous payment proposal.

The above changes are important for auto-proposal creation process (ZF110S) to work on points agile methodology, otherwise the proposals will be failed where the vendor/customer invoices are blocked for another proposal. The changes should be considered for the purpose of automatic proposal creation process.

B. Auto-proposal creation

After the setting up of multiple proposal processes, the custom program needs to be developed by referring the standard transaction F110S (Automatic Scheduling of Payment Program) and should include necessary enhancement considering ZF110N, which mainly includes multiple proposal creation for the same vendor/customer.

Here, the custom logic is developed by considering the location of the legal entity. If we considered that a business is located in the USA, then the functional currency becomes USD. Thus, businesses can make the USD payments on the same day, and the bank would also make the payment to the vendor that day itself. However, if a vendor is located in a different country, the company will have to

inform the bank well in advance to make payment to vendor on time. In such a scenario, the US office timings (in the EST time zone) will determine bank cut-off time. Similarly, depending on where the business is located, the bank cut-off time can be set.

Our custom program considered all open invoices with baseline date (due date) of current day + 1 (the next working day). For example, if the baseline date is current date (N), auto-proposal "Run date" gets created with the current date and if the baseline date is N+1 date, the auto-proposal should be created today with the run date of N+1 day. Let us consider that we have 10 invoices with baseline date of tomorrow (N+1 day) which include three invoices in USD currency and 7 invoices in Non-USD currency. Here, the system will consider non-USD invoices today (day before) and create a proposal with the "Run date" of tomorrow's date, and the program will have to check for weekends (Saturday & Sunday) for proposal creation.

Here, we have made a few exclusions. Firstly, we have excluded all vendor/customer line items with house bank, account ID, payment method, blank partner bank, and where the payment block is not blank. Moreover, we have also excluded a few payment methods like manual cheques, direct drafts (where the vendor directly deduct funds automatically from the client's bank), and incoming payment methods.

C. Auto-approval process

After the second stage, we reach the third, wherein the auto-approval process is setup. Given that the manual approving of proposals was taking a lot of time, an auto-approval process would go a significant way to ensuring that important time is saved and energy is expended for purposes that can bring greater business value. Here, we set up the auto-approval process to work from 7 AM to 5 PM EST daily by considering all auto-proposals (created automatically though ZF110s) as a part of its coding. Here is the approach we adopted in this case:

A custom program with new transaction ZF110S_APPR was developed for approving auto-proposals.

Select open/outstanding payment proposals generated through auto-proposal program (ZF110S). The identification starts from A0001 to A9999, with the run date being N and N+1. The N+1 date should be a Monday date, should the N+1 day fall on a Saturday or Sunday.

Proposal Schedule status – the following 3 statuses were used to determine the status of each auto-proposal:

- CMTA – Cash Management Team Approval (Treasury ops team)
- SBST – Scheduled for the Bank Send-Time
- SDB – Send Directly to Bank

The Scheduled time, in this case, is shown only for the status SBST.

The system determines open auto-proposals and approves them automatically by verifying amount limits table along with XML. We maintain variants with auto-proposal number range (A0001 to A9999) to determine just auto-proposals, and the system excludes zero proposals.

We created a custom table with legal entity, currency, and amount. If the values are maintained in the table for each legal entity and currency, then only auto-proposals (proposals created by the system automatically) should be auto-approved, else other proposals were to be ignored.

Check the total invoice value for each auto-proposal and cross-check amount limits table-ZF110S_AMT_LIMITS. The system determines auto-approval trigger along with XML based on legal entity, currency, and amount.

The system will approve the payment proposals and send it to the bank directly (SDB), or approve the payment proposal to release at 3 PM (SBST), or place it under cash management team approval (CMTA), based on the limits we maintain in the custom table.

CONCLUSION

With such a setting up of the automation of the payment process, there are numerous benefits for any organization. Although here we have focused on situations that were singular to our customer's business requirements, the fact of the matter remains that this is an industry-wide solution and can be implemented for any number of industries too.

On the first, perhaps most basic level, it allows companies to control costs by saving on important resources like time and money. To the extent that these resources are important, each organization can implement to their liking strategies that will help better optimize their business. Through this, an organization can increase their discounts benefits, save up on bank charges, and reduce any delay in vendor payments. In addition, this can help them regulate their cash flows as well. Going further ahead, the business-critical aspect of the data acquired through this process can result in multitudes of growth as well. The security aspect too, that automation can provide, is an ever-important one.

On another level, there are several industries that can make use of this solution, whether it be in education, manufacturing, textiles, or even food and beverages! This covers all industries which are making use of the SAP application. Moreover, the implementation time, of course, depends on the specific context in which the particular solution will be deployed - but it goes without saying that an experienced team will be able to deploy the solution faster.



AUTHOR PROFILES



Nitika Bali Tyagi

PMP and CSM Certified, Nitika is an ERP AMS Leader at ITC Infotech. She has 15+ years of experience managing ERP Implementations and support engagements across geographies, leading solutions for Finance workstream in SAP Projects for customers cutting across industry verticals like manufacturing, hi-tech, retail and banking services.

She has led large Global SAP Implementations programs and rollouts as Finance and Integration lead in her earlier roles with ITC Infotech and other companies.

Apart from SAP Expertise, she has worked in core banking sector for 2+ years.



Anjireddy Appireddy

Anjireddy Appireddy is a Sr.Project Manager and SAP Solution Architect at ITC Infotech with 15 years of extensive experience and demonstrated history of working in the information technology and services industry.

He is skilled in Business Process Design, SAP, Global Delivery, establishing deep client relationships, proactive proposals, and leveraging project teams to drive towards value addition and be a valued partner for the customer to achieve their strategic goals.

With an exceptional aptitude in developing systems, processes, and methodologies to reorganize and revitalize organizational operations, he has worked on many life cycle implementations, global roll outs, technical and functional upgrades, production support, and expert consulting in Asia, Europe, Middle-East & America regions.

About ITC Infotech

ITC Infotech is a specialized global technology solutions provider, led by Business and Technology Consulting. ITC Infotech's Digitaligence@work infuses technology with domain, data, design, and differentiated delivery to significantly enhance experience and efficiency, enabling our clients to differentiate and disrupt their business.

ITC Infotech is a fully-owned subsidiary of ITC Ltd, one of India's foremost private sector companies and a diversified conglomerate.