Building Financial Resilience with Invoice-to-Pay Automation

These are uncertain economic times for businesses of all sizes.

The combination of rising interest rates, high inflation, unpredictable global supply chains, and a challenging labor market has made the possibility of an economic slowdown more likely.

While it's unclear whether the economy will dodge a recession or experience a "soft landing" or a "hard landing" a business must be ready for anything. In uncertain economic times like these, many businesses lay off staff, shutter operations, or take other measures to build financial resilience.

Invoice-to-pay automation offers businesses another way to weather economic uncertainties.

This eBook shows how streamlining accounts payable processes with invoice-to-pay automation can help a business bolster its financial resilience, adapt to market changes, and sustain growth.

What is Financial Resilience?

Businesses learned during the pandemic that they must be prepared for anything.

Financial resilience enables a business to withstand economic uncertainty while maintaining its operations. A resilient business can effectively manage its cash flow, liquidity and working capital to mitigate the risks of a slowdown in economic activity and seize opportunities that might arise.

Protecting and effectively managing cash flow is fundamental to becoming financially resilient.

Cash Flow Challenges

Everyone knows that a slowdown in economic activity can create cash flow issues for businesses.

Economic uncertainty can be just as disruptive to a company's financial standing. Here are some of the most common cash flow issues that a business may encounter in uncertain economic times.

- **Reduced sales and revenues.** A decline in customer demand can put a squeeze on sales and revenues, making it difficult to generate the cash needed to cover operating expenses.

The average small business has just **27 days** of cash on hand. This means that a small business could run out of cash in just over a month if they experience a sudden drop in sales.[1]

- **Delayed payments.** When times get tough, customers may delay or withhold payments. Delays in collecting receivables put more pressure on a business' working capital.
- **Higher costs.** The higher inflation that businesses may experience in uncertain economic times can put the squeeze on profit margins if suppliers cannot pass the costs on to customers.
- **Excess inventory.** When customer demand wavers, it's critical for businesses to carefully adjust their inventory levels to avoid tying up cash in unsold goods.
- **Tighter financing.** Many banks and financial institutions stiffen their requirements for a business to obtain loans and credit lines at the first sight of economic uncertainty. Tighter financing can make it harder for a business to obtain the cash they need to purchase goods and services. Businesses with low cash reserves may be vulnerable to cash flow disruptions.

Sixty percent of small businesses fail within the first **10 years**. Many of these failures are due to cash flow problems. [2]

While many businesses use cost-cutting, tighter budgets, and alternative financing to navigate these types of challenges during uncertain economic times, invoice-to-pay automation offers an alternative.

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[1] American Bankers Association (ABA)
[2] Small Business Administration (SBA)

AP Inefficiencies

The cash flow challenges created by economic uncertainty can be daunting. But inefficiencies in the way that a business processes the invoices it receives and pays suppliers can make things worse.

Here are some of the ways that manual invoice-to-pay processes hinder cash flow management.

- **Wasted resources.** Eighty-four percent of the typical AP practitioner's day is spent on manual, repetitive tasks such as keying data, shuffling emails and paper, chasing down approvals, fixing errors and mistakes, and responding to telephone calls and emails from suppliers about where things stand in the process.[3] In fact, AP managers spend more time each day on transaction processing than on staff training and other managerial tasks they were hired to perform. All the time that AP pros waste on manual tasks is time that they cannot spend analyzing data, collaborating with procurement and treasury, and performing other higher-order activities that can help a business navigate uncertain economic times.

- **Missed early payment discounts.** Capturing discounts on payments made before the invoice due date can help a buyer reduce the cost of the goods and services it buys. Even the standard 2 percent discount can add up fast for buyers. But most businesses take so long approving invoices, that the window is slammed shut on any early payment discounts. It's not uncommon for invoices to become lost or misrouted or languish at the bottom of an approver's physical or electronic inbox. Worse, it can take weeks of back-and-forth emails and telephone calls between internal and external stakeholders to resolve a invoice exception.

- **Profit leakage.** Errors are inevitable with manual tasks. A single typo, transposed number, or other mistake in processing invoices and paying suppliers can result in a duplicate or erroneous payment to suppliers. Employees waste lots of time researching and reworking payment errors. Left unchecked, incorrect payments can chip away at a company's profits. v

- **Poor visibility in AP data.** Cash flow and spend management mean more in uncertain economic times. But manual invoice-to-pay processes make it difficult for businesses to know where things stand. When businesses rely on manual invoice-to-pay processes, key information is not captured, data is inaccurate, data is not well organized or timely, systems are fragmented, and decision-makers cannot access the crucial variables that they need. Poor visibility into invoice status also makes it hard for buyers to accurately forecast their cash.

- **Higher costs.** The payment delays and erroneous payments caused by inefficient invoice-to-pay processes can undermine a buyer's leverage when it's time to renegotiate contracts with suppliers. A supplier is more likely to extend favorable pricing, terms, or Service Level Agreements (SLAs) to buyers who pay invoices accurately and on time. Some suppliers may become so frustrated by late or erroneous payments that they take their business elsewhere.

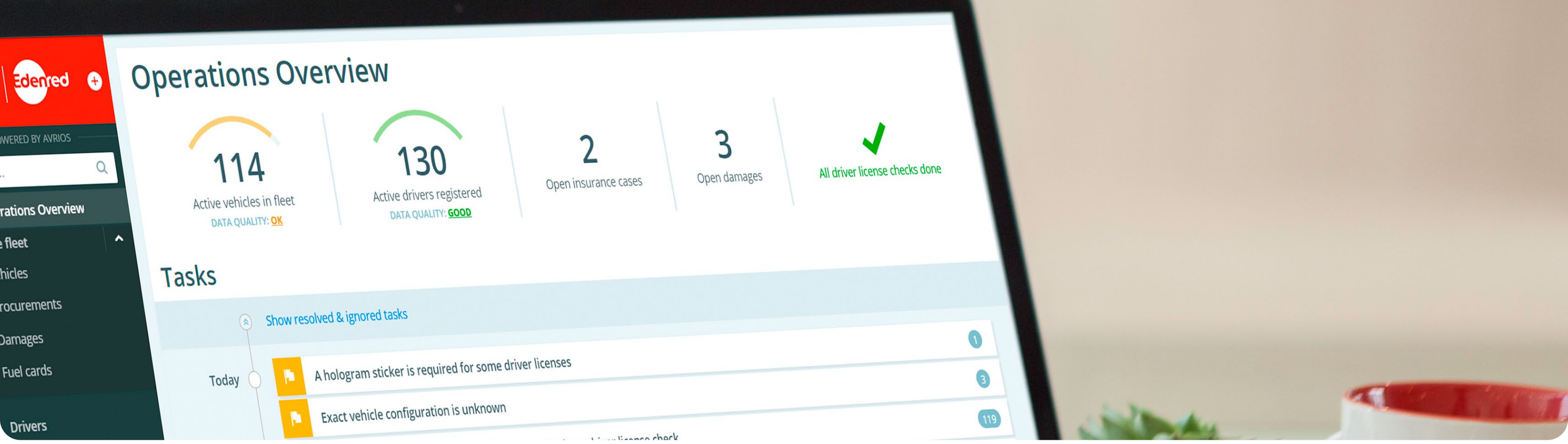
- **Inadequate control.** The risk of fraudulent payments or unbudgeted spending increases exponentially in an invoice-to-pay environment that lacks the proper controls and audit trails.

Businesses cannot afford these types of issues when the economy is good.

When the economy is uncertain, the impact of invoice-to-pay inefficiencies is even greater.

No wonder more businesses of all sizes are automating their invoice-to-pay process.

[3] Institute of Finance and Management (IOFM)



Invoice-to-Pay Automation

Invoice-to-pay automation digitizes and simplifies an AP department's process of receiving, approving, posting, and paying paper and electronic invoices submitted by suppliers.

Here's how an automated invoice-to-pay platform typically works:

- **Receipt.** Invoices submitted by suppliers via email, secure file transfer, or a supplier portal are automatically gathered by AP bots. Invoices sent through the U.S. Postal Services are received on behalf of the buyer and converted to digital format for further processing.

- **Capture.** Optical character recognition (OCR) and other technologies automatically extract the amount due, date, remittance address, quantity, unit price, and other invoice header and line-item details from each invoice submitted by suppliers. Human-assisted review by the solutions provider's subject matter experts ensures nearly flawless data capture accuracy.

- **Matching.** Captured invoice data is matched against purchase orders (POs) and delivery receipts (two-way and three-way matching) in the buyer's enterprise resource planning (ERP) application, accounting software, or other system of record. Matched invoices are posted directly to the ERP or accounting software without the need for human operator intervention.

- **Routing.** Unmatched invoices or invoices that require review – such as high-dollar invoices or invoices from a new or strategic supplier – are digitally routed to the appropriate individual or department based on pre-configured business rules. Approvers are notified of invoices awaiting their review and alerted when unreviewed invoices approach their due date. Invoices are automatically escalated to a manager if an approver doesn't approve or reject an invoice in a set amount of time. AP staff have visibility into the status of each invoice. Online collaboration tools and human-assisted services speed the resolution of exceptions.

- **Integration.** Once invoices are approved, they are posted directly to the buyer's ERP or accounting software, without the need for re-keying. The best invoice-to-pay solutions use APIs and other tools to integrate with over 350 ERPs and accounting software packages. Some invoice-to-pay platforms also integrate with a buyer's depository accounts.

- **Payments.** Approved invoices are automatically scheduled for payment based on payment terms and other rules. A single file uploaded from the buyer's ERP or accounting software is all an invoice-to-pay platform needs to pay suppliers in their preferred format, whether it's virtual card, ghost card, Automated Clearing House (ACH), network payment, or check.

- **Reporting and business intelligence.** Invoice-to-pay platforms put smart insights at the fingertips of the people who need them. Graphical dashboards display the status of invoices and real-time Key Performance Indicators (KPIs). Drill-down capabilities enable AP staff to uncover trends and the source of invoice and payment exceptions. Mobile access keeps decision-makers in the know while on the go. Exports get AP data downstream fast. And ad hoc reports make it easy for AP staff to create new reports to meet changing business needs.

These capabilities provide businesses with powerful tools for building financial resilience.

Building Financial Resilience

Invoice-to-pay automation helps businesses become financially resilient.

- **Reduced overhead.** Every business wants to do more with less. Invoice-to-pay automation reduces the cost of processing invoices and paying suppliers by 60 percent or more. That's money that a company can use to build a cash reserve or reinvest in growing the business. Invoice-to-pay automation also enables an AP department to scale without hiring more staff.

- **Cash-back rebates.** Invoice-to-pay solutions enable businesses to earn cash-back rebates on eligible payments to suppliers made via card or a payment network. Cash-back rebates can help offset an AP department's overhead. Some AP departments earn enough from cash-back rebates to return money to the enterprise, effectively transforming AP into a profit center.

AP automation can help businesses save an average of **$1.50** per invoice processed.[4]

- **More early payment discount opportunities.** Accelerating the approval and posting of invoices submitted by suppliers creates more opportunities for buyers to capture early payment discounts. While it may not make financial sense for a business to take advantage of every early payment discount that's offered, CFOs will appreciate having the opportunity.

- **Better payment timing.** An invoice-to-pay platform makes it easier for a business to tightly manage the timing of payments to suppliers and free up cash on existing revenues. Payments can be automatically scheduled to align with payment terms in the buyer's ERP or accounting software. And the supply chain finance capabilities with some invoice-to-pay platforms enable suppliers accelerated payment, without impacting cash on the buyer's balance sheet.

- **More accurate cash flow projections.** Buyers always know when a supplier will receive an electronic payment. Unlike checks, there's no chance that electronic payments will become lost or delayed in the mail. Improved visibility into when funds will be debited enables a business to project its cash flow more accurately and make better-informed finance decisions.

Companies that automate their AP processes can reduce the time it takes to pay invoices by up to **80 percent**.[5]

- **Improved spend management.** Businesses cannot afford wasteful spending during uncertain economic times. The line-item details captured by an invoice-to-pay platform enables a business to better monitor its spending. And automatically matching invoices to POs and receipts helps identify unauthorized purchases and ensure budget compliance.

- **Reduced risk.** Businesses lose millions of dollars each year to payment fraud. The financial toll of payments fraud is even more pronounced when economic activity slows. Invoice-to-pay platforms mitigate the risk of payment fraud through access permissions, data encryption, segregation of duties, logging of all actions taken on an invoice or a payment, and real-time visibility into invoice and payment status. Virtual cards are also the most secure method of payment with built-in controls such as configurable transaction amounts.

These benefits of invoice-to-pay automation help businesses become more financially resilient.

Conclusion

Businesses need a proactive approach to cash management in uncertain economic times. Invoice-to-pay automation helps businesses build financial resilience by providing tools to free up cash on existing revenues, optimize working capital, and enhance transparency and control. Embracing invoice-to-pay automation is not just a competitive advantage, it's critical for financial success.

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[4] Association for Financial Professionals (AFP)
[5] Aberdeen Group