



case study

IMS-21® and Chesapeake Energy Corporation

Power Payables –

Chesapeake Automates 70,000 Monthly Invoices

Can a business afford to automate Accounts Payable? Chesapeake Energy Corporation (www.chkenergy.com) of Oklahoma City says, "Yes, it can."

Chesapeake is a rising star. After a re-focus in 1998, the natural gas exploration and production company multiplied in size, especially after 2002. At this writing (Q2, 2006), the common stock (NYSE CHK) sells for roughly 30 times its 1999 value. The rapid growth derives from both an aggressive drilling program and strategic acquisitions.

Certainly, there were growing pains and major improvement in business processes was needed. "We went from 13,000 invoices per month in 2001 to 30,000 in 2003," states Randy Goben, Chesapeake Division Controller. "By early 2006, we reached 70,000 invoices per month."

During this time, Goben – along with Chesapeake's Information Technology Department and project leaders Cindy Barrios and Mike Bechtel – searched for an automated A/P invoice approval and payment process currently working for other companies. Their early searches revealed no models that met their specifications, but eventually, they found tools offered by Vanguard Systems (www.vansystems.com) of Media, PA.

"Actually, it all started in the late '90s when we tried to find a way to improve our processes and get rid of paper," Goben recalls. "We didn't have many invoices back then, but it was still difficult keeping up with the paper. As with any manual process, it was like an assembly line, with many touches and low accountability."

Seeking Automation

"Early on, we conceived an A/P imaging workflow system," Goben offers, "and tried to build it in-house. We made significant progress but the delay between each of the processing screens was too long. Initially it took over 10 seconds per screen, and then down to an average of 7 seconds per screen, which was still too long. We decided to put the project on the shelf for a couple of years."



By 2003, Chesapeake's exponential growth required a change in Accounts Payable. A fresh search revealed a model: an Ohio oil company that used imaging and workflow to eliminate paper and reduce "touches" – the number of people required to process an invoice. With this input, the IT staff formulated a list of appropriate vendors of document and content automation.

"There were two serious candidates," Barrios details. "Others were overly sophisticated and expensive for what we needed to meet our objectives at that time – a cost-effective solution that was very flexible and interfaced with our Artesia accounting system."

After competitive demonstrations, Vanguard's IMS-21 Workflow software got the nod.

"Beyond meeting our requirements, we really liked Vanguard's people."

We had tightly defined goals and Vanguard didn't try to rework them.

They worked with us and got us where we wanted to be. We didn't have to settle or compromise."

— Randy Goben,
Chesapeake Division Controller

We had already gone through our own internal re-engineering and knew how we needed the process to work," said Goben.

"The biggest concern was that we keep our field personnel happy," Goben continues. "We wanted to help them, not get in their way – the potential could only be realized by delivering a product that saved our customers time."

From Theory to Practice

"We wanted to internally manage this project to control cost, but we soon discovered that the full scope of this project required us to consider outsourcing a portion of the workflow development and project management," Barrios relates.



Goben continues the story: "We uncovered unanticipated infrastructure issues – we needed to upgrade our network, our storage, and our IBM eServer iSeries (AS/400) not just to handle the workflow vision, but as a result of the company's significant growth.

By January 2004, the project team agreed that internal resources were not sufficient to meet the go-live timetable. Because of the growing

relationship with Vanguard personnel, Vice President Greg Cucchi was contacted.

“We brought in Vanguard to help structure and coordinate work on both the imaging and workflow aspects,” Barrios explains. “Greg also provided additional development resources to assist our in-house staff.”

As found during the very earliest of efforts, speed was a recurring issue. Optical disk image storage proved too slow, so the team attached to the i5 a magnetic, storage area network to replace optical storage. The Vanguard and Chesapeake teams found that, system-wide, the thin-client architecture impaired performance. Formulating a hybrid solution, they installed thick clients at headquarters (where volumes and the need for power-computing are high), but left thin clients at remote field sites (where volumes are low).

Cucchi found much of the workflow design already accomplished and documented. The

project team had created detailed flowcharts of the paths to be handled by an automated system. The accuracy, detail, and precision of their work proved invaluable.

“We had to get greenscreen terminal information to work with invoice images,” Scott Newell, a Chesapeake developer details, “so the AS/400 terminal screens were converted into a graphical screen, putting all the rules and edits into the graphical user interface.”

As the hardware and infrastructure solutions came on line, the project team constructed a pilot workflow using the relatively simple lifecycle of pre-approved invoices. When the pilot of pre-approved invoices rolled into operation, the team immediately turned to the much more complex workflows of invoices lacking pre-approval.

“We built business rules for automatic distribution,” states Barrios. “Invoices are routed based upon the general ledger coding of the

invoice. Unlike other workflow systems, there is very little manual routing that must occur with IMS-21 Workflow. There is also a series of automated responses that aid in A/P corrections for partial payments and denials of charges by approvers.

“There are many nuances to the system,” Bechtel notes. “It’s very flexible. We built it so approvers had all the flexibility they had with paper.” There are numerous business rules that cover almost every situation. Nonetheless, a sub-system for exceptions allows human intervention for given situations that have proven to be sufficient, even with the continued growth that Chesapeake is experiencing. There is also a robust audit trail that tracks each invoice and shows who has seen it and actions taken.

Successful Results

In a complex situation such as this, there are many measures of success. The simple fact that, today, Chesapeake effectively processes a five-fold increase in invoices with less personnel growth than required in the past might be measure enough.

But savings accrue at every step of the system – not just in A/P. Mailrooms, department assistants and others required to handle the paper have all seen the benefits.

Another measure: the Accounts Payable aging used to identify unapproved invoices approaching due dates. After commencement of the system, the aging report shrank to 20 percent of its previous size – a clear indication of improved speed of processing and approval.

“Vendors are pleased we’ve gone to workflow,” notes Bechtel. “Search query tools and workflow reporting features are now available that aid in discrepancy resolution.”

Ongoing Efforts

As the Accounts Payable installation winds down, Chesapeake moves on to automate other business processes. Goblen will slowly add electronic invoicing during Q2 2006, including electronic data interchange.

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A Day in the Life – Accounts Payable

Chesapeake Energy’s Kristin Fitzgerald processes invoices every working day. In the last five years, she has seen both sides of automation and felt the challenges, new understandings, and successes.

Fitzgerald and her co-workers “code” invoices and determine which require additional approval. “We used to spend a lot of time identifying what we had on our desk, our backlog. Now, with Workflow, we know what we’ve done and how much is left to do.”

“Before the implementation, the overall feeling in our department was reluctance towards workflow,” she recalls. “The manual routing for non-approved invoices was very tedious and we couldn’t see how the new system would pull it off, but it does. It is amazing that it knows where to route invoices. We continue to have meetings about how to make the workflow better. But it is still amazing, and it is even getting better.”

“We (coders) found that the workflow system increased our individual productivity as well as the productivity of others in the department – there was little to no wasted effort.”

Fitzgerald notes changes throughout Chesapeake. “Here’s the proof of the pudding. We had an approver in one of the field offices who did not want workflow, did not want to use a computer, and didn’t mind saying so,” she relates. “A few weeks ago, he called to admit that he was able to work more freely and more efficiently. Now he wouldn’t trade the automated process for anything.”

Fitzgerald is ready for the next step: electronic invoicing. “It is another paper aspect gone: no preparation, no scanning, with invoice information going directly into our proven workflow application.”



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