The Ultimate Guide to Accounts Payable Automation

The problems with manual, outdated invoice and payment processes are well-documented. Yet few accounts payable departments process invoices and payments in a fully automated manner.

Accounts payable departments cite a lot of reasons for dragging their feet on automation:

• Lack of IT resources

• Insufficient capital budget

• Lack of department resources

• Supplier concerns

• Fear of change

But the biggest reason that many accounts payable departments have not automated their operations is that they do not know where to start. This eBook provides a guide for automating payables.

Every business function is under pressure to improve efficiency and effectiveness these days. Accounts payable is no exception, especially with staff working remotely.

The best accounts payable automation solutions deliver the sustainable improvements that payables leaders are after, whether it is cost savings, better productivity, fewer errors or something else.

Analyzing your current operational metrics against those achieved by highly automated accounts payable departments is a critical first step in developing a solid plan for automation.

Here are six ways that the best accounts payable solutions improve business outcomes.

1. Lower processing costs

Compared to their peers with little or no automation, highly automated accounts payable departments spend one-fourth the cost to process an invoice, per IOFM benchmarks. Automation eliminates the things that drive up invoice processing costs:

- Keying invoice information
- Matching invoices with POs and proof-ofdelivery documents
- Tracking down purchasers
- Physically routing invoices for approval
- Back-and-forth phone calls to resolve exceptions
- Searching for lost or misplaced invoices
- Filing and retrieving invoices
- Setting up payments
- Reconciling payments
- Resolving payment issues
- Preparing reports
- Gathering information for auditors

And the best accounts payable solutions can do all this, regardless of where staff work.

2. Higher staff productivity

Highly automated accounts payable departments process 175 percent more invoices per FTE than their peers, per The Hackett Group. Automation improves productivity by eliminating the data entry, matching, paper handling and routing, and physical document storage required in a manual or semi-automated environment.

Invoice data is automatically extracted and validated, matched with POs and proof of delivery receipts and posted directly into any ERP. Any invoices that require review, approval or exceptions resolution are electronically routed to specific individuals based on pre-configured rules. Dashboards automatically alert managers to bottlenecks and users to invoices approaching their due date. The technology also tracks key productivity metrics.

3. Fewer late payment penalties

Slow invoice approval cycles are a major contributor to late payment penalties. Highly automated accounts payable departments pay more than 90 percent of the invoices they receive on time, per IOFM benchmarks. Automation eliminates many of the time-consuming tasks associated with processing PO based and non-PO based invoices.

Invoices from any delivery channel, in any format, are received, digitized and aggregated onto a single platform. Intelligent data capture technology automatically extracts supplier, header and line item data (such as amounts) from invoices. Invoices are then matched with POs and/or proof of delivery receipts. Invoices that require approval (such as non-PO based invoices) or exceptions handling are digitally routed based on pre-configured business workflows.

> It is not uncommon for accounts payable departments to reduce their costs by 75%

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And automation ensures that invoices requiring review are always sent to the appropriate person. Automation eliminates the possibility that invoices will become lost, misfiled or "stuck" on the desk of an approver who is busy or out of the office.

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4. Higher invoice matching rates

The best solutions provide two-way and three-way matching of invoices and POs and/or goods receipts. The technology automatically captures invoice data, checking for duplicate invoices, validating supplier information and calculating the line item data on invoices. Extracted data is automatically matched with POs and proof of delivery documents.

Information can be validated against data sources such as an ERP platform, business rules and applications. Matching rules are defined based on business tolerances. Any unmatched invoices are electronically routed to a queue for inspection and data correction or electronically routed to stakeholders based on pre-configured rules.

5. Fewer wrong payments

Automation improves accuracy by validating invoice data early in the process against information in an ERP or accounting system, eliminating the manual processes and paper handoffs that often result in errors, providing fast online access to supporting data, flagging duplicate invoices, facilitating collaboration between suppliers and internal stakeholders and using business intelligence to identify problem suppliers. Some solutions providers guarantee the accuracy that their technology will deliver.

Moreover, collaborating electronically with suppliers and internal stakeholders enables accounts payable departments to resolve errors in a more structured and efficient manner than manual environments that typically rely on back-and-forth e-mails and phone calls with no tracking.

6. More early payment discounts captured

Early payment discounts help businesses lower their cost of goods purchased. But most accounts payable departments capture less than 21 percent of all early payment discount offers, and 12 percent of departments are unable to capture any early payment discounts, per IOFM benchmarks. Moving to higher levels of automation clears the way for businesses to pay more of the invoices they receive within the discount period by eliminating friction in the invoice approval cycle.

Once an invoice is approved for payment, the buyer presents the supplier with options for early payment via e-mail or an online portal. The earlier the payment before the invoice due date, the bigger the discount; the shorter the time before the invoice due date, the smaller the discount. Businesses that take advantage of just a discount term of 1/10 net 30 earn an annualized 18 percent return – a lot more than they can earn from a typical interest-bearing bank account. Together these benefits form the basis for a business case for accounts payable automation.

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WORK YOUR PLAN

Accounts payable automation does not need to be a painful or risky process, but without forethought it can be. Here are six steps to ensuring that your accounts payable automation project is successful:

• Identify your pain points

Understanding your current accounts payable challenges is the first step towards a successful automation project. This information will ensure you develop a sound problem- and solution-based premise. For instance, Ardent Partners finds that the top pain points of accounts payable departments are a lack of real-time visibility into finance data, high processing costs, long exceptions resolution cycles, too many lost or misplaced invoices and missed opportunities to capture early-pay discounts.

Uncover your organization's accounts payable pain points by identifying and documenting the procedures that are now in place, and the challenges and hidden costs that are tied to each one.

• Define your objectives

There are many reasons that accounts payable departments want to transform their processes. Ardent Partners finds that reducing costs, enhancing reporting and visibility and better aligning accounts payable with procurement are among the top drivers of accounts payable automation.

Collaborating with other stakeholders to set clear objectives early-on ensures that your automation project will succeed.

Establish a project management team that includes stakeholders from departments such as information

technology, finance and procurement, as well as front-line accounts payable staff. The team should create a prioritized list of objectives based on the business needs of stakeholders.

And be sure the objectives address the pressures and priorities of your senior management. Setting these objectives will keep your project team focused as it evaluates potential automation approaches and will help avoid the possibility of your project costing more because of delays or unexpected risks.

• **Find the best partner**

The number of technologies and approaches for automating accounts payable can be overwhelming. With a little planning, you can ensure that prospective vendors meet your objectives for functionality and performance.

Create a matrix to evaluate each solution based on: functionality, ease-of-use, flexibility, reliability, scalability, integration with your legacy systems and processes, security, compliance and support options. Additionally, be sure prospective technology partners can provide digital approval and exceptions workflows and realtime visibility into your processes and financial data. And make sure potential partners are investing in advanced technologies such as mobile, machine learning and analytics, which will be critical to the future of our profession.

Prospective technology vendors should be able to provide a 'yes' or 'no' answer to well-defined business requirements or a brief explanation for 'areas of grey.' And never take a "canned" product demonstration at face value; ask technology vendors to demonstrate how their solution will handle your approval workflows or business requirements, preferably using your actual documents.

Also validate vendor claims through end-user references. Ask references about their experience during implementation, the ease of use of the system, the vendor's level of support and compliance with service level agreements and their satisfaction with enhancements to the solution. Don't hesitate to ask references whether they are meeting their business case for their automation initiatives.

• **State your (Business) case**

Developing a solid business case is the linchpin of any accounts payable automation project. A business case for automating accounts payable should include hard savings, soft savings and risk mitigation.

The hard and soft savings should include conservative, moderate and aggressive estimates. The good news is that accounts payable organizations that process 5,000 invoices per month can reduce their invoice processing costs by 85 percent by migrating from a manual operation to a highly automated one, according to benchmark data from the Institute of Finance and Management (IOFM) and the Association for Intelligent Information Management (AIIM).

Once you have built your business case, create a summary page highlighting the hard and soft savings, risk mitigation and the assumptions used to create them.

When all these elements are well defined and properly articulated in a business case, it accelerates senior management approval.

• **Prioritize user experience**

It makes no sense to deploy a solution that your staff will not use. Be sure to choose a solution that stakeholders will want to use (another reason to involve key staff in the evaluation process!). Look for an intuitive design and logical, configurable workflows.

Also develop a communications strategy to explain why the new technology was necessary, how the organization will operate after adopting the new technology, the benefits it will accrue and how the technology will affect staff. Consider a formal announcement from senior execs, as well as e-mails, breakroom posters, announcements on the corporate intranet and "lunch and learn" sessions. Ideally, improvements in workflows will be obvious to most staff. But take time to listen to staff who are unsure about the new technology.

• **Measure, measure, measure!**

Measuring the performance of your accounts payable solution on an ongoing basis will prove the success of your project and identify areas for improvement. Following the implementation, begin monitoring how invoice approvals and exceptions are flowing, track the savings and accelerated cycle times, and log the reduced number of supplier inquiries, duplicate payments, late payments and missed early payment discounts. Periodically update stakeholders and management on the results.

Following these steps will lay the foundation for a successful automation project.

Winning senior management approval is critical to payables automation, especially in tough times.

The good news is that there is a lot for senior management to like about the best accounts payable solutions. Here are some critical things to emphasize in your pitch to senior management:

• Working capital optimization
The best accounts payable solutions put real-time decision making into a CFO or controller's hands like nothing else. Graphical dashboards provide instant visibility into invoices approaching the expiration of their early payment discounts as well as KPIs such as total invoice value, spend per category, supplier and department, accrual reporting, percentage of early payment discounts captured and cash-back rebates earned.

• Tight control over corporate spend
The graphical dashboards and rich reporting built into the best accounts payable solutions provide the real-time insights into corporate spending that CFOs and controllers require to help their business stay within budget, improve cash forecasting and financial planning, identify opportunities to reduce suppliers, avoid contract compliance issues and gaining leverage during contract negotiations with suppliers.

• Early payment discounts
Many suppliers are willing to exchange a discount on the invoice-due amount for earlier payment. The earlier the payment before the invoice due date, the larger the discount suppliers typically will accept. The standard early payment discount is 2 percent. But many buyers regularly capture larger discounts from suppliers. Early payment discounts strengthen supplier relationships (i.e. suppliers attain much-needed cash flow), head off potential supply chain disruptions, and reduce an organization's total cost of goods and services purchased.

But none of these benefits are possible without one of the best accounts payable solutions that enable buyers to approve invoices within the early payment discount window.

> 7% of accounts payable leaders expect their department to capture 25% more early payment discounts three years from now, IOFM says.

• Cash-back rebates
Paying suppliers with virtual cards enables businesses to earn cash-back rebates. Cash-back rebates are calculated based on the total amount of spending made via card and can be used to offset the operational costs of an accounts payable department or to fund automation projects. This is music to the ears of CFOs and controllers looking for ways to improve net profit margins. Fifty-seven percent of accounts payable

leaders expect to capture more card rebates as a total percentage of spend in the next three years, per IOFM.

• Longer Days Payable Outstanding (DPO)
CFOs and controllers are on the lookout for ways to free up cash to pay down corporate debt, make capital investments, increase research and development or support other growth initiatives. One way to do this is by extending the average amount of time it takes to pay suppliers.

Paying suppliers with certain virtual card programs enables buyers to instantly extend their Days Payable Outstanding (DPO), without changing their payment terms. Since the funding for the payment program is provided by the buyer's bank via card, and the payback period to the card issuing bank doesn't kick in until the payment is initiated, businesses can extend their average DPO by three weeks or more.

Each of these benefits is compelling to CFOs, controllers and other senior managers.

Together they will win over the most skeptical and budget-conscious manager.

The benefits of accounts payable automation are not assured without the right technology.

In some cases, automation projects fail because an organization chooses a solution that is best suited for procurement. Some departments use outdated capture technology or try to force suppliers to submit invoices in a particular format or use a cumbersome submission method. Many departments rely on outdated technology that was not designed to support remote working. Other departments automate piecemeal and end up with fragmented systems, data siloes and lots of manual hand-offs.

That is why it is critical to choose the best accounts payable solution.

The best accounts payable solutions leverage advanced technologies such as digital mailroom technology, intelligent data capture, dynamic workflows, seamless ERP integration and an online portal to deliver optimal efficiency and effectiveness, no matter where accounts payable staff work.

Accounts payable robots (or "bots") log into an e-mail box, FTP site or online supplier portal to retrieve invoices for processing. Suppliers also can use an online portal built into the platform to submit invoices electronically or to "flip" purchase orders (POs) into electronic invoices.

The result is that all accounts payable processes are centralized onto a single platform. The best accounts payable solutions also use optical character recognition (OCR), e-mail invoice extraction, machine learning and proprietary intelligent data capture technology to extract and verify data from each invoice according to pre-defined business rules. Invoice data is then matched against a PO.

Matched invoices are seamlessly uploaded to any ERP application, including SAP, Ariba, Oracle, PeopleSoft, Sage Intacct, Advantage, NetSuite, Microsoft Dynamics and Infor. The best accounts payable solutions also integrate with supplier billing systems to deliver detailed remittance data.

Unmatched invoices, or those without a PO, are digitally routed for approval based on configurable business rules. If any data required for approval is missing from an invoice (such as a PO number), the software sends an e-mail to the supplier's billing department. The supplier then clicks a link, inputs the required information and re-submits the invoice. The data input by the supplier is validated in realtime, eliminating the possibility of back-and-forth e-mails.

> The best accounts payable solutions securely archive the image of each invoice and its data.

Suppliers and internal stakeholders such as procurement/buyers, accounts payable, accounts receivable, collections and sales and marketing can use an online supplier portal to instantly access actionable insights such as the total number of invoices received, the total value of invoices received, spend by unit, category and supplier, the percentage of invoices tied to a purchase order and more. Choosing a solution with these features is critical to achieving automation success.

MAKE YOUR AUTOMATION PROJECT A SUCCESS

Automation is at the top of the accounts-payable agenda.

Accounts payable leaders are looking for ways to eliminate manual tasks such as retrieving invoices from an e-mail box, supplier portal, or FTP landing site, keying invoice data, matching of invoices to POs and shipping receipts, physically routing invoices for approval, and filing and retrieval.

Automation makes all this possible, no matter where staff work.

The best accounts payable solutions automate repetitive tasks such as invoice receipt, data capture and validation, two- and three-way matching, workflow routing and archival. The technology's reporting also eliminates the need to create spreadsheets on cash flow and corporate spending.

The best accounts payable solutions also can catch invoice errors and duplicate payments.

And the best accounts payable solutions can be a big contributor to achieving best-in-class results.

But none of this is possible without the right automation approach, and the right technology. Following the steps in this eBook will ensure that your automation project is a success.

Let Edenred Pay help make your automation project a success

If invoice automation, payment automation, or invoice-to-pay automation is on your accounts payable department's agenda, we want to speak with you. Edenred Pay's integrated technology and decades of experience help prominent organizations successfully automate their accounts payable processes.

Contact us at ERPay_info@edenred.com or call 1-866-998-0437 to arrange a no-obligation online demonstration of our invoice-to-pay automation solution.

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