

Automating Accounts Payable: What You Need to Know

Underwritten by:



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Despite the fact that cost savings remains the top priority for a majority of accounts payable ("AP") leaders in 2015, the opportunity to automate key business processes has missed many AP departments. Ardent Partners research has shown that the average cost to process a paper invoice can be up to five times higher than a comparable invoice that is processed electronically. Given this cost difference and the gains in effectiveness and visibility that technology can provide, automating an AP operation is an opportunity that can no longer be ignored. This paper will outline the key strategies and approaches that Finance and AP teams will need to know when considering or launching an AP automation initiative.

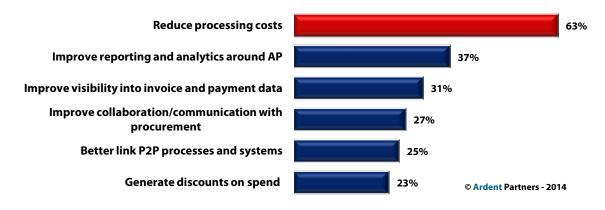
In 2015, enterprises of all sizes operate in a fundamentally global world. They collaborate, communicate, and transact with trading partners and suppliers across an expansive geography with a fundamental goal of improving operations and performance. Within this business landscape, the importance of improving financial



operations, and, with them, driving accounts payable ("AP") transformation and continual improvement to the larger enterprise is as great as it has ever been. Considering this fact, it is easy to wonder why many enterprises still have not fully automated their accounts payable (AP) operation, particularly since Ardent Partners research (see Figure 1) shows that cost reduction remains by far the top priority for AP organizations in 2015.

This is a warranted priority, as Ardent's research in this report shows that the average cost to process an invoice remains more than \$14. This figure represents a "fully-loaded" cost of processing an invoice, including costs related to AP staff time, managerial overhead, facilities, and IT support.

Figure 1: Top Priorities for AP in 2015



But, Ardent Partners research also shows that automation can contribute to processing costs that can be as much as 60-80% less than manual- and paper-based methods. The convergence of more usable, accessible, and affordable solutions to automate all or part of the AP process and the increasing intolerance of inefficiency is driving AP and finance (and, occasionally, procurement) leaders to invest in AP transformation initiatives. The added value that results from improved AP performance has become too significant to ignore, especially considering the impact on

SUPPLY MANAGEMENT EXPERTS

operational costs, working capital management, and visibility around financial liabilities. It is only after AP is armed with the right tools that the function can support, enhance, and enrich broader procure-to-pay and working capital optimization strategies.

<u>Understanding (and Attacking) the Root Cause</u>

The biggest roadblocks to lower processing costs and enhanced AP performance are paper-based invoices and manual processing. This includes invoices received via mail, fax, PDF, and as an email attachment, all of which make up 70% of the invoices received by the average enterprise today (see Figure 2). Despite significant strides made by AP departments over the last few years to drive value and improve how they are viewed, paper persists as the format of choice for inbound invoices. Accordingly, AP operations continue to present one of the most compelling opportunities for improvement through process automation within the typical enterprise. And, much as other functions have

Figure 2: Invoice Formats

30%
70%
Electronic Manual

Ardent Partners - 2014

risen to prominence after a process makeover, a larger transformation of AP operations would appear to be in the offing for many of the more progressive departments. It thus becomes clear that, to be considered a "strategic" business function in 2015, accounts payable teams must leverage technology. An AP process that intentionally bypasses process automation can no longer be considered a truly strategic process.

For the AP groups that have already considered traveling down the path of AP transformation, the question before them is not *if* AP should be automated but rather *when* a solution can be deployed and how quickly it can be mastered. The good news for those getting started this year is that while it takes time to prepare for the journey – understanding the current process, presenting a strong business case, defining requirements, selecting the right technology, and deploying it well – it has never been easier to automate part or all of the AP process. Broad improvements in functionality, usability, integration, cost, and general accessibility over the last five years in the AP automation or "ePayables" market have combined to provide AP groups that struggle with inefficiency and irrelevance a clear roadmap for improvement

Understanding the Current State of AP

When the decision is made to transform accounts payable, the AP team gains the chance to examine in detail the business process around invoice approval. In point of fact, this examination is critical to the success of the automation project. Without a deep understanding of the current business process, AP teams embarking on an automation initiative are practically doomed to failure. The reason for this is simple: AP teams cannot properly automate what they do not understand.



Ardent Partners developed the ePayables Framework to help AP departments evaluate their various processes by dividing the invoice receipt and approval process into smaller, more manageable segments. In doing this, AP departments are able to establish a clear view into the current state of operations – "what is happening today" – and then take the opportunity to clearly define new AP processes – "what should happen tomorrow."

By developing a clear view into the scope of activities that occurs within each phase, what resources and systems are utilized, and what processes are followed, AP departments will be better able to set standard practices and work to develop best practices. As shown in the ePayables Framework below (Figure 3), the AP process, at a high level, starts with the receipt of an invoice from a supplier, continues through a processing phase, and ends with the payment of the invoice. The framework thus organizes the AP process into three major phases:

- 1. Receive How the enterprise receives invoices.
- 2. Process How the enterprise validates and approves the invoices.
- **3.** Pay How the enterprise schedules and makes payments.

Figure 3: Ardent Partners' ePayables Framework



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The ePayables framework takes on particular significance when AP teams embark on an automation initiative. Understanding the pieces of the framework – particularly the first two stages – can bring into focus some of the most critical potential for cost savings in the entire process. As a result, understanding how invoices are received (and how invoices are processed) can offer significant benefits to the enterprise.

Receive and Process Phases

The first two phases of the AP process ("Receive" and "Process") include the methods and platforms that suppliers use to submit invoices and the tools and processes that the AP (or buying) organization uses to receive, validate, match, approve, and process the invoice information before scheduling the payment. Of course, there are many other steps in-between that can differ from



one company to the next, depending on the maturity level of the operation and the degree of automation in place.

In the context of an AP automation project, however, it is critical to fully understand these first two phases of the ePayables framework; streamlining the Receive and Process phases of the AP workflow is where some of the most significant cost savings can be unlocked. This is in part due to the preponderance of paper invoices in the market today.

The last phase of the AP process is the scheduling, processing, and executing payment of an invoice. In the US, paper checks still dominate as a payment format; however, this is shifting rapidly. The migration from paper checks to electronic payments such as ACH, commercial card products (e.g., cardless payment accounts), and wire transfers is a trend that is only going to accelerate over the next few years. Companies of all sizes are realizing that paper/manual checks are costly, inefficient, prone to fraud, and offer very limited visibility into payment data.

Understanding the ePayables framework, while critical to understanding current operations, is only the first step in an AP automation project, however. The next is to begin planning for the future.

Understanding the Desired Future State of AP

With a detailed accounting of the enterprise's current business processes and requirements, the AP team is better positioned to define and optimize its future state of operations by eliminating and/or simplifying processes and removing unnecessary layers of complexity that exist prior to any technology implementation. The comprehensive mapping and redefinition of the invoice processing operation thus allows for that process to be simplified prior to significant changes, which can only result in a smoother solution selection and implementation down the road.

Designing the ideal future state can be, and frequently is, an iterative process. As such, enterprises are wise to consider solutions that offer flexible business process design and management. These solutions offer the ability for functional users and administrators to alter current invoice-approval workflow and associated business processes without deep IT or coding capabilities. These sorts of front-end system capabilities allow users to make workflow changes without IT support or the need to impact or touch the solution's underlying code. This capability is a powerful benefit, which enables AP with greater control and agility at time when business leaders are consistently asked to do more with less.

Understanding User/Stakeholder Requirements

Collaboration is vital in today's global marketplace. So, when considering an AP automation project, it is absolutely mission critical that project teams involve all relevant stakeholders. This includes all internal business functions that have a hand in the AP/finance operation, as well as the enterprise's supplier base. The list of stakeholder groups that could be involved in helping to make the AP transformation a success includes:



- Procurement, which manages the initial parts of the Source-to-Settle (or Procure-to-Pay)
 process and may utilize certain processes or technologies that should be understood and
 considered before an ePayables solution is selected. This group may be able to offer
 strong support in the discussion of how an ePayables solution can improve
 supply/supplier management.
- **Finance/Treasury,** which manages an enterprise's cash positions and may have requirements and recommendations related to payment execution. This group may also offer strong support in the discussion of how an ePayables solution can help improve the management of cash and working capital.
- IT, which manages the enterprise's current IT infrastructure and can help to define any integration requirements and/or constraints. This group may also possess the general technical expertise needed to help to identify the ePayables solution with the lowest total cost of ownership ("TCO") and the preferred deployment model (installed on-premise, deployed in the cloud, hosted, etc.) based upon both cost and the level of IT support required during the deployment/implementation and to manage the solution thereafter (i.e., hardware and staff).
- Line of Business, which manages many supplier relationships and is responsible for the
 ultimate approval of an invoice. End-user adoption rates will have an enormous impact on
 the overall success of the program. If a large number of system users will come from the
 business, the line of business should have a representative voice in the solution selection
 and design processes.

Once organizational requirements have been gathered, a determination can be made as whether to automate the entire AP process or certain parts of it. Most enterprises take a linear approach to their AP transformations and start with the front end of the process. Whether the group starts there or later, another key stakeholder is the supplier (described below).

• **Suppliers**, who generate the initial invoices. Supplier enablement and adoption can be the "Achilles heel" of any ePayables project. Understanding the inclination and preferences of suppliers regarding different ePayables solutions will help the project team understand the level of effort that will be required to enable suppliers onto the new AP platform. Enablement is a big part of the equation, but usability, accessibility, and cost are other factors that will determine how frequently and how successfully a supplier uses a system. Systems that provide suppliers with the self-service capability to manage both the transactional aspects of invoicing and the information, communication, and visibility components of the process are seen as very effective ways to drive supplier adoption. For example, some solutions enable suppliers to directly manage their remittance information or view invoice and payment status.

Understanding the ePayables (AP Automation) Landscape

In 2015, the drive to automate AP has never been more appealing; it has also never been easier. The untapped opportunities that exist within many AP operations cause more and more finance



and business executives to look to AP to deliver more value. Digitizing invoice data and processing invoices in an automated fashion enables AP to capture valuable transactional, operational, and financial data, without which in-depth reporting, analytics, and overall business intelligence around AP would not be readily available.

Selecting the Right Solution

There are many technologies with the ability to automate all or part of the AP workflow. The ePayables Framework discussed previously – Receive, Process, and Pay – can also help AP teams understand the different ways it can automate the AP process.

For example, two solutions used to attack the front-end invoice paper problem are (1) elnvoicing and (2) scan, capture, and workflow solutions. When deployed successfully and adopted well, either approach can make a powerful impact on the efficiency and effectiveness of an AP department. elnvoicing begins with native electronic communications between supplier and buyer, while the role of scan, capture, and workflow solutions in an AP environment is to take paper-based invoices and supporting documents and transform the data that lies within them into a usable electronic format that can then be processed in a more automated and efficient manner.

While movement to a fully electronic platform can make sense for an enterprise, this process can take time and requires an overhaul of processes across the entire supply chain. Done successfully, this can drive real value. However, the current reality is that the complete elimination of paper invoices is very rare. Even after a successful transformation, paper invoices will, in all likelihood, still exist. Scan, capture, and workflow solutions allow enterprises to capture every piece of paper whether a PDF attachment or a fax – that needs to enter the invoice-approval workflow without requiring suppliers to adopt new processes or technology.

Capture & Transformation

Automated routing and approval workflow is a key element for many AP organizations and the solution most frequently in use at Best-in-Class AP operations. The ability to route invoices electronically for approval is critical for improving efficiency within the AP process. Routing and approval workflow solutions allow organizations to establish business rules to manage the approval process. PO-based invoices that match all of the pre-configured business rules can be processed "straight-through" without any human intervention and scheduled for payment.

Systems that can extract the critical invoice information from paper-based documents and automatically convert it into rich, usable, electronic data are valuable tools in driving down processing costs while also improving AP's overall effectiveness.

Payment Management

Whether utilizing a new ePayment platform or leveraging your ePayables system to schedule and post a payment to the ERP, supplier payment management offers a host of benefits that can include the ability to better optimize working capital and gain visibility into current liabilities.



Understanding Other Technical Requirements

Among the many considerations prior to deploying a new technology– financial cost, opportunity cost, usability, etc. – there are a few, more technical, concerns that enterprises must address. These include:

- **Back-end system integration** When it comes to choosing the best-fit ePayables solution, integration capabilities with back-end systems are a very important consideration. With AP solutions, integration to internal ERP systems is vital due to the transactional and financial nature of the activities. Invoices must be appropriately coded to the correct GL account, validated against vendor master data, and matched to POs, goods received notes, and/or contracts. All of this requires seamless integration of the solutions in as short a timeframe as possible due to the impact on the investment. A solution provider's experience integrating to different and multiple back-end systems is important to investigate and validate.
- Analytics and reporting The era of big data is well and truly upon the modern business.
 ePayables solutions drive process efficiencies, but they also enable visibility into process,
 performance, and valuable invoice data. This visibility, in turn, can be used by different
 stakeholders, such as treasury and procurement, to make smarter decisions. How the
 systems capture, analyze, and present this information should be an important
 consideration. Additionally there are many "metrics that matter" which allow AP leaders to
 track, evaluate, communicate, and improve their financial operations and performance.
 These metrics can be financial-, supplier-, and process-related. For example, process
 productivity metrics can measure team and individual performance to drive more broad based performance improvement initiatives.
- Machine-learning When it comes to front-end solutions, the ability to capture and transform information from paper-based invoices in an accurate and fluid manner can be a determinant in selecting an overall solution. Certain of these systems include a machine-learning capability that allows the system to train itself to better understand and capture invoice data from different suppliers.
- **Flexible business process management** The ability to expand on business processes without leveraging IT resources can be a significant differentiator between high-performing organizations and the rest of the market. Business processes evolve over time, so utilizing a solution that enables processes to change easily can be a boon to the AP organization. Extensible business processes also generally allow for these changes to occur within a solution's "front-end" administration panel, which places control in the hands of the AP process owner instead of the IT department. This result is an increase in AP agility.
- **Supplier enablement** Leveraging a supplier portal has the potential to simplify collaboration with suppliers of all levels not merely those of strategic importance by eliminating supplier calls to the AP team asking about the status of particular invoices. A



- supplier portal, especially one with self-service capabilities, can significantly reduce the number of supplier inquiries by making the invoice-approval process more transparent.
- **Deployment model** Before reviewing the different solution categories, it is important to understand the different solution delivery methods available in the AP automation market. How a solution is deployed (and the associated payment model) is often a critical factor in the decision-making process. The two major methods of delivering solutions are either deploying a cloud-based or installing on-premise or in a hosted environment. Different enterprises have different approaches and preferences for this determination. Once those have been defined, teams can analyze the solution provider marketplace to determine which providers meet this criteria.
- Mobility As enterprises push to perform the work where it can be done best, geographic
 constraints on resources become unacceptable. Mobile solutions enable AP staff and
 other stakeholders to perform their duties without concern for their location. Mobile
 solutions frequently offer the added benefit of improved usability (based simply upon
 smaller screen sizes), which, in turn, can drive user adoption. While a specific enterprise's
 move from desktops to smart devices may or may not be inevitable; it nonetheless makes
 great sense for AP teams to understand the current mobile capabilities of solution
 providers as well as their roadmaps.

Recommendations

Enterprises that craft the right blueprint and establish the right foundation increase the speed and impact of an AP transformation. Knowledge and preparation are critical. The list below represents what finance and AP leaders need to know in order to prepare and execute a lasting AP transformation.

- Understanding the underlying business process: Without a clear and robust understanding of how the AP team runs now and how the enterprise wants it to run in the future there is a very real possibility that any automation initiative will fail before it even begins. This does not have to be the case, and, in fact, is a strong reason for organizations to clearly document the current invoice approval process as well as clearly outlining any changes that need to be made as part of the automation initiative.
- Understanding organizational requirements and the value of collaboration: Collaboration is the name of many enterprise games in the modern business world. This includes cooperation and collaboration not only with internal stakeholders such as procurement, AP, treasury, and finance, but also with external stakeholders such as suppliers. Collaboration is critical to business success and, without a cogent strategy to execute on such an imperative business facet, there is a very real possibility that success will remain out of an enterprise's reach.
- **Understanding how to enable suppliers** Whether or not a supplier portal is part of the overall plan, a robust supplier enablement initiative is part and parcel of a solid project plan even without the implementation of a supplier portal. Enabling suppliers properly,



and ensuring they can use the appropriate technology as part of doing business, assures that the enterprise will be able to reap the benefits of AP automation in the years to come.

Understanding the key solution selection criteria – A critical part of any AP transformation initiative is finding the solution provider that best meets your budget, process, technical, and organizational requirements. While the ePayables solution provider landscape can be crowded and confusing, developing a prioritized list of key requirements, engaging stakeholders early and often, and clearly defining a future state will be invaluable.

Summary

An investment in the automation of the AP process can provide significant dividends, including, but not limited to, cost savings, process efficiencies, and improved supplier relationships. In fact, the relentless pressure on bottom-line performance should make this particular kind of investment a near necessity of modern business. Successful AP transformation projects do not simply happen; they require a clear blueprint, the investment of time, money, and resources, as well as solid execution. To increase the odds of success, it is important for AP and finance leaders to know what they need to know ... and plan for it accordingly.





APPENDIX

ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/ and join its LinkedIn Group.

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Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 200 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a "real-world" context for his research and writing.

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