

REAP THE BENEFITS OF INVOICE EXCELLENCE WITH AP AUTOMATION

February 2016

→ Keir Walker, Senior Research Associate,
Financial Management, GRC



Report Highlights

p2

42% of all respondents identify automation as a key step to improving financial management.

p4

42% of Leaders define *capturing early payment discounts* as a top priority of AP Management.

p7

46% of Leaders invest in automation of invoice receipt and workflow processes.

p15

Respondents engaged in AP Automation can process 4.11x as many invoices as those with NO automation.

If “finance is the language of business” today, then automation is finance’s smart-phone; fast, capable of numerous tasks, and efficient. As most people can attest, today’s smartphone helps better manage relationships. The same is true in business purchaser/supplier relationships. Strong communication is critical to any successful relationship. Top Accounts Payable (AP) solutions open lines of communication with superiority, while providing expedited, accurate, and easily accessible information. This paper will illustrate how *process efficiencies and cost savings are strengthened with automated AP solutions, ultimately leading to increased efficiency.*

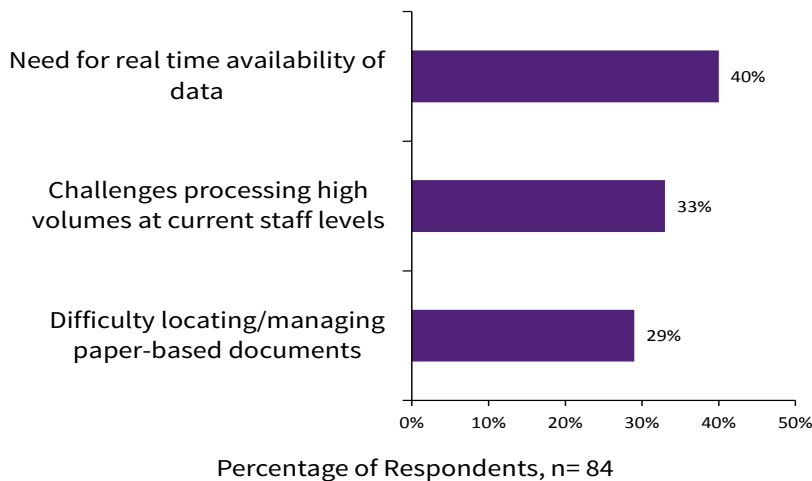
2

42% of all survey participants identify 'managing increasing transaction volume' as a top pressure.

Ideally, if business operations are running smoothly, a company's increase in accounts payable (AP) should correlate to an increase in products or services, inventory, or other purchases that should have quantifiable ROI. Successful companies seek ways to consistently improve efficiency, while increasing output. As business improves, an increase in AP transactions invariably follows along with higher volumes of transactions. Those companies on this trajectory have the enviable dilemma of having to deal with growing numbers of transactions without losing productivity.

Within Aberdeen Group's 2015 AP/AR Benchmark Survey, the need to better manage a growing volume of transactions is therefore highlighted with 42% of all respondents identifying this as a top concern, followed by 35% identifying the demand for expedited financial information delivery as the number two concern. Participants were asked to indicate their top challenges related to AP (see Figure 1).

3

Figure 1: AP Challenges

Source: Aberdeen Group, Sept 2015

Real-time data is more accurate and readily available. The more accurate real-time data is, the better informed downstream decision making becomes. Stakeholders who make finance-related decisions, such as procurements, investments, and forecasting, heavily rely on the accuracy of their data to reduce risk, and therefore the increased demand for real-time data should come as little surprise as being a principal challenge. AP solutions with automation ease data transferal in real-time, to integrated systems where the data may then be accessed.

As companies take on more business and incur the need for more inventory, products, or services, there will similarly be more invoices and suppliers requiring more attention. These

The Aberdeen Maturity Class is comprised of survey respondents. The data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of the two categories:

- **Leaders – Top 35%** of aggregate performance scorers:
 - *Process time* – 5.95 days
 - *Error rate* – 21% (percent of invoices arrived as incorrect or w/ incomplete info)
 - *On-time payment rate* – 90%

- **Followers – Bottom 65%** of aggregate performance scorers:
 - *Process time* – 17.83 days
 - *Error rate* – 13% (percent of invoices arrived as incorrect or w/ incomplete info)
 - *On-time payment rate* – 65%

4

Metrics defining AP Leaders/Followers;

Processing time - the total time required to process an invoice from initial receipt until approved for payment (including weekends):

- Leaders: 5.95 days
- Followers: 17.83 days

Error rate – the percentage of invoices that arrive with incorrect or incomplete information:

- Leaders: 21%
- Followers: 13%

On-Time Payment rate - the percentage of invoices that are paid on-time according to their payment terms:

- Leaders: 90%
- Followers: 65%

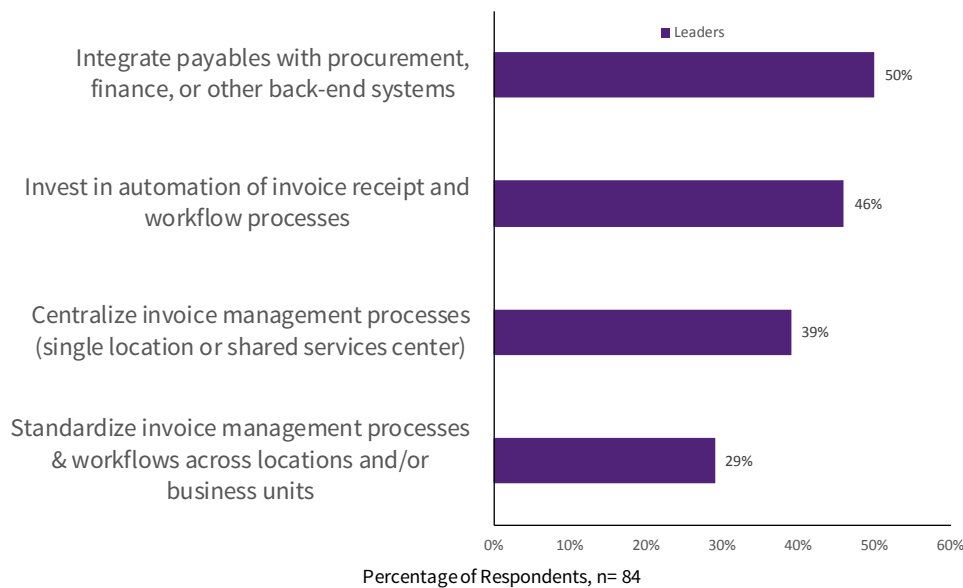
vendor services may or may not be handled by the same supplier, which only places more stress on AP teams. With document imaging and extraction, automation will help reduce this stress.

With the influx of additional suppliers and invoices, comes the additional challenge of not only processing, but of archiving and cataloging these invoices. The ability to locate and reference invoices is crucial to finance-based relationship management. AP solutions operating on singular, centralized platforms make it easier to find the information you seek, and provide comprehensive historical data to pull the data you might need.

Laying the path to increased AP efficiency

With organizational pressures and departmental challenges addressed, let's review the steps being taken to alleviate these issues. Integration of payables (50% all Leaders), and an increased investment in invoice receipt and workflow processes (46% all Leaders) were the top two strategies employed by top performers (see Figure 2).

5

Figure 2: Leaders' strategic approach to AP excellence

Source: Aberdeen Group, Sept 2015

Investing in automation significantly reduces the turnaround time, while increasing the exactness of invoice processing. Payment policies are better adhered to, and established workflows (again, residing on a singular location) can be automated to ensure management approval when needed, and create alerts and reminders for execution, all while providing status updates as to exactly what step an invoice payment process may be.

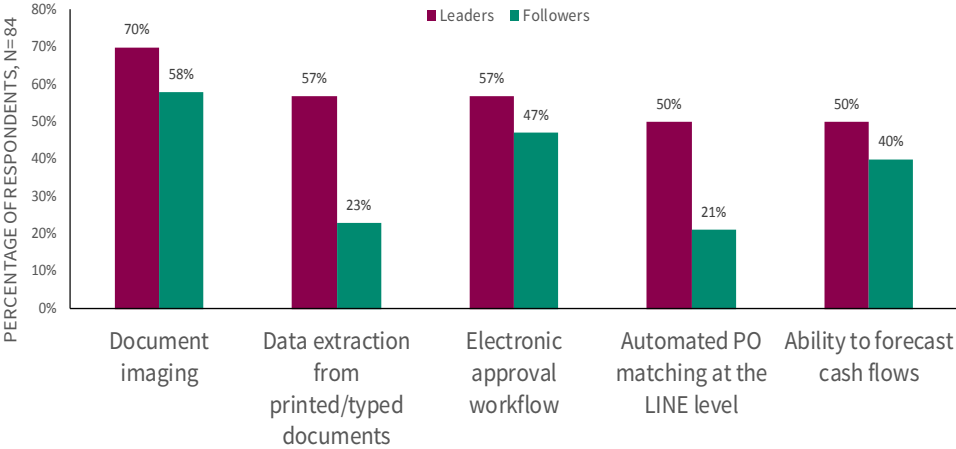
Leaders are 2.4x as likely to take advantage of automated Purchase Order matching at the LINE level, compared to Followers.

6

AP operational capabilities define Leaders and Followers

There are several, clear-cut capabilities that leaders maximize that improve their efficiency and productivity. For example, Leaders are 147% more likely to employ solutions with the capability to extract data from printed/typed documents. Among others, Leaders also are 2.4x as likely as Followers to match purchase orders at the line level (See Figure 3). This accelerates the payment review process. Outgoing payments are verified and mapped to the correct purchase order which, in turn, reduces potential for errant pay and, as has been (re-) stated over-and-over again, improves accuracy while expediting the transaction process.

Figure 3: How is AP data being extracted and utilized?



7

Increases in volume, as well as the potential spikes in paper-based invoicing, means AP teams' productivity will have to increase. Automation can help maintain or even reduce staffing levels. Where paper invoices typically require a more manually intensive effort, AP automated solutions that use document imaging and extraction, scans and recognize the content of the invoices – with instructions provided via electronic approval workflows. This reduces the human interaction and translates this data to the appropriate systems, significantly increasing efficiency.

Relating to information in Figure 3, data extraction and document imaging help disseminate paper-based invoice information, and electronic approval workflows are also operational in nature. So, the ability to forecast cash flows at first may seem bit out of place. However, from an AP perspective, when we consider that cash flow projections help to filter or prioritize outgoing payments, as well as assist finance reconciliation, the value of this capability to AP operations is clear.

When these functions are executed via automation, where possible, this translates to: **(A)** *improved efficiency in invoice management* (i.e. document imaging, data extraction, electronic approval workflows), **(B)** *reduction in external/internal inquiries* (i.e. PO matching, electronic workflows), and **(C)** *improved reconciliation and ledger management* (i.e. automated PO matching, cash flow forecasting). Successful execution of any or

8

all of the above will ultimately result in smooth and strong supplier relations, improved visibility, and lowered costs.

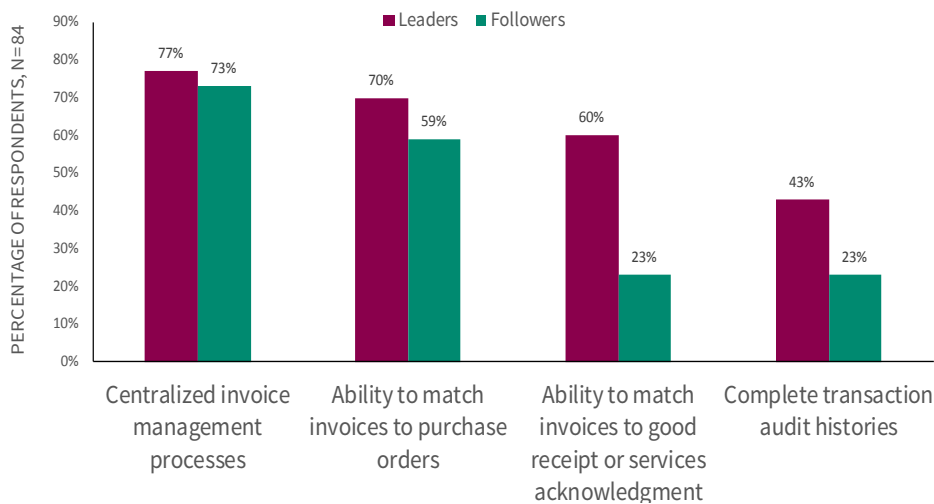
Transition towards excellence with superior transaction management

The ability to match invoices to purchase orders acts as a check-and-balance for ensuring that billing for services is accurate. Leaders are 19% more likely to have this capability. With automation, once the invoice and PO are confirmed accurate, the payment can go out as scheduled, or the subsequent manager approval alert will be triggered if necessary. This increases transaction volume straight through processing, and reduces potential follow-up inquiries, both external and/or internal. Should there be any necessary follow-ups, again, internally or externally, the ability to run customer-centric transaction audit trails will facilitate any such review. Leaders are 87% more likely to have this capability (see Figure 4).

Leaders with AP solutions enjoy the benefit of automated alerts and notification not just around payments, but also around potential payment discrepancies or deficiencies. By operating a fully integrated AP solution (with ERP and Ledger platforms), if there are any potential cash shortfalls that relate to ensuing payments, alerts are distributed. Premier solutions provide for alternative accounts (primary, secondary, etc.) to be aligned for auto payments. If there are insufficient funds at one location, the payment solution transfers money from the backup account(s) as necessary. This ensures suppliers are paid, and customers do not potentially acquire late fees and/or diminish the quality of the relationship.

9

Figure 4: Better transaction management equals better relationship management



Source: Aberdeen Group September 2015

The final capabilities to be reviewed center around discrepancy resolutions. It's a fair assumption to state that suppliers like getting paid. It's also a fair claim to state that suppliers like getting paid the correct amount they are owed and in the shortest time possible.

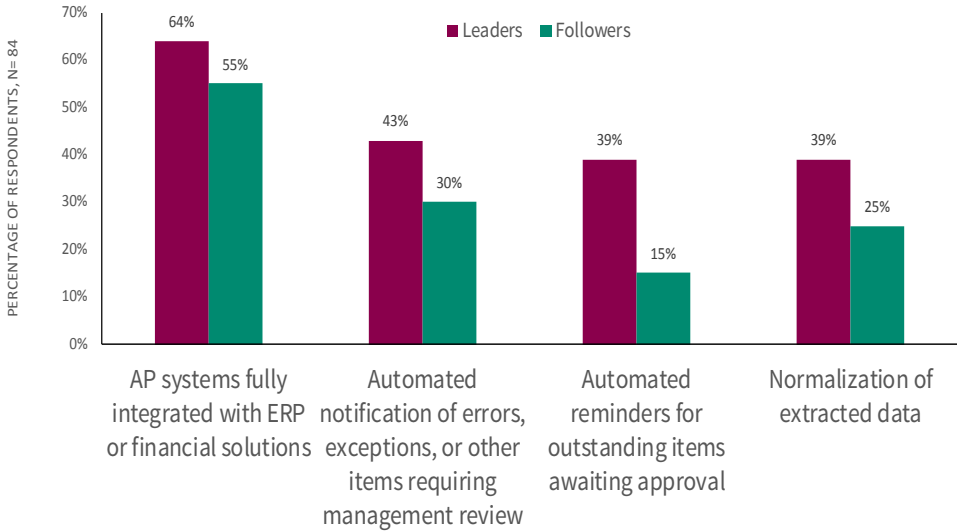
Leaders are 43% more likely to have automated notification of errors, exceptions, or other items requiring management review. Expedient reviews are a sure way to reduce exposure to balance sheet errors, inaccurate cash reporting, or errant pay-outs. By closing the gap to potentially erroneous AP information, areas which factor in this data, such as treasury functions, cash

10

forecasting, etc., are less likely to be incorrect when these exceptions are being resolved prior to actions be taken by other related business lines. Leaders significantly adopt these capabilities to mitigate such delinquent reviews, being 2.6x as likely to have automated reminders for outstanding items awaiting approval.

These sorts of automated alerts serve to push along delayed payment processing. This means there will also be performance benefits since employees will be able to dedicate more time to processing invoices and payments rather than working to research and adjust incorrect invoices or payment amounts.

Figure 5: Always be informed: Remain updated with automated alerts



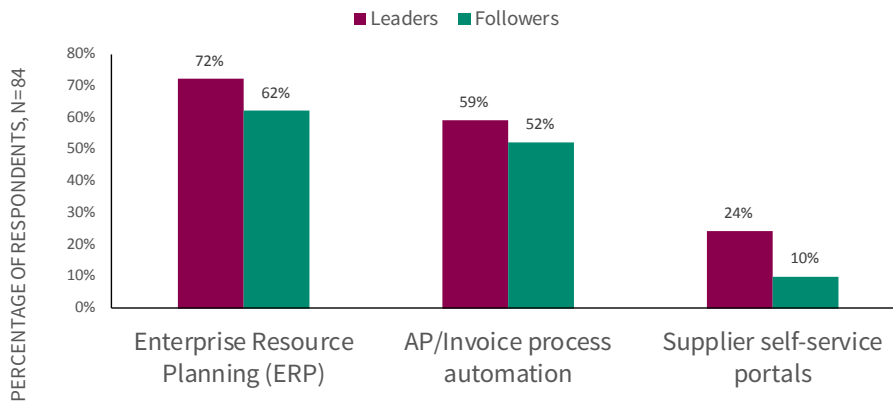
Source: Aberdeen Group, Sept 2015

11

“We have the technology...” – Building a better solution

Our survey revealed the three principal solutions exercised by the Accounts Payable function to abate their pressures. Listed in order of usage (most to least – see Figure 6), they are Enterprise Resource Planning (ERP) solutions, AP/Invoice Process Automation solutions, and Supplier Self-Service Portals.

Figure 6 – Reduce AP pressures: Preferred technology solutions enlisted by Leaders and Followers



Source: Aberdeen Group September 2015

Enterprise Resource Planning – Integrated ERP solutions encapsulate a wide variety of business lines, such as treasury, finance, and governance, and work in unison to perform multi-related tasks. Pertaining to AP, ERP systems prioritize which invoices are to be paid, as well as adjust amounts (often automatically based on adjusting tolerance levels or set

12

thresholds). Both income and outgoing revenue are recorded in ledger balance. Downstream reporting and/or audit trails are accessible for the bevy of functions that intersect in ERP solutions.

AP/Invoice Process Automation – Similar in functionality as described above, with the fundamental difference being that they are typically a standalone solution. These solutions are attractive to companies with tendencies to grow inorganically. The external nature of this solution means that as more companies are acquired, the integration of the new data can be exported easier, as opposed to more complex and enterprise-wide IT integration or absorption onto the legacy system.

Supplier Self-Service Portal – Supplier self-service portals are narrower in focus as they mainly serve as centralized inquiry management systems. The communication channels can be external in nature, internal, or both. Self-service portals are useful for supplier onboarding as well as uploading invoices. Self-service portals are effective for organizations with less robust over-arching solutions, but with sizeable (AP) inquiry channels or high volumes of suppliers requiring open lines of communication.

Making the final case: The benefits automation affords suppliers

The case has been made for the benefits of AP Automation, and how solutions with such capabilities can simultaneously result in increased efficiencies and performance. That being said, data within the table below highlights many of the specific performance benefits our survey uncovered between those

13

respondents using solutions with AP automation versus those without it (see Table 1).

Table 1 – Keep your suppliers happy: The benefits of automation

	<i>With AP Automation</i>	<i>WithOUT AP Automation</i>
How many invoices does your organization process per month?	24,171.78	5,886.84
How many different suppliers submit invoices per month?	2,281.52	1,297.63
What is your organization's Payment Processing Cost - the total cost of labor and fees (transaction-based, collection efforts, etc.) for processing a single payment from receipt through transaction clearance with revenue settled?	\$5.13	\$10.55
Straight Through Process rate - percentage of invoices received, validated, and approved for payment in a completely automated manner	52%	32%
Error rate - the percentage of invoices that arrive with incorrect or incomplete information	20%	14%
Data Capture Accuracy rate - the percentage of information extracted by OCR, ICR, etc., that is correct the first time through?	95%	89%
Days Payable Outstanding (DPO) rate - $DPO = \text{Accts Payable}/(\text{Cost of Sales}/365)$	26.1	31.65

14

Early payment discounts, such as “1%/10 Net 30,” means the buyer will receive a 1% discount if the bill is paid in entirety within 10 days – otherwise, the total amount is due in 30 days.

The data above speaks for itself, and so below I’ll only highlight a few principal benchmarks that directly support the notion of AP automation as being an invaluable tool for improved supplier relations, in addition to referencing other points made throughout the report:

1. ***Does automation accommodate higher invoice transaction volume?*** Those with AP automation process 4.11x as much invoice volume compared to those with no automation. Additionally, those with automation work with 76% more suppliers than those without.
2. ***Will automation assist in capturing early payment discounts?*** Taking advantage of processing of payments when automation reduces the chances of missing cut-off dates to receive the term-agreed discounts. It also reduces Days Payable Outstanding (DPO) which is favorable for suppliers and keeps the customer in good standing.
3. ***Does automation make processes more accurate and efficient?*** Straight through processing is 63% more likely to occur with automation, while those with automation are 6.74% more accurate than those without. The length of time around DPO is reduced as well. Respondents with automation had faster DPO cycles, operating 5.55 days or 17.5% faster than those with no automation.
4. ***Does automation reduce turnaround time for errant invoice processing, ultimately benefitting suppliers?*** Automated review of PO to invoices will result in more

15

accurate reconciliation. Should any errors or discrepancies exist, the managerial alert and sign-off process escalates its review and provides follow-up alerts if the problem-invoice remains in the queue for too long a defined period.

5. ***How can AP automation benefit information management?*** As automation accelerates real-time updating, and thus cash flow forecasting, financial data is therefore equally adjusted in a more expeditious manner. The superior processing speed and information accuracy, especially when residing on a centralized repository, means that when inquiries arise, data availability is more real-time, communication becomes more precise and response time is faster.

Key Takeaways

The benefits of AP automation, by this point, should be undeniable. While the operational, finance advantages are more measurable, as evidenced within the survey, the need to improve supplier relations, though harder to measure is clearly a high priority. Maximizing AP automation is a powerful tool to accomplish this. Detailed below are the recommendations based on the sum of this report.

16

- **Review and define gaps in your Accounts Payable processes** – Fully understanding process deficiencies as well as strengths. If no reporting capability is available to analyze this, ask inwardly how performance is being monitored and factor that into the solution selection process.

- **Select a solution(s) + workflow that addresses process deficiencies** – Evaluate the capabilities of your current AP solutions versus the strengths, gaps, and long-term goals of improving your AP process. Consider the benefits (and potential down-side) of all technology enablers that will maximize automation. Committing to automation where possible will improve productivity and efficiencies in other areas. Consider how you might like to reallocate resources, and work backwards to find ways that automation can free up resources that may then be transitioned accordingly.

- **Commit to culture emphasizing improved supplier relationships** – Foster a culture where keeping your suppliers is achievable and sustainable. Prioritize supplier payments based on necessity, policy terms (i.e. are there late fees, early payment discounts, adjustable terms based on satisfying specific supplier benchmarks, etc.). Gain potential leverage for terms renegotiations by exceeding supplier expectations (using quantifiable historical payment information and audit trails as evidence to support favorable terms).

17

There really can be no doubt as to the many advantages to be found when optimizing your AP solutions. The reduction of numerous manual touches will streamline processing, and bottlenecks will decrease. Cycle turn-around times improve, as well as supplier relations. The potential for cost savings persists.

The list goes on and on. So find the right solution for you, embrace AP automation, and enjoy all the elevated efficiency it brings.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Automation: The Solution to efficient Financial Management](#); Sept 2015

[The Guidebook for Financial Transformation Best Practices](#); June 2015

[Ensuring Timely and Accurate Financial Plans, Budgets, and Forecasts through Automation](#); April 2015

[Real-Time Financial Reporting: The Need for Speed](#); July 2014

[The Integrated Approach to Treasury and Risk: Achieving Greater Returns through Automation and Visibility](#); July 2014

Author: Keir Walker, Senior Research Associate, Financial Management & GRC
(keir.walker@aberdeen.com)

18

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide improve their performance. Our analysts derive fact-based, vendor-agnostic insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategy. Aberdeen Group is headquartered in Boston, MA.

This document is the result of primary research performed by Aberdeen Group and represents the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group.