

The Formula for Accounts Payable Automation Success



White Paper

Does your accounts payable department want to:

- ... Become more efficient and cost-effective with faster cycle times?
- ... Help your organization better manage its cash and corporate spend?
- ... Enhance the user experience for suppliers and internal stakeholders?
- ... Eliminate compliance and security risks?

... But not sure where to begin?

This white paper provides you with a proven formula for automating accounts payable. Our formula will help ensure the success of your automation initiatives

Today's accounts payable reality

What if more than one-quarter of the work you did each day was a complete waste of time?

This is the sobering reality for most accounts payable departments. Twenty-seven percent of the typical accounts payable department's day is spent on wasteful and manual activities that could be automated with better systems and processes, research from PriceWaterhouseCoopers (PwC) finds.

Skeptical? Think about all the manual, repetitive tasks that consume your staff's time:

- Setting up suppliers
- Gathering payment details
- Collecting tax forms
- Opening and sorting mail
- Keying invoice information
- Matching invoices with POs and receipts
- Tracking down purchasers
- Physically routing invoices to approvers
- Searching for delayed, lost or misplaced invoices
- Managing back-and-forth phone calls and faxes to resolve exceptions
- Keying information on approved invoices into the ERP
- Filing invoices and related documents
- Setting up and generating payments
- Reconciling payments with invoices
- Responding to supplier inquiries regarding invoice status
- Contending with thousands of rules, policies and regulations for approving invoices

Canon

No wonder it's so hard to recruit and retain top talent into our profession. What's more, accounts payable managers spend more of their time on these types of low-value tasks than on managing staff, reviewing reports or planning – you, know, the things they were hired to do.

A better approach to automation

Imagine if your accounts payable function was digital, profitable and strategic. That idyllic future is not as far-fetched or as far off as you might think.

Automated accounts payable solutions are making this vision a reality.

- Within the next three years, **51%** of accounts payable practitioners expect that their department will eliminate most of the paper invoices they receive from suppliers. Nearly one-third of accounts payable practitioners expect that their department will eliminate between **25% - 50%** of the paper invoices they currently receive from suppliers.
- Most accounts payable practitioners expect that within the next three years their department will approve most of the invoices their organization receives using a mobile phone or tablet.
- Nearly **2/3** of accounts payable practitioners expect greater demand for real-time visibility into their department's information over the next three years.
- Most accounts payable practitioners anticipate that their department will be of greater strategic importance to their enterprise within the next three years.

These statistics are from the Institute of Finance and Management's (IOFM's) Future of Accounts Payable report. None of this is possible without accounts payable automation.

Yet less than one-quarter of accounts payable departments operate in a highly automated environment where most invoices are posted without human operator intervention.

Accounts payable departments cite a lot of reasons for dragging their feet on automation, including a lack of capital, limited IT resources, inadequate department resources and poor senior management support. But a big reason that many accounts payable departments have not automated is that they do not know how to create a plan for selecting, cost justifying and deploying an automated solution.



The Formula for Accounts Payable Automation Success

A poor accounts payable automation project can result in:

- Wrongly sequenced digitization of processes
- Little or no return on investment (ROI)
- Wasted internal resources correcting sub-optimal automation
- Loss of trust among stakeholders and senior management

But don't worry. Follow the five-step formula below and your accounts payable automation project is sure to be a success.

Step #1: Analyze Your Current Operations

The first step in a successful automation project is to analyze where you currently stand.

First, analyze your current pain points.

Ardent Partners finds that the top priorities for improvement in accounts payable are:

- Reducing invoice processing costs
- More tightly aligning accounts payable with procurement
- Improving reporting and analytics
- Enhancing collaboration and communication with procurement
- Extending payment terms/optimizing Days Payable Outstanding (DPO)

Your department's pain points will help determine your objectives for automation.

Next, track key metrics for operational efficiency and effectiveness so you have a baseline for calculating the business case for automation. Invoice processing costs is one of the most critical metrics to track. Here is a simple formula for calculating your average invoice processing costs:

- First, determine your total annual invoice processing cost by multiplying your total number of full-time equivalents (FTEs) by the average annual compensation and benefits per FTE.
- Next, divide your total annual invoice processing cost by the number of invoices your department processes annually. This will be your average cost to process a single invoice.

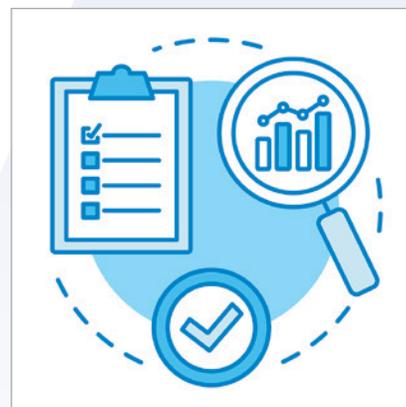
Some accounts payable departments include overhead such as office rent and utilities as part of their calculations. Regardless of how you calculate your average invoice processing costs, it will be extremely difficult to develop a compelling business case for accounts payable automation without it.

Documenting your current workflows and any related issues is the third step to analyzing where your accounts payable department currently stands. Build detailed flow charts for all invoice processes from invoice receipt to payment. Be sure to have a clear understanding of the approval processes for:

- PO-based invoices
- Non-PO-based invoices
- Recurring invoices
- Supplier credits

Also take into consideration the stakeholders involved in approvals and far-flung business units.

Your goal is to identify potential improvements to your current workflows.



Step #2: Engage Stakeholders

Stakeholders across the enterprise have a lot to gain from accounts payable automation.

CFO

- Real-time visibility into working capital
- Better control over accounts payable spend
- Analytical tools for strategic decisions
- More early pay discount opportunities
- Transform AP into a profit center

Controller

- Visibility into accounts payable data for cash flow analysis and management
- More efficient transaction processes
- Streamlined compliance and reporting
- Faster financial close

CPO

- Less "maverick" and out-of-budget purchases
- Enhanced supplier experience through an online portal
- Fewer late payments to key suppliers
- Strong visibility into accounts payable spend
- Better contract compliance

IT

- Less burden supporting accounts payable
- Extend the value of ERP investments
- Streamlined security and compliance



That's why it is critical to engage stakeholders early in your automation initiative.

Establishing a project team to help manage your accounts payable automation investment is a good start. Initially, the team defines the objectives for the automation initiative (e.g., improved control over cash and spending, streamlined operations, fewer exceptions, etc.). Once a solution has been selected, the team monitors the progress of the implementation and makes decisions regarding process, workflow and architecture changes. The team also develops the business rules used to configure the system.

IT plays a key role in your project team. IT can ensure the system integrates with your ERP and other existing systems and help validate the feasibility of system requirements and architecture.

Be sure that your project team includes essential representatives from critical stakeholders such as treasury, procurement and IT, as well as frontline operators who understand your current processes. But keep in mind that bigger isn't better when it comes to forming a project team. Having too many individuals involved makes meetings unwieldy, delays decision-making, and clouds priorities.

Designate one member of the team to give periodic updates to stakeholders and to keep senior management apprised of your progress and any implementation or change management issues.

Step #3: Select the Right Solution

There are lots of technologies and approaches to accounts payable automation. But five technologies are critical to a successful automation project:



#1: Document Scanning

Digitizing invoices that arrive via the mail, fax or e-mail is the first step to transforming the invoice processing lifecycle. Document scanning technologies create high-resolution images of documents, and automatically index the images based on pertinent pre-defined data for instant digital retrieval.



#2: Intelligent Data Capture

Intelligent data capture uses optical character recognition (OCR) and other technologies to interpret the header, amount and line-item data on invoices and other documents, regardless of whether they arrive in paper or electronic format or via fax, e-mail, web, EDI or another delivery channel. Some intelligent data capture solutions validate extracted data against information in downstream systems, enabling invoices to be posted "straight-through" to an ERP without human operator intervention. Automatically extracting and validating invoice data reduces costly and error-prone manual keying.



#3: Digital Workflows

Workflow technology enables organizations to electronically route document images and data for approval and exceptions handling, based on pre-configured business rules. The technology eliminates the possibility that invoices are misfiled or sent to the wrong individual. And automated notifications, alerts and escalation procedures ensure that invoices do not become "stuck" in the approval process, resulting in late payment penalties, missed discounts or frustrated suppliers. The technology can "fast track" invoices that are approaching their due date or require special handling.



#4: ERP Integration

An ERP is the financial nerve center of an organization. But many ERP applications are not fully leveraged because the accounts payable processes that touch these expensive systems have not been optimized. That's why more organizations are automating their accounts payable processes with solutions that are seamlessly integrated with their ERP applications. By integrating an automated accounts payable solution with an ERP, data is automatically synchronized with no duplication of content, and users can retrieve invoice images and data directly from their familiar ERP screens.



#5: Archival & Delivery

Digitally archiving document images and data eliminates the costs of physical on-site and off-site storage while putting critical information at the fingertips of authorized users, when and where they need it. A digital archive also makes it easy for organizations to comply with auditor requests, such as producing all invoices related to a general ledger code, and to generate reports and analytics.

Document imaging and scanning, electronic invoicing, automated routing and approval workflow, automated data capture extraction and self-service portals are the most commonly deployed technologies by best-in-class accounts payable departments, per research from Ardent Partners.

When evaluating potential accounts payable solutions providers, look past slick presentations and brochures. Create a matrix for scoring solutions providers based on critical criteria such as:

- Total cost of ownership
- Data capture performance
- Workflow configurability
- ERP compatibility
- Frequency of upgrades and bug fixes
- Security and compliance features

Be sure that you understand what out-of-the-box is versus non-standard. Also be sure that you are comfortable with each solutions provider's answers that are a shade of gray (i.e., not 'yes' or 'no').

Finally, look for solutions providers that stand apart from competitors based on their:

- Technology features and functionality
- Services layered on top of technology
- Track recording in simplifying and automating AP processes
- Ease of adoption and strength of user training
- Their reputation and financial standing

Step #4: Build a Solid Business Case

Building a solid business case is a key ingredient to accounts payable automation success.

Your business case should include three elements:

1. Hard savings (e.g. labor costs, physical document storage, software licenses)
2. Soft savings (e.g. faster cycle times, efficiency improvements, better supplier relations)
3. Risk mitigation (e.g. fewer lost or misplaced invoices, better document tracking)

Use these elements to develop 'best case,' 'worst case,' and 'most likely' case scenarios for your automation project. Senior management will appreciate knowing the potential upside and downside.

When evaluating prospective solutions providers, be on the lookout for potential added fees such as professional services costs to configure workflows, setup invoice templates or integrate with an ERP. Also try to estimate any costs associated with having a vendor on-site to implement the system and train your staff, as well as any costs for overtime or temporary staff during the system roll out.

And ensure that your project team stays grounded while evaluating potential solutions by keeping the available budget in mind. There is no point in engaging with a vendor whose solution is too costly. Selecting a solution that meets budget constraints will also help win the backing of management.

Step #5: Embrace Change

Automation is a big change for accounts payable departments. But it shouldn't be scary if you carefully manage the change.

First, create an implementation plan that lays out:

- Implementation stages
- Stakeholders impacted
- Deliverables for each stage
- Deliverable owners
- Deadlines
- Any dependencies

Be sure the plan prioritizes 'needs' over 'wants.' The plan will help the project team measure progress, track activities and generate status reports.



Next, set realistic rollout timelines. Staff in most accounts payable departments are stretched thin, leaving little mental energy or time to learn new systems and processes. Consider:

- Scheduling 'lunch and learn' sessions on the new system
- Posting system documentation and training materials on your corporate intranet
- Hanging a 'training tip of the day' in your breakroom
- Employing temporary workers to free staff for system training
- Making use of training handouts and webinars created by your solutions provider

Also keep in mind that staff can only absorb so much information at a time. Three on-hour training classes are likely to have a bigger impact than one three-hour training class, for example.

Also give staff time after each training session to practice what they learned on the new system.

Get Started!

IOFM finds that organizations with highly automated accounts payable departments:

- Spend less than one-fourth as much to process a single invoice
- Process more than 11 times as many invoices per FTE
- Approve invoices in one-fourth the time
- Have fewer duplicate payments
- Capture 7 times more early payment discounts

If these are the results your accounts payable department is after, automation is the key.

Follow the formula outlined in this white paper and your organization will be on its way to success.



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