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Achieving the Goals of Accounts Payable Automation

Contents

Executive Summary

There are excellent reasons to automate the accounts payable (AP) process and many benefits to be gained. In this paper, we will explore the problems with the manual process, the reasons to automate, the goals of automation, how to measure them and achieve them, and we will summarize the benefits of automation.

The Manual AP Process

At its best, the manual AP process is cumbersome; at its worst it is chaotic.

The manual process at its best looks like this:

Invoices are sent to the suppliers' touch-points throughout the enterprise. The recipient may make a copy or attach some notes to the invoice prior to sending it to AP. After reviewing the invoice, AP must determine who should approve the invoice, and whether there are any discrepancies that require resolution. More notes may be attached, more copies made, and the invoice is sent for review and approval. The approved invoice is returned to AP, who enters it into the Enterprise Resource Planning (ERP) system; the payment to the supplier is scheduled, and the paper record is stored.

Compare this to the manual process at its worst:

Invoices languish on recipients' desk for several days. Upon receipt, AP identifies a problem that may require the invoice to be returned to the supplier for correction and re-submission. Upon receipt of the corrected invoice, AP sends it to the buyer with instructions to resolve any discrepancies, enter general ledger (GL) codes, and approve it. Buyers are out of the office or on vacation, and invoices wait for their return. The processing delays frequently result in exceeding the suppliers' expected payment date. Suppliers then contact the buyer to determine the status of the invoice. The buyer or their assistant cannot locate the invoice. The supplier sends a duplicate invoice. This causes additional confusion and delay and may result in a duplicate payment to the supplier.

Typical problems with the manual process are:

Time — The process relies on copies, interoffice mail, and the memories of the partici-pants. Items get misplaced or lost. The mobile or remote worker can only be engaged when they are in the office. In such conditions, it is difficult to approve invoices in time for early payment discounts and consistently meet suppliers' expectations for payment. And AP's biggest headache, rush invoices, are required to be paid even faster.

Quality — Data entry, an error-prone process to begin with, is further compromised by AP's need to interpret the handwritten notes of their colleagues. While AP applies busi-ness rules and enterprise data such as the chart of accounts and approval hierarchies, systematic validation is rarely applied. Error rates are therefore high, and ERP data quality suffers.

Lack of visibility — Visibility of AP cash flow, a top priority for CFOs, exists only after approval and ERP entry, which takes days if not weeks. Finance must rely on historical information to predict cash requirements for the coming period, or for reserves when closing a period. Timely, accurate financial reporting is difficult to achieve.

Lack of control — The manual process has too many moving parts and is "leaky." Organizations are reliant on copies, notes, and memories to determine the process status of an invoice. Internal controls, policies, and procedures can only be enforced manually. AP, internal auditors, and external auditors are the only resources to detect the most common instance of fraud, false invoices.

Cost[1] — Manual, paper-based processes are expensive. Best-class organizations have an average cost per invoice of $4, while the average organization has a cost of $9.60[2]. Multiply the savings by thousands of invoices per year: there is a lot of money to be saved.

Poor use of strategic resources — Invoice data entry is a low-value, error-prone task that often consumes the majority of AP resources. The average time to review, resolve discrepancies, approve, and code an invoice in the manual process is twice that of the automated process. The lack of visibility makes it costly for line-of-business employees to respond to their suppliers' inquiries. The savings in time (less AP data entry, eliminating paper-based review and approval, copies, interoffice mail, and reduced inquiries) of the participants in the process could be applied to higher value-added tasks, such as supporting the generation of revenue or improving spend compliance.

Supplier satisfaction — Organizations want to meet the supplier's expectations about getting paid correctly and on time – the primary drivers of supplier satisfaction. Satisfied suppliers are better partners, and are more likely to be flexible in negotiations.

Employee satisfaction — Paper-based processes drain the energy of knowledge workers, while intuitive automated processes energize them.

Goals of Automation

Organizations have different invoice volumes, resources and business environments that should be factored into goal-setting. Pre-automation metrics, industry research, and peer comparisons should be consulted prior to setting a clear set of goals. Typical goals of AP automation include:

Increased speed — Invoices should be processed in less than five business days[3]. Process monitors and reports should identify bottlenecks for management resolution. This positions the organization to capture all early payment discounts and pay all invoices on time.

Higher quality of data — Automating the receipt, scanning, extraction and validation of invoice data reduces data entry errors by 95%. It validates invoices with corporate data including vendor masters and employee directories. This technology should eliminate duplicate invoices, perform purchase order and line item matching, and validate contract rates. High-quality data drives the efficiency and effectiveness of the downstream process. Invoice error rates should decline by 95%. ERP data quality should increase to 99%.

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1   It is surprising that finance organizations struggle to determine their cost per invoice. While there is no standard methodology, the basic calculation is straightforward:

   Cost per invoice = total number of invoices per year/AP related annual costs.

   In its simplest form, AP related costs are comprised of all associated labor, fully burdened. This is easy to calculate and is adequate for most AP automation projects, yet additional costs are significant. Organizations should include operating costs such as filing cabinets and their space, copy machines, consumables, fax machines, the costs of express mail and interoffice mail, and records management charges. Late payment penalties, uncaptured early payment discounts, overpayments, duplicate invoices, and the cost of other errors will amount to an important sum. Many organizations are reluctant to include the costs incurred outside of AP: the automated process frees up half of the labor associated with discrepancy review, GL coding, and approval.
   As the Institute of Finance Operations noted in the 2014 AP Automation Study: "…Automation is helping redefine the sweet-spot for invoice processing costs — now hovering between $2 and $5 per invoice — and causing the number of companies paying more than $10 per invoice to drop. It's also noteworthy that companies are reporting a decline in invoice entry and payment error rates. It is aimed to reduce the amount of manual operations and administrative efforts involved in the processing of invoices and allow accounting staff to focus on strategic activities such as analysis, planning and forecasting."

2/3 According to "Aberdeen 2013 E-Payables: Payments Automation for Operational Excellence" survey

Early visibility — The process should be 100% transparent and feature real-time visibility of cash. Invoices become visible within hours of receipt. Workflow monitors and on-demand inquiries provide real-time process status. Financial reporting should be accurate.

Better control — Controls, policies, procedures and business rules are embedded into the process, ensuring strict adherence. Enterprise data, including employee tables, approval hierarchies, and the chart of accounts, is integrated. The opportunity for fraud is decreased as potential segregation of duties violations are identified and reviewed by supervisors. Compliance should be self-documenting.
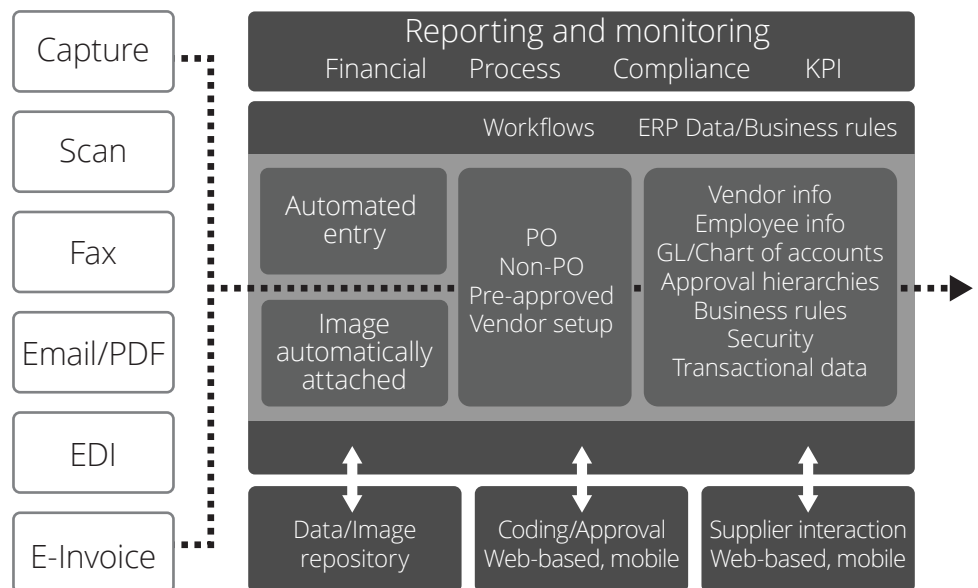
Reduced cost — Fewer resources are required for invoice receipt and data entry. Infrastructure costs (space, filing cabinets, records management fees, copiers, mail, etc.) are reduced. Review and approval costs are reduced. Auditing costs are reduced. The cost per invoice should decrease to $2 or less.

Cash optimization — Late payment penalties should be eliminated. The ability to capture early payment discounts should increase to 90%. Dynamic discounting (trade financing) is a possible source of additional savings.

Participants satisfaction — Participation in an automated AP process is easier. Timely, accurate completion should increase the satisfaction of all participants (AP, employees, and suppliers). Process participation requires less time, freeing employees and suppliers to concentrate on higher-value tasks, further increasing their satisfaction. Supplier and employee surveys should compare favorably with industry data.

The Automated AP Process

As depicted below, a single, consistent process for all types of invoices eliminates paper from the outset. **Intelligent capture solutions** optimize the extraction and validation of invoice data, referencing enterprise data and business rules to achieve high rates of data quality. The solution "learns" as trained operators review and correct data, further increasing efficiency and accuracy. Clean, accurate data is delivered to workflow and the ERP. Invoices that match their purchase order achieve "touchless processing" and are approved for payment automatically.

Capture		Reporting and monitoring			
		Financial	Process	Compliance	KPI
Scan		Workflows		ERP Data/Business rules	
Fax		Automated entry	PO Non-PO Pre-approved Vendor setup	Vendor info Employee info GL/Chart of accounts Approval hierarchies Business rules Security Transactional data	
Email/PDF		Image automatically attached			
EDI					
E-Invoice		Data/Image repository	Coding/Approval Web-based, mobile	Supplier interaction Web-based, mobile	

Workflow, driven by invoice and enterprise data, routes invoices to the appropriate people for discrepancy resolution, coding, and approval. Users leverage web-based and/or mobile screens to review, enter information, and, if appropriate, to determine next steps. Upon approval, final information is delivered to the ERP and payment is scheduled. Real-time alerts inform AP managers of approaching invoice deadlines. Suppliers make inquiries through web-based and/or mobile screens to determine invoice status, payment status, and payment details. Potential problems are identified and routed to supervisors for resolution.

AP and Finance are served by accurate, real-time information for process analysis, trouble-shooting, and accurate reporting. Invoices are tracked at each step in the process. KPIs inform managers of process performance. Real-time tools enable AP to identify and resolve bottlenecks, quickly locate an invoice and expedite processing and payment.

Measuring the Achievement of Goals

The automated process should have access to all of the financial and process data. Standard and custom reports should be created to report on goal achievement and other KPIs daily, weekly, monthly and quarterly. Management review of reports will identify gaps, requiring investigation and discussion of root causes such as lack of AP resource, poor responsiveness, or other contributing factors.

Time — Average processing time from receipt to approval/payment is measured through periodic reporting (daily, weekly, monthly, quarterly, and annually). Invoices processed per operator should be reported on daily and weekly and reviewed by management. Managers should also review invoices whose processing time exceeds 30 days and determine root causes of the delays.

Quality — Organizations should log and report lost or missing invoices, duplicate invoices, data entry errors, invoices not paid within terms, and payment errors. Management should initiate a KPI review of errors, monitor trends, and adjust the process accordingly.

Visibility — Issues resulting in lack of visibility should be logged for management review and resolution.

Control — Potential segregation of duties violations should be reviewed. Audits should show 100% compliance with policies and procedures. Control violations should be logged and reported.

Cost — Organizations should identify the costs they wish to include in the average cost per invoice. They should carefully consider whether to track cost by the type of transaction (e.g. PO Invoice, Non-PO Invoice, Rush Invoices, Remittance). The automated process should support periodic reporting (weekly, monthly, quarterly, and yearly) for management review and action.

Cash optimization – Alerts should inform AP of approaching late payment penalties, early payment discounts and payment deadlines. Management should review periodically reported KPIs for on-time payment, late payment penalties, capture of early payment discounts, and take appropriate action.

Satisfaction – AP should conduct regular user satisfaction surveys of all process participants, including non-AP employees and suppliers. Automation should show a significant increase in satisfaction. Supplier and employee surveys should compare favorably with industry data.

> AP automation streamlines the process, increasing its speed, quality and visibility, reducing its cost, strengthening internal controls, optimizing AP cash flow, and positively affecting the satisfaction of all participants in the process.

Management should review these surveys quarterly and address root causes of dissatisfaction.

Benefits in Summary

AP automation streamlines the process, increasing its speed, quality and visibility, reducing its cost, strengthening internal controls, optimizing AP cash flow, and positively affecting the satisfaction of all participants in the process. Organizations should carefully consider their goals. The automated process exposes the data required for daily optimization, and for periodic management review and adjustment.

Learn More

Ready to learn more about how intelligent data recognition (IDR) addresses paper challenges and facilitates increased visibility and reduced cost and processing time in your AP process?

Watch this recorded webinar

Learn more at www.abbyy.com/ap

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