



# Maximizing Your Accounts Payable Automation Investment

## Does your company use an automation solution today for Accounts Payable?

According to Institute of Finance and Management (IOFM)'s new survey, paper processing is becoming a thing of the past. Automation is taking center stage.<sup>i</sup> The utilization of supplier portals continues to increase with 27% of enterprise level organizations receiving via supplier portals in 2020, a 5% increase over 2019.<sup>ii</sup>

**As your company grows, so should its automation solution.**

If you have started your automation journey, where are you in regard to achieving your automation goals? More importantly, how do you know whether you are getting the value out of the solution(s) that was expected or that you've achieved the best fit for your organization?

There are several options in regard to how companies address supplier automation and each of those solutions enables different value propositions and presents their own set of challenges.

Automation solutions such as optical character recognition (OCR), provided by companies like Kofax, can provide an improvement over paper and outsourcing in regard to invoice receipt. Using a hybrid solution of OCR in combination with Enterprise Resource Planning systems (ERPs) or other internally developed platforms, can extend the capabilities beyond invoice receipt to encompass other elements such as workflow and electronic payment. However, depending on the size of your company and the effectiveness of the technology being leveraged, using OCR or a hybrid solution alone may not be optimizing results.

Significant enhancements in efficiency can be achieved by adding additional levels of automation. An increase in automation from a limited to moderate level can provide teams a 40 percent efficiency boost.<sup>iii</sup> Supplier portals provide that automation "lift" and eliminate many of the pitfalls of OCR, but not all supplier portals are created equal, so how do you know you're on the right track?

Simply implementing a new technology does not maximize business success. Even when the technology path has been determined, both internal and supplier adoption strategies need to be defined in order to glean the expected ROI from your investment. An effective change management strategy and supplier adoption strategy are essential to optimizing performance and return.

The key to maximizing your automation investment is to: understand the factors to consider; determine what solutions are the best fit for your organization; and leverage the supporting processes necessary to optimize results.

**Factors to Consider**

Comparing your performance to best-in-class benchmarks can help determine if you are optimally using your solution. The Institute of Finance and Management (IOFM) outlines some key best-in-class benchmarks for Accounts Payable departments<sup>iv</sup>:

Benchmarks	Best-in-Class
Cost to process a single invoice (all-inclusive cost)	< \$3
Number of Invoices processed annually per FTE	23,000
Duplicate invoice rate	<1%
On-time payment rate	>96%
Early payment discount capture	>85%

Assessing where your department stands against these benchmarks may help highlight where you have an opportunity to enhance your automation efforts.

For example, according to another Institute of Finance and Management (IOFM) study, the cost to process an invoice lowers significantly as automation levels increase.

Another key factor to consider is the percent of invoices processed straight-through. Straight-through processing is one of the best ways to assess the effectiveness of accounts payable automation because invoices are not touched by payables from creation through processing. This number lets you know that your process truly is automated and that your invoices are being processed quickly and efficiently, meaning you get suppliers paid faster and even earn early-pay discounts.

No matter the size of your company or what phase of your automation journey you are in, your company can gain significant ROI from bringing your solution to the next level.

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**Higher levels of automation bring increased ROI**

## Determine Solutions That Are the Best Fit

Whatever solution you choose, it is important to make sure that it is the right option for your company's size and needs. It's important that the solution you're working with is equipped with all the functionality and flexibility necessary to run your company's processes as smoothly and efficiently as possible, while saving you money. As a large company, working with a small automation solution can only get you so far.

For companies processing more invoices, the savings become greater with higher levels of automation. Best-in-class enterprise organizations utilizing supplier portals offered through solution providers such as iPayables, Ariba and Coupa see enormous benefits. According to a survey conducted by IOFM, nearly three fourths (73%) of organizations use an automated AP system, up from 66 percent in 2019 and 45 percent in 2018.<sup>vi</sup>

**Without automation,  
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value-add tasks**

### How Do OCR, Hybrid Solutions and Supplier Portals "Stack up"

The IOFM finds that accounts payable professionals may spend only 16 percent of accounts payable's time on value-add tasks because their time is being spent on a seemingly endless list of paper invoices, manual processes and printed checks.<sup>vii</sup>

When done right, OCR can eliminate a significant portion of manual data entry and create searchable invoices that are easier to archive. The best OCR solutions are able to accurately gauge straight-through processing, from scanning an invoice in through workflow approvals without someone having to look at it. However, it is still based on paper, which can lead to a long conversion process.

A hybrid solution combines data derivation with human input into an ERP or ancillary platform and a less traditional OCR application. For a few key fields, accuracy is ensured with human oversight, while the rest of it is automatically derived from purchase order, supplier, and contact information using machine learning and artificial intelligence (AI). Hybrid solutions usually achieve greater straight-through processing than pure OCR solutions.

Supplier portals can bring straight-through processing to over 90%. Portals allow suppliers to upload invoices for validation against defined business rules and matching to the PO up front so they can be automatically processed straight through. If you utilize a supplier portal and the level of straight-through processing is not at least 90%, your portal may be missing key functionality such as upfront matching, built-in dispute resolution, inquiry, etc., or AP personnel may be interfering with invoices.

According to an IOFM study, AP departments utilizing an automation solution can realize a 60-80% reduction in invoice processing costs and 90% or more in savings from converting to electronic payments.<sup>viii</sup>

OCR and hybrid solutions both achieve the benefits from decreased invoicing costs and potentially can support payment to the supplier through ACH, but neither brings the additional transaction cost reduction benefits of supplier portals. Supplier portals allow suppliers to check on payment statuses and update payment information which significantly reduces AP's time in addressing these inquiries. Portals also support functionality for resolving errors, exceptions, or other disputes, provide greater visibility, and ease compliance requirements by consolidating supplier management into one platform. They also allow more robust working capital management approaches to be leveraged.

For organizations that have a high volume of purchase order related invoices, the level of matching and exception management available within the automation platform is critical. Some solutions perform only a "two-way" match to ensure the invoice matches the PO. Others, like iPayables, are capable of a "three-way" match validating the invoice against both the PO and the receiving information which increases the efficiency gains.

If disputes are prevalent within the current environment, then leveraging a supplier portal assists with preventing invoices containing these discrepancies from being submitted initially and/or provides a more efficient mechanism for resolution.

Most solution providers are able to significantly improve the potential to capitalize on negotiated discounts or supplier discount offers by compressing the invoice processing cycle time. Supplier portal providers like iPayables and Ariba have enhanced discount capture or supply chain financing technologies that enable an aggressive working capital management strategy.

### **Other Potential Pitfalls of OCR and Hybrid as Lone Solutions**

#### *OCR Challenges:*

- If you are using an OCR solution that relies on templates or AI, the technology needs frequent tweaking and attention.
- Image quality can vary, with low quality images affecting accuracy rates.
- If you don't have AP personnel with sufficient understanding of the technology, they may be engaging with invoices unnecessarily, not letting the automation do its job.
- As new suppliers are brought on, or as company requirements shift, templates have to be updated and replaced.

The easiest way to address these challenges and improve the solution is to add a supplier portal as a part of the process.

**Many OCR systems end up limping along rather than being successful due to lack of technical resources.**

### *Hybrid Challenges:*

- Hybrid Solutions require rules to be documented and programmed along with payables processes and tribal knowledge to be codified.
- The AP team may find it difficult to switch habits from simply explaining how something should be done to documenting and codifying the information.
- Some processes can be too complex to be codified
- Insufficient guidelines can cause errors to be flagged, leading to a larger portion of invoices going to “special handling” for review by your AP department.
- Even though most hybrid solutions usually achieve above 70% straight-through processing, the remaining 30% are the most difficult invoices requiring more of your AP team’s time.

As with OCR, the easiest solution may be to add a supplier portal. While hybrid automation is very efficient, it still relies on suppliers sending in invoices, when they could be uploading them directly onto a portal. Supplier portals also require less staff training compared to OCR or hybrid solutions because only the admin for the system needs to learn the new technical skills for maintenance of the portal. OCR and hybrid solutions require an entire IT team to be able to manage templates, codifications and AI.

Without the need for re-training all AP staff for the new solution, employees can be refocused on higher value activities such as: discount capture; financial analysis regarding cash availability or constraints; or migration to the purchasing department where their knowledge of downstream challenges can help inform upfront processes. It is much easier to transform existing employees to higher value-add finance professionals than OCR managers.

**Leaders are looking for more out of the AP process than simply processing and paying invoices.**

### **The Bar Keeps Being Raised**

Even with some automation solutions in place, there are still challenges facing Accounts Payable departments. Management continues to expect more. Surveys conducted by IOFM indicate that two top Payables challenges of senior finance executives are the lack of visibility into invoices and payable information (45%) and difficulty managing and finding invoices (42%). Controllers cited improved visibility as their top priority 69% of the time.<sup>ix</sup>

Higher levels of automation provide organizations with greater visibility into their payables departments and as noted above, can also assist with spend and working capital management.

Organizations with highly automated environments can more effectively manage over 90% of their spending, whereas their manually operated peers have less than 25% of their spending under management.<sup>x</sup> Based on a survey conducted by Level Research, the top three reported improvements

from automating accounts payable operations were reduction in paper invoice volume (47%), quicker approval of invoices (47%), and improved visibility into unpaid invoices (40%).<sup>xi</sup>

Maximizing your automation solutions by adding a supplier network increases visibility for cash and working capital **AND** reduces accounts payable costs. Supplier portals also increase visibility for your suppliers because they provide suppliers with the ability to view the status of their invoices and payments. Electronic invoicing can result in a greater than 60% reduction in inbound supplier inquiries.<sup>xii</sup>

However, that's where automation alone is not the answer and key supporting processes beyond the technology come into play.

### **Supporting Processes to Drive Automation Solution Success**

One of the challenges with supplier portals is getting suppliers to use them. Some suppliers may be reluctant to use a portal, especially if it means an additional charge for them. So working with a solution provider that does not apply transaction fees to the supplier for invoice submission is critical. Ariba and other providers assess transaction fees to suppliers, where iPayables and Coupa do not have supplier facing fees.

Even if there is no cost to the supplier, adoption can be a challenge. Unless the CFO or CEO makes clear to accounts payable, purchasing and whoever else the supplier might go to, that a portal is mandated, many of your invoices may still end up coming in on paper. Ensuring you have a plan in place to drive supplier adoption through either your portal provider or an external consultant can prevent on-boarding of suppliers from sabotaging your success.

Unfortunately, suppliers aren't the only challenge. One of the biggest problems organizations have in maximizing automation solutions is the people within their own company not wanting them to be implemented.

It doesn't matter the type of automation solution, changing how a process is done, even if it's for the better, can lead to stress and anxiety within the affected department.

Research has shown that organizations, and the people within them, need more control when a change in direction is required and more empowerment once the new business strategy has been defined. Emotional responses within the organization have to be battled to move individuals through the stages of transition. Engaging the team early on in the process, so that they feel like they are a part of the change effort rather than it being "forced upon them" can help employees feel more comfortable with the change. Leveraging

**Capitalizing on the knowledge of the AP team around existing processes and challenges is critical to framing the go forward strategy.**

employees' knowledge of the existing processes, current problems and needed improvements can help frame the go forward strategy.

Ultimately, driving efficiencies in accounts payable is going to result in changes in how work gets done and even if they've been involved in devising the plan forward, to AP managers and employees, the idea of job shifts can be frightening. However, a change in how accounts payable is structured and what that means for the team doesn't need to be perceived as a negative. Let the department know how effectiveness will be measured so the team members will have more trust in the new solution. There should also be rewards for your team hitting the goal. The AP Manager/Admin who makes the switch to automation successful should be specifically rewarded.

**At an IOFM conference in 2015, Delta Airlines shared that a supplier portal helped them reduce the number of people processing invoices from 23 to 4**

If you have a big department that's going to get smaller, have a plan for what those people are going to be able to do and ensure their skills are being developed to fulfill those new higher value add roles. As mentioned before, possible shifts could be towards aiding discount capture, providing reporting to better enable working capital management or leveraging their knowledge of downstream challenges can help inform upfront processes within Purchasing. Having a workforce transition plan in place let's your team know that they'll be rewarded and positioned to support the overall business strategy going forward rather than fearing that they'll be put out of work.

### **So What's Next?**

As noted, the key to maximizing your automation investment is to: understand the factors to consider; determine what solutions are the best fit for your organization; and leverage the supporting processes necessary to optimize results.

If you do not feel your team is where you want them to be in terms of moving toward best in class for the key metrics discussed, the quickest way to close the gap is to take that next look at where you are on your automation journey.

If you haven't started that journey, there are several avenues for consideration and you should evaluate the pros and cons for each. As you think about the path to take, consider how effectively the solution you are evaluating meets the key functionality requirements needed by your organization to achieve your automation goals.

**As a profession, AP is moving into a new and exciting area as a key value contributor to overall strategic objectives.**

Next, couple the technical abilities of the solution with how supplier focused the approach is in terms of streamlining interaction with your suppliers and assisting you with supplier adoption efforts.

Finally, understand the key behavioral characteristics of each AP team member and how to refocus their strengths to help drive any new implementation efforts. Communication and understanding are paramount to engaging the team to help drive success.

Whether you already have an automation solution in place, or are looking to implement a solution for the first time, consider incorporating a supplier portal into that strategy. Supplier portals extend the reach of your automation journey and provide the greatest potential for maximizing the ROI of your automation investment.

#### **About the Author:**

*Transformation Management Consulting, LLC specializes in helping organizations drive business transformation efforts across the financial value chain that result in quantum leap improvements in business operations. With a key focus on Accounts Payable, Supply Chain and Accounts Receivable Optimization, Transformation Management Consulting, LLC works with companies to maximize cost reductions and working capital utilization through leveraging process reengineering, enabling technologies and robust marketing and communication adoption programs to facilitate change.*

*We utilize an approach that combines our knowledge of end to end process streams, integrations necessary to make those processes work together seamlessly, enabling technologies to enhance productivity and extensive change management. With a focus on aligning business strategies, technology solutions, and people strategies to ensure success, we are able to enhance and accelerate business results for our clients. ([www.transformationmgmt.com](http://www.transformationmgmt.com))*

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- <sup>i</sup> 2021 Outlook for the AP Automation Industry, *Institute of Finance & Management* (2020).
- <sup>ii</sup> 2019 Payables Insight Report, *Levvel Research*, (2019).
- <sup>iii</sup> Have You Outgrown Your AP Solution?, *Institute of Finance & Management* (2020).
- <sup>iv</sup> Setting and Tracking Goals – Moving from Ordinary to Extraordinary, *Institute of Finance & Management* (2019).
- <sup>v</sup> Have You Outgrown Your AP Solution? *Institute of Finance & Management* 2020
- <sup>vi</sup> 2019 Payables Insight Report, *Levvel Research* (2019).
- <sup>vii</sup> 4 Steps to Bringing a Positive ROI to Accounts Payable, *Institute of Finance and Management* (2018).
- <sup>viii</sup> 4 Steps to Bringing a Positive ROI to Accounts Payable, *Institute of Finance and Management* (2018).
- <sup>ix</sup> 4 Steps to Bringing a Positive ROI to Accounts Payable, *Institute of Finance and Management* (2018).
- <sup>x</sup> 5 Ways Electronic Invoicing Networks Transform Accounts Payable into a Profit Center, *Institute of Finance and Management*, (2016).
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