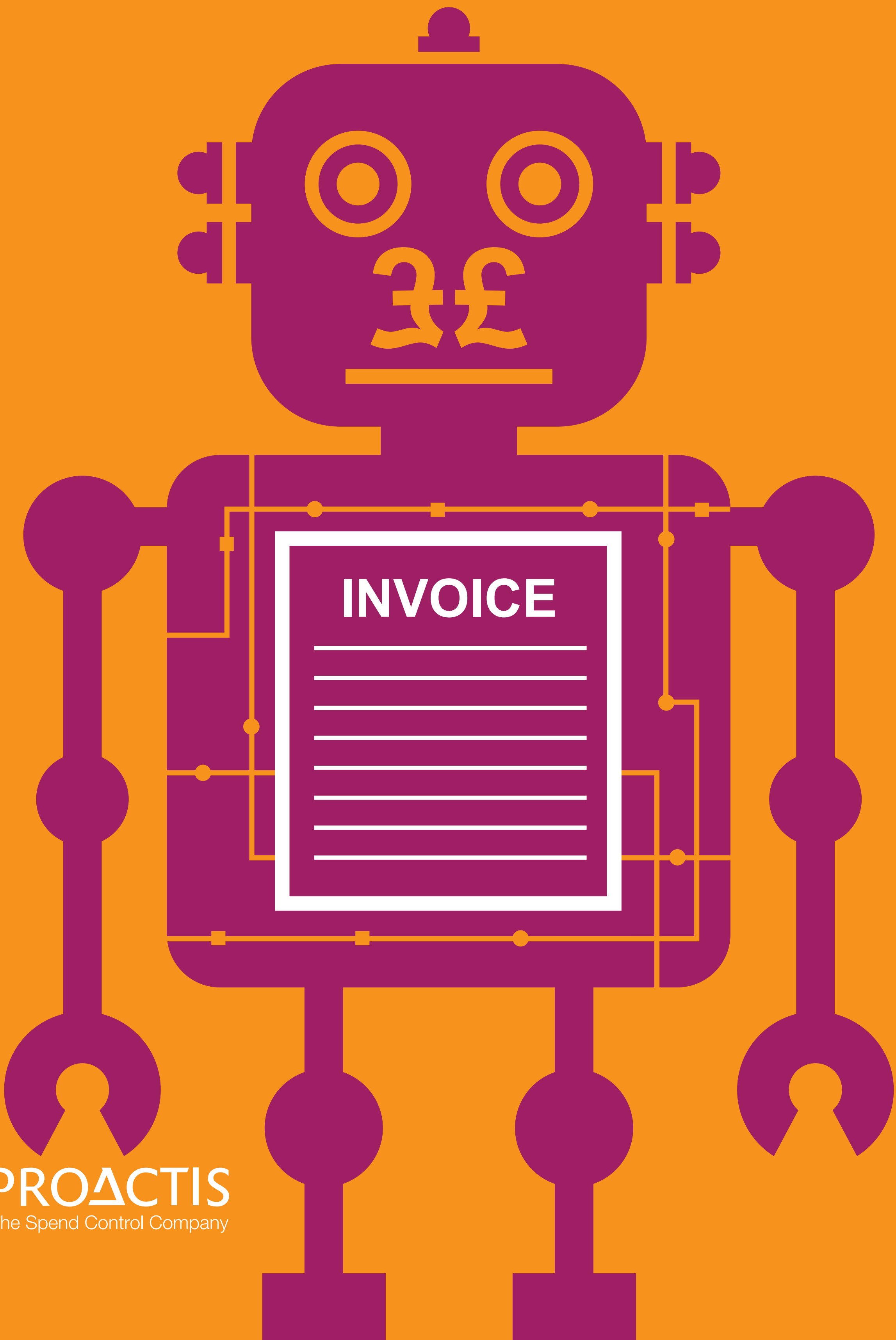
Accounts Payable

Survey: The Impact of Invoice Automation on Financial Performance



PROACTIS
The Spend Control Company

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This survey details the impact of invoice automation on the financial performance of an enterprise. It highlights the challenges and opportunities faced by organisations to streamline the Accounts Payable process and minimise the time and money spent on invoice-receipt, validation, coding, matching and approval.

Finance, IT and Heads of Accounts Payable should use this research to formulate a strategy for invoice automation.

Business Context

> Enterprises are looking to reduce costs and optimise working capital by streamlining Accounts Payable and transforming invoice management from a high-touch to a low-touch process.

Even though automation projects have delivered many tangible benefits across the enterprise, the effects have not quite filtered through to Accounts Payable. This is especially true when it comes to invoice processing that has long suffered from the constraints inherent in manual, paper-based activities including lengthy cycle times and a lack of control and visibility of transactions.

Whilst, many enterprises have implemented discrete technology tools to streamline the inbound receipt of invoices, few have addressed 'total' invoice optimisation to further drive out costs from the bottom-up. This not only involves centralising and streamlining data entry; but automating validation, coding and matching; minimising exception handling workflow; and eliminating supplier enquiries etc.

Given the historical lack of innovation in Accounts Payable, there are significant opportunities for enterprises to lead their field when it comes to invoice process efficiency. Enterprises should adopt practical and comprehensive solutions that do not require 'heart-and-lung' surgery. Forward-thinking executives will look to extend this vision by automating the entire Procure-to-Pay process from bottom-up and top-down.

As part of a CFO Research Series, PROACTIS set out to determine the impact of invoice automation in supporting the CFO's cost containment agenda, by surveying more than 100 European medium-sized enterprises.

Research Preview

- **Invoice processing:**
  Less than 15 percent of organisations process an invoice on average in under three days. Worse still, in excess of 30 percent of organisations do not know the cost and cycle time for processing an invoice; or even the precise invoice volume.

- **Accounts Payable inefficiencies:**
  More than 90 percent of organisations are processing less than 15,000 paper invoices per FTE employee. 43 percent are processing less than 10,000.

- **Invoice delays:**
  41 percent report invoicing delays as a common source of cash flow problems for their organisation, resulting in late payments, lost discounts, payment errors and control weaknesses.

- **Data inaccuracy:**
  62 percent highlight inaccuracies of data for Accounts Payable as well as ERP systems. Many are targeting as much as 30% reduction in cycle times in automation projects by improving data accuracy.

- **Manual indexing & approval:**
  71 percent of organisations utilise a fully manual indexing and approval process to manage invoices. Worse still, a further 22 percent have automated data capture but are still manually entering the record into the system.

- **Reconciling invoices:**
  In most organisations, Accounts Payable spends in excess of 70 percent of their time trying to reconcile invoices with business rules.

- **Invoice approval & archiving:**
  Over 80 percent of organisations rely on interoffice mail and courier dispatches around the organisation for approval and document archiving. 64 percent say it is critical they increase the use of workflow tools to accelerate approvals and improve collaboration.

- **Automated exception handling:**
  43 percent of organisations reported that less than 10 percent of invoices are handled using automated exception workflow.

- **Supplier involvement:**
  Less than 25 percent of organisations have tools in place to effectively involve suppliers in the invoice process by providing access to real-time order and invoice data.

- **Centralising Accounts Payable:**
  42 percent recognise centralising Accounts Payable as an important part of their strategy to drive efficiency and best practice in invoice management.

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Research Insights

Accounts Payable mired in process

The vast majority of CFOs said the primary objective in Accounts Payable is to cut costs through process improvement, in particular to increase data accuracy and faster business processes. Ninety percent of organisations are processing less than 15,000 paper invoices per FTE. Forty-three percent are processing less than 10,000. For many it is a 'far reach' to transform Accounts Payable from fire-fighting invoice processing and payment-related activities to providing value-add services to the business e.g. advice to manage working capital more strategically.

Over reliance on people and paper-based processes

Seventy-one percent of organisations utilise a fully manual indexing and approval process to manage invoices. Worse still, a further 22 percent have automated data capture but are still manually entering the record into the system. Over 80 percent of organisations rely on interoffice mail and courier dispatches around the organisation for approval and document archiving. There are significant opportunities for organisations to gain improvements in financial management via automation.

Lengthy invoice processing cycles

Enterprises using a fully manual process take in excess of 25 days to process a single invoice. Further missing information on documents and discrepancies can make the approval process even longer. Less than 15 percent process an invoice on average in under three days. Worse still, in excess of 30 percent of organisations do not know the cost and cycle time for processing an invoice; or even their precise invoice volume.

Invoice errors are threatening cash flow

Forty-one percent of organisations said that invoicing delays was a common source of cash flow problems for their organisation, resulting in late payments, lost discounts, payment errors and control weaknesses. A high percentage of organisations admitted to invoices filed away in drawers and problems with data workflow. Thirty-two percent estimated their company has at least £10,000 a month delayed due to invoicing errors.

Significant backlog of invoice approval workflow

Accounts Payable spend over 70 percent of their time trying to reconcile invoices with business rules, such as corporate policies, legally binding contracts, purchasing documents and supplier data etc. Forty-three percent of organisations reported that less than ten percent of invoices are handled using automated exception workflow. Sixty-two percent highlight inaccuracies of data for Accounts Payable as well as ERP systems. Many are targeting as much as 30% reduction in cycle times by improving data accuracy and through automation projects.

Cost of processing invoices

The few organisations that have automated their invoice processing – enabling suppliers to submit invoices electronically straight from their own systems, transform and validate data using supporting records and approval workflow etc. – report up to a fivefold reduction in the cost of processing an invoice.

Piecemeal approach for discrete problems

Inefficiencies in the Purchase-to-Pay process have attracted a host of technology solutions. Organisations have acquired tools to solve discrete problems (e.g. document imaging to improve the capture of invoices, ERP to co-ordinate internal business and accounting functions, and Web invoicing to support invoice receipt etc.) and suffer from limitations that disrupt the flow of the Purchase-to-Pay process. This results in lost productivity, manual processing and payment delays.

Analysis for process standardisation

Less than 50 percent of organisations reported they are "planning to" or are "currently" conducting an internal assessment to identify the impact of disconnected data and legacy processes. Their objective is to set clear policies and guidelines for invoice receipt-to-payment processes. Typical performance metrics being considered include; status of payments, analysis of discounts, invoices held up in error, duplicate invoices, delays in the accounting/approval process and number of one-time-vendor invoices etc.

Research Insights continued

Suppliers are removed from the process

Less than 25 percent of organisations have sufficient tools in place to effectively involve suppliers in the invoice process by providing access to real-time order and invoice data.

Straight-through-processing: a far reach

Less than five percent of organisations have eliminated paper from their invoice management processes to such an extent that they can rely on the seamless exchange of electronic transactions for straight-through-processing. The vast majority are mired in paperwork, employ advanced OCR technologies to extract data from paper invoices and automate parts of approval workflows or outsource certain Accounts Payable tasks. Most want to simplify discrepancy resolution, accelerate approval processing and reduce errors and exceptions.

Impact of inefficiencies in invoice management

CFOs reported the impact of inefficiencies on their role including: lack of cost pipeline visibility, overpayments or duplicate payments, weak working capital position and lack of accurate reporting for legislation. The Head of Accounts Payable cited issues such as lengthy processing cycles, high number of errors, cost of processing invoices, resolving discrepancies and exceptions and time/cost of handling supplier queries.

Centralising Accounts Payable is a priority

Centralising Accounts Payable in a shared service centre remains a key focus for many CFOs. Forty-two percent recognise it as an important part of their strategy to drive efficiency and control over payables. In particular, to streamline invoice receipt, approval processing and payments without the need for separate processing centres. Interest in workflow automation is especially high with 64 percent of all respondents saying it is critical they increase the use of workflow tools to accelerate approvals and improve collaboration.

"Old-school thinking" results in increased costs

Manual purchasing processes are time consuming, prone to error and open to fraud. They place significant pressures on Accounts Payable and downstream invoice management processes. Often they lack the transparency and auditability required by world-class organisations. These process inefficiencies are under greater scrutiny by executives to remove delays caused by breakdowns in manual workflow and an inability to track transactions. "Old-school" thinking is viewed as a major cause resulting in duplication of effort and increasing costs.

Success stimulates innovation

CFOs who have already automated parts of the Procure-to-Pay process to reduce manual effort, errors and cycle times favour further investment in technology solutions over increasing staff headcount as a primary strategy for optimising Accounts Payable. They have already realised benefits in transforming discrete Accounts Payable processes and are looking to extend this by adopting best-in-class eInvoicing and eProcurement technology.

Less than 25%

of organisations have sufficient tools in place to effectively involve suppliers in the invoice process by providing access to real-time order and invoice data.

The Pain Points in Invoice Automation

	Stages	Issues
1.	**Receipt**	Inbound invoices are entering the organisation in multiple formats e.g. paper, xML, HTML, Fax etc. Some invoices are received directly by Accounts Payable while others are received by Purchasing and Administration departments. Few are able to co-ordinate the receipt of invoices through to provide support for a single financial management process (especially when there are multiple ERP systems in existence). Most do not primarily receive invoices via electronic means and are unable to eliminate the number of clean invoices entering approval workflow.
2.	**Data Capture**	Manual entry of invoice data is time consuming and costly. Organisations must receive, sort, date stamp and enter data from paper-based invoices. This increases the chance of errors being entered into the accounting system. Many organisations have invested in tactical automation solutions and/or outsourcing parts of this process to assist with extracting data from paper invoices. Few are actively collaborating with suppliers to support their invoice submission capabilities and migrate them to electronic methods according to their strategic value to the business.
3.	**Coding**	The first time the company learns about the purchase is often when the invoice arrives in Accounts Payable. Coding information is difficult to comprehend and best left to the authoriser. Accounts Payable spend time chasing-up and answering questions such as; where should the invoice be coded or costs allocated, do they need to apply procurement classifications, are the tax codes correct etc.? In addition, manual coding of consolidated bills is time consuming and fraught with error. There is no automatic learning of previous code allocations.
4.	**Matching & Approval**	On receipt of the goods and services it is impossible to book them against the original purchase order and/or contract. As such when the invoice arrives there is no three-way match and the payment cannot be scheduled in line with credit terms. Discrepancies need to be resolved (e.g. line items that contain a discrepancy with the order or terms), invoices must be routed to approvers and exceptions handled.
5.	**Dispute Resolution**	A large degree of invoices contain discrepancies that require special handling. A slow process means late payments and penalties and lost invoice discounts. Any dispute resolution with suppliers is often done by phone, email or fax which can be time consuming and add weeks or months to the process.
6.	**Payment**	Any paper-check processes are expensive and open to fraud. Payment typically involves time consuming and costly circulation of invoices within the company to agree payment release. This results in delayed payments, missed discount opportunities and lengthy call-fielding from suppliers.
7.	**Reporting**	Slow processes hinder recognition of expenses. There is limited visibility into invoice receipt and workflow status. Plus little information to decide on which prompt discounts to take and which to ignore. Management reporting packs are time consuming to compile and open to inaccuracies. Auditing is especially time consuming due to lack of traceability and none standardised processes.

Questions You Should Ask

> Top 15 questions you should ask to identify the impact of disconnected data and legacy processes in order to set clear policies and guidelines for invoice automation include:

1. What types of invoices do you receive?
2. What is the number of invoices that are linked to a catalogue order?
3. How long does it take to process an invoice per FTE? What is the cost?
4. What is the total number of invoices received by supplier?
5. What is the total number of transactions received by preferred suppliers?
6. What are your rules for routing and approving invoices?
7. What is the average length of time to approve an invoice?
8. What is the percentage of error free invoices passed to the accounting system?
9. How many invoices are held up in error?
10. What is the total number of invoices covered by a predefined payment schedule?
11. What is the value of available discounts missed due to delayed processing or approvals?
12. Which categories of vendors account for the greatest number of exception invoices?
13. How much time do you spend answering vendor enquiries?
14. What is the status of payments?
15. What is the total number of invoices that have been returned or cancelled?

Key Performance Indicators

Below are some of the most widely used key performance indicators (KPIs) by organisations when assessing invoice performance.

1. The total number of invoices per million of revenue.
2. The total number of invoice line items processed per Accounts Payable FTE.
3. The percentage of FTEs that are contracting employees.
4. The total number of invoices received from each supplier.
5. The percentage of invoices received from each supplier that is electronic.
6. The total number of transactions received from preferred suppliers.
7. The average number of line items per invoice received by supplier.
8. The average invoice value per supplier.
9. The total number of invoices linked to a purchase order or to a recurring invoice.
10. The total number of invoices covered by purchase order and Goods Receipt.
11. The total number of invoices received and matched by purchase order or contract.
12. The number of invoices that have not been processed or transferred to an accounting system.
13. The average length of time to approve an invoice.
14. The percentage of invoices which an Accounts Payable clerk has sent for approval or review against the total number of invoices.
15. The total value of invoices that are waiting for approval.
16. The total number of invoices which have been run through an OCR tool and on which no corrections or data are required to be added manually.
17. The average time that has passed between capturing invoice data and sending the invoice for approval.
18. The average time that has passed between capturing invoice data and releasing invoice for payment.
19. The percentage of invoices whose information has been corrected against the total received invoices.
20. The total number of invoices that the system processes by automated workflow.
21. The percentage of processed electronic invoices on which no data has been added or corrected.
22. The percentage of all error-free invoices that have been transferred to an accounting system.
23. The percentage of the total number of supplier enquiries against total number of invoices received.
24. The percentage of electronic invoices that are linked to a catalogue order.
25. The total number of invoices that have been returned or cancelled.
26. The total number of invoices covered by a predefined payment schedule.
27. The total number of invoices that have been transferred for payment after the due date.
28. The total of interest of lost early-payment discounts due to late payments.
29. Staff turnover rate in Accounts Payable.
30. Employee satisfaction rate in Accounts Payable.

Recommendations

Take a hard look at how to:

1. Create an end-to-end vision: to manage and control the entire process including monitoring of all transactions – reducing cycle times, bypassing process bottlenecks and resolving invoice backlogs.

2. Streamline the inward paper process: use the latest range of integrated technologies to capture and centralise the receipt of all formats of inbound invoices.

3. Support ease of use: with role specific interfaces, intelligent coding and personal archive for invoices based on flexible business rules.

4. Minimise time and money spent on invoice handling: use automatic business rule coding and matching to minimise the need for time-consuming and repetitive invoice handling tasks.

5. Automate invoice coding that is accurately set early in the purchase cycle: e.g. a draft requisition or PO based on who is requesting, what they are buying and department.

6. Leverage straight-through-processing: eliminate the need for clean invoices to enter the routing and invoice approval workflow.

7. Involve your suppliers in the process: provide suppliers with access to real-time order information, plus different technology choices to send invoices according to their capability and strategic value.

8. Ensure corporate governance and compliance: put in place compliance controls e.g. approval rights management, full audit trail and versatile reporting tools.

9. Obtain global versatility: with a multi-currency, multi-lingual, multi-company solution that can support centralised and decentralised structures and integrate with existing ERP and AP systems.

10. Ensure continuous improvement: by adopting key performance indicators that enable your company to measure, monitor and improve your invoice automation process.

About PROACTIS

PROACTIS is a leading provider of spend control and eProcurement solutions. Hundreds of organisations around the world use PROACTIS software and services to streamline the purchase-to-pay process and obtain best value and control in procurement.

- **Procurement Solutions**: to help organisations to automate the full buying cycle from improving the way they find, evaluate and engage suppliers to increasing "on-contract" spending and enabling more effective collaboration with their trading network.

- **Purchase-to-Pay Solutions**: to enable organisations to streamline the purchase-to-pay process, eliminate labour-intensive manual registration of invoices, speed up invoice matching and approvals and gain control of "after-the-event" purchase claims.

Widely used in mid-to-large sized organisations across private, public and not-for-profit sectors, PROACTIS is routinely integrated with ERP and financial systems. PROACTIS also offers a range of on-premise and cloud-based delivery options, including Software-as-a-Service (SaaS) and dedicated-hosted application delivery, and flexible licensing models.

PROACTIS Group was founded in 1996 and has been listed on the London Stock Exchange since 2006 (AIM: phd). Headquartered in the UK with operations in North America, PROACTIS has an extensive accredited partner network in EMEA, Americas and APAC regions.

Over 350 customers across 70 countries

PROACTIS: Spend Control & eProcurement

Streamlining the purchase-to-pay-process

Obtaining best value and control in procurement

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