



CASE STUDY: Oil & Gas Producer Alberta Canada



Project Goals

Drive efficient and effective transaction processing
Improve transparency
Leverage ability to grow business without growing overheads
Remove long term costs
Enhance organizational effectiveness
Build strategic capability
Increase flexibility to deal with adhoc spend requirements

Lookback - 2007

- 100% of invoices processed manually
- Invoices received by mail
- Accounts Payable prepares vouchers, validates coding, manually enters information into financial system
- Cheques primary means of payment, minimal EFT
- Coding prepared by originator, approver, administrative staff or AP Manual routing and by courier
- Individuals buying services and goods manage communications processes

Minimal controls in place for:

- cycle times
- coding accuracy
- payment on terms
- late payment penalties
- duplicate payments
- vendor or employee communications
- rework statistics

The Assessment:

Study requested by CFO.

ICG used Six Sigma methodology to define Critical to Quality (CTQ) measures based on users input (what mattered to them)

Study included the following steps

Workshops/brainstorming sessions to collect the Voice of the Customer (VOC)

Defined critical to quality defects

Reviewed and documented current processes

Sampled a statistically relevant number of invoices (1144)

Assessed critical to quality items based on expectations

Provided findings based on CTQ and additional observations

Made recommendations

Critical to Quality (CTQ) areas identified:

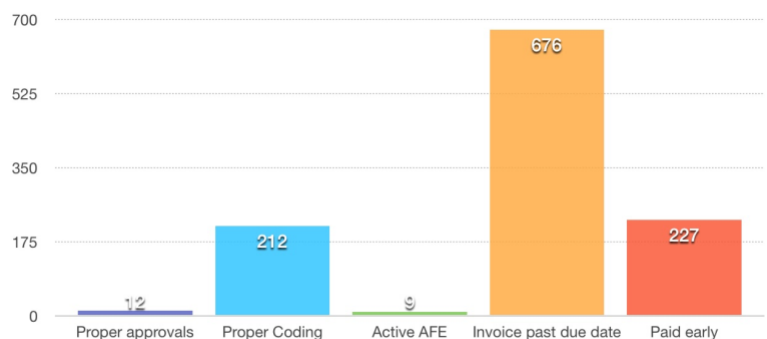
- Pay Correct Vendor
- Correct Coding (GL/Functional Group)
- Pay correct amount
- Invoice sent to proper recipient
- Correct approval according to approval matrix
- Correct support (Field tickets) when approving invoices
- AFE's initiated prior to spend
- Splits per invoice completed correctly (incorrect totals)
- Payment made on term (not too early or too late)

2007 Six Sigma findings:

84% of Invoices Failed at least one CTQ per invoice based on sample

Current Process Defects (Baseline)

| DEFECTS | INVOICE UNITS |
|-----------------------|---------------|
| Proper approvals | 12 |
| Proper Coding | 212 |
| Active AFE | 9 |
| Invoice past due date | 676 |
| Paid early | 227 |



Observations based on sample analyzed

- 90% of late payments was a result of incorrect routing of invoices (approval coding, processing)
 - 59% of late payments were greater than 15 days
 - 21% of early payments were earlier than 9 days
 - No early pay discounts were received
 - No late payment penalties were paid
 - Invoices took an average of 37.3 days to be sent from field to home office (not including AP review and processing time)
- 83% of compliant invoices were entered Qbyte FM within 24 hours
- 2% of invoices were processed 7 days late
- 15% of invoices did not have AP date stamp so unable to determine cycle time
- Cycle time to process an invoice is 5 times longer than best in class
- 99% of invoices were compliant with Approval Matrix although manual review of signatures for validity was required. The manual signature validation was an issue due to illegible signatures
- Unable to validate invoice accuracy according to contracts (unable to access contracts)
- Unable to determine the amount of rework when invoices were sent back due to missing coding, incorrect coding, approval
- A/P had to use suspense accounts to be able to process critical invoices. Charging items to a suspense accounts prevents O&G companies from billing back Working Interest Partners for their share of the expense.

- In addition, the reconciliation of suspense accounts is labor intensive and 100% manual.
- 1% of AFE's were inactive and required activation due to invoicing dating back to 2006
- Sample was biased (based on approved invoices) and could not identify invoices not paid due to AFE's or Cost Centers not being prepared on time (many invoices were piled on peoples' desks if the AFE was not ready for charging)
- 19% of invoices reviewed were duplicates

Weakness identified – The analysis shows weaknesses in processing timelines, system controls & integration.

Weaknesses

- Invoice internal routing process
- De-Centralized invoice receipt
- Lack of purchase order system/ standard processes
- 90% manual processes – no automation
- Processes are not standard and execution discipline is low
- Ability to double pay invoice. QByte FM allows for the same invoice No. to be entered twice in the system as long the invoice dates are different
- Inability to validate contract/ Purchasing limits of approval
- Not having EFT capability Qbyte FM
- After the fact duplicate payment process
- Check writing on separate platform
- Qbyte FM does not accommodate for calculation of PST taxes (A/P module)
- Lack of Key Performance Metrics
- Systems integration

The analysis shows weaknesses in the area of processing timelines, system controls & integration.

Weaknesses

- Duplication of efforts exist between functions
- Transactional automation and electronic interaction with customers and suppliers is low

- Utilization of workflow enablement is low
- After the fact over-budget spend recognition
- Resources are highly transaction process focused. Too much time spent handling non-value add tasks
- Supplier base maintenance (supplier clean up)
- No vendor discounts available for prompt payment
- T&E processing/ Policies
- Spending is not consolidated across a strategic supplier base
- Many supplier exists



Case Study Assumptions

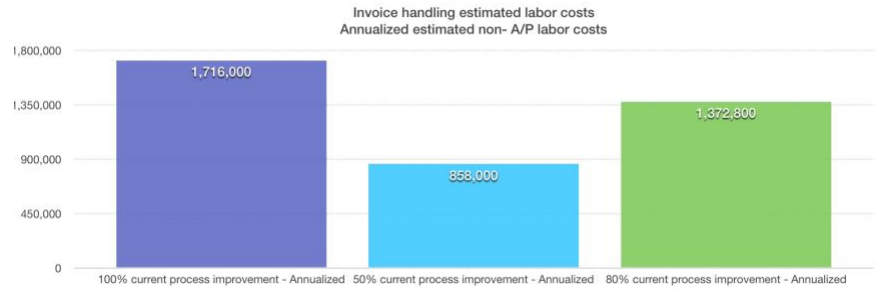
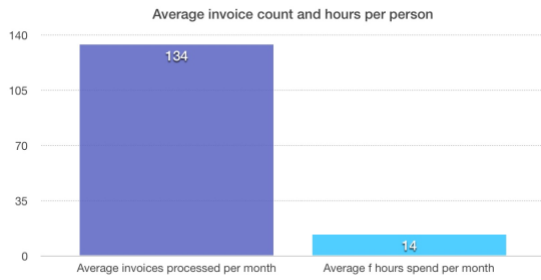
- Data difficult to obtain
- Business case developed based on amount of non-AP accounting time saved
- Survey (16 out of 339 staff responded)
- Interview with Business Unit Managers
- Benchmarking provided by 3rd parties (Hackett/Aberdeen)
- Internal survey was conducted to determine time spent handling invoices:
- Results suggested that an average of 13.44hrs per month were being spent handling invoices
- Business Unit Managers believed 30hrs was being spent on this activity
- Invoice handling costs alone were estimated to be \$35 à \$78 per invoice. The wages for O&G highly technical resources (Engineers, Geologists, drilling specialists, etc.) is much higher than wages for other industry verticals
- The O&G producer decided to use the Aberdeen benchmark as their internal measure for measuring value of their look back

Recommendations

Move towards fully automating the existing environment using best in class standard processes and practices.

“Moving to highest levels of automation will cut the cost to process an invoice from 30% to 60%”

The largest contributor to accounts payable transaction cost is the labor cost of validating invoice accuracy, gathering and assembly source documentation to resolve discrepancies, and getting proper approvals for payments.



Observations
 Assuming 1 person spends 13.4 hours per months @ \$50.00 p/h
 This analysis excludes any A/P labor related costs
 16 users participated in the internal survey
 \$50.00 is the hourly rate used for ROI purposes

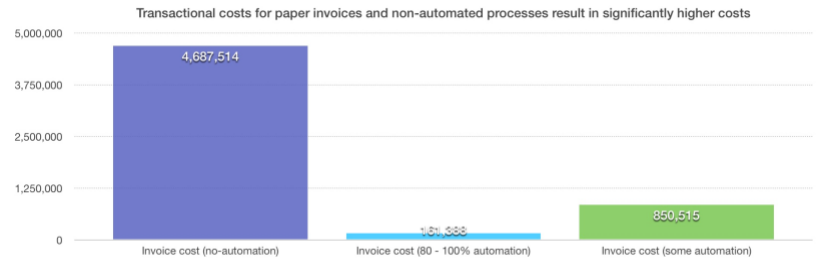
Observations

Estimate based on 50 users

At some point, most of the stakeholders will approve, code or review an invoice.

YOU MIGHT NOT GET SIGNIFICANT LABOR SAVINGS DUE TO EACH PERSON SPENDING FRACTIONAL TIME ON A/P. THESE PEOPLE CAN NOW BE USED FOR HIGHER VALUE ACTIVITIES.

Vendor internal A/P Invoice handling survey



| | |
|--------------------------|----------------|
| Cost per hour | \$50.00 |
| Number of hrs per week | 44 |
| Number of weeks per year | 52 |
| | \$ 114,400.00 |
| 50 people 100% | \$5,720,000.00 |
| 50 people 30% | \$1,716,000.00 |

Observations

Estimate based on invoice count of 80,694

Invoice unit cost includes:

Labor

Operational costs (paper, ink, postage, etc)

Average cost per invoice

| | estimate hours per month 13 low volume users | Actual hours per month for most users |
|---|---|--|
| Hours per individual per month | 13.4 | 30.0 |
| Hourly Rate | \$ 50.00 | \$ 50.00 |
| Number of Individuals processing Invoices | 350 | 350 |
| Total Cost per month | \$ 234,500.00 | \$ 525,000.00 |
| Number of invoices processed per year | 80,694 | 80,694 |
| Number of months in a year | 12 | 12 |
| Number of invoices per month | 6724.5 | 6724.5 |
| Average cost per invoice | 34.87 | 78.07 |

*Yearly cost to process Invoice \$6.3MM. Costs estimated to increase as Invoice count increase to 120K

Additional Benefits

- Elimination of duplicate invoices – 36 Month period reviewed, \$1.5 Billion with only \$34,442.03 in duplicate payments from manually processed invoices
- \$3,400,000 of credits identified and collected by ICG based on vendor statement reconciliations
- Comprehensive tracking and management of all Support calls:
 - 2014 - 3930 calls and 32,000 email responses - 99% SLA compliant
 - 2015 - 8200 calls and 47,000 email responses - 99% SLA compliant

Assumptions made

Lookback Analysis 2016 - Estimated value creation of \$30.5M+

- Manual processing costs in 2007 were approximately \$59.20 per invoice
- Current solution a hybrid consisting of manual, semi-electronic, and fully electronic invoice processing. Total costs within this environment are ~\$19 per invoice mostly driven by manual (government utility) invoices.
- Total costs of processing an invoice under electronic model is estimated at \$9 (all-inclusive – outsourcing of Exception Handling, manual invoices broker services, supplier onboarding, and all AP related support services)
- Invoice submissions have shifted, majority now being submitted electronically
- Cost have significantly improved over time
- Ability to pay vendors in less than 5 days
- Opportunities for prompt pay now exist
- Vendor are being paid as per agreement terms
- 6 AP staff in 2007 at average total compensation of \$100,000 per year
- Administrative staff estimates consider the cost of gathering and routing the physical invoices from Calgary and the field
- DMS staff - 2 FTE (4 imaging support staff in 2007 with 2 dedicated to invoice scanning)
- IT related costs include cost of PCs, support, and software licenses
- Invoice Handling - 2007 survey of 13 low volume users showed that an average of 13.44hrs/month/user was spent on this activity. Business Unit Managers believed this should have been closer to 30hrs.
- Storage costs included cost of boxes, shipping, entry, and storage at Iron Mountain
- 350 Originators in 2007 (2015 YTD - 311 unique Originators)
- Discount rate of 10%
- Inflation of 2% where applicable
- Costs of mailing, courier (interoffice mailings), penalties, interruption of services, re-work not estimated for this project. Savings are even greater than documented