AP Automation

Are You Thinking Strategically?

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Emerging financial solutions that enable trading partners – buyers, suppliers and banks – to seamlessly exchange transaction-related information and funds are changing the payables landscape. Enabled by new Internet tools and best-of-breed systems, integrated supplier portals and automated workflow tools are finally beginning to deliver on promises of process improvement and associated cost reduction within corporate financial operations. Financial Supply Chain Automation, a relatively new term, is gaining broad acceptance within accounts payable and accounts receivable as a means of describing these systems, which offer real-time collaboration between buyers, suppliers and banks.

Research by PayStream Advisors shows that a paradigm shift is clearly underway as organizations strive to address inefficiencies in financial supply chain processes. Increasingly, savvy organizations are exploring innovative means to leverage automation not only to contain costs from a tactical perspective, but also strategically to enhance control, improve visibility and manage spend, and to compress process cycle times to reduce working capital requirements. We believe that Accounts Payable Automation is emerging as one of the key components of this financial supply chain strategy.

Beyond Cost Reduction and Compliance

The emphasis on cost containment and productivity enhancement during the past few years has inspired organizations to seek out new ways to automate traditionally paper-based, labor-intensive AP processes. The realization that current accounts payable processes are a roadblock to achieving these goals has been intensified by the need for improvements in data integrity and greater visibility as a result of Sarbanes-Oxley (SOX) and other corporate legislation.

Further, to many forward-looking financial managers, accounts payable automation is now recognized as an area offering significant potential for not only generating bottom-line improvements, but also a greater ability to monitor and manage cash flow and build stronger trading relationships (see Figure 1). Our research suggests that these forces have sharply increased organizations’ interest in automation solutions, which streamline and optimize accounts payable operations to deliver both operational and strategic benefits.

At an operational level, automating existing accounts payable processes can:

• Reduce processing costs for both paper and electronic invoices;
• Increase full-time equivalent (FTE) efficiency;
• Reduce processing errors and promote faster discrepancy resolution;
• Minimize the payments risk of fraudulent and duplicate invoices; and
• Increase straight-through processing and achieve lowest cost routing to minimize bank charges.
On a more strategic level, AP Automation can unlock significant value from the financial supply chain by:

- Accelerating the approval of invoices to capture early payment discounts;
- Strengthening vendor relationships;
- Optimizing spend management for working capital gains; and
- Enabling suppliers to improve their own cash flow through improved visibility into invoice status.

Figure 1
Financial Supply Chain Automation

Strategic approaches to AP automation allow buyers to unlock new value from the financial supply chain through enhanced supplier collaboration and trade financing options.

This collaborative approach to financial supply chain management positions buyers to partner with innovative banks providing supply chain finance support, delivering the following key benefits:

- Enable suppliers to reduce their Days Sales Outstanding (DSO) without the need for high-cost financing options such as factoring and asset-based lending; and
- Allow buyers to retain and potentially extend their Days Payables Outstanding (DPO).
Early Stage Benefits of Paper to Electronic Migration

Increasingly organizations are recognizing that the transition from manual and expensive paper-based processes to more efficient and cost-effective electronic workflow can be achieved through a series of progressive steps rather than a ‘big bang’ initiative. As evidenced by our interactions with finance professionals, there is little doubt that the market is moving in this direction as companies realize that in order to achieve high-level strategic goals, they must first streamline their invoice processing to accelerate the accurate approval and payment of invoices.

Integrated, Web-based technology solutions that address the shortcomings of traditional accounts payable processes by removing paper – the source of these inefficiencies – have become increasingly popular as capabilities for (a) supplier on-boarding, (b) document capture, (c) automated approval workflow and (d) electronic settlement create a compelling value proposition for both buyers and suppliers.

More importantly, organizations implementing payables automation solutions are realizing the operational impact of benefits in areas such as:

• **Processing Efficiency:** Payables automation solutions enable organizations to provide supplier self-service capabilities – via an online Web portal – allowing for immediate visibility into the invoice approval process. Providing real-time access to invoice status allows buyer organizations to redirect resources typically used to manage supplier inquires to more value-adding activities.

• **Spend Management:** Capturing data at the line-item level provides buyers with advanced capabilities for tracking and managing various types of spend at a very granular level. With automated workflow and real-time visibility into invoice status, buyer organizations can leverage these solutions to control spend on a more proactive basis, ensuring for example, that budget thresholds are not exceeded and that early settlement discounts do not lapse.

• **Data Integrity/Accuracy:** By nature, the manual keying of invoice data raises concerns about the integrity and accuracy of data. To help ensure data integrity, buyer organizations are gravitating toward solutions capable of capturing invoice detail electronically through the use of Optical Character Recognition (OCR) technologies. With data accuracy assured, the payables process can quickly become an invaluable tool for helping buyer and supplier organizations make more strategic cash management decisions.

• **Lower Costs:** Organizations maximize the efficiency of full-time equivalent (FTE) staff by automating the purchase-to-pay process. Second, electronic payments reduce the costs associated with printing and mailing paper checks, and lower the losses incurred through fraud. And finally, these solutions provide a tool to reduce or eliminate late payment penalties and capture a higher percentage of prompt payment discounts.
Deriving Greater Strategic Value from AP Automation

Until recently, most AP automation efforts have focused on the operational benefits that technology can deliver. Many finance and shared service center managers are considering steps toward AP automation – and their corresponding value to the organization – as a progressive journey that begins with basics such as imaging and invoice data capture, moving toward automated matching and workflow, and gradually encompassing more advanced concepts like spend management and trade financing, which is where we believe the greatest value lies for the organization (see Figure 2). As evidenced by our research, we are seeing innovative solution providers leverage technology to meet the strategic objectives of their customers by offering advanced solutions, which unlock significant value from the financial supply chain through increased visibility and spend management.

Creating a Value Proposition that Resonates with a Broad Supplier Base

Perhaps the single greatest barrier hindering electronic invoicing initiatives is supplier adoption. Persuading suppliers to change their processes to align with buyers’ needs is a costly and time-consuming process, and success depends largely on the buyer’s ability to present a compelling value proposition to suppliers – both large and small. To date, many buyers have failed to effectively communicate the value of AP automation initiatives to their suppliers, and as a result, struggled to generate desired results as they jeopardize key relationships through compliance mandates. For the supplier, AP automation should represent an opportunity to improve the efficiency of their accounts receivable (AR) processes. Therefore, buyer organizations need to be more proactive in providing supplier-driven visibility into the invoice approval and settlement process.
Best practice supplier on-boarding begins with vendor segmentation analysis (i.e. invoice volume, propensity to adopt IT initiatives). Solution providers can add significant value to the equation by leveraging simple methods for self-service enrollment – email, phone and direct mail – to bring suppliers on-board. For those suppliers reluctant to adopt electronic invoicing or categorized as second- or third-tier targets, vendors must offer a range of options to enable them to achieve the benefits of AP automation through low-cost alternatives, such as third-party data capture services capable of converting essential information from paper invoices into standardized electronic data.

**Enhancing Collaboration Through Self-Service**

Through the integration of self-service supplier portals, Web-based AP automation solutions can truly drive collaboration between buyers and suppliers by improving visibility into invoice and payments status. Suppliers’ ability to upload, view and track invoices in real-time as they make their way through a buyer’s workflow process strengthens the visibility and control suppliers have over their AR processes. And for the buyer organization, greater control for the supplier translates into a reduction in resources required to resolve discrepancies and respond to inquiries.

As organizations seek to further optimize the performance of their accounts payable resources, processes relative to document capture, data extraction and data entry for example are becoming popular candidates for outsourcing, allowing AP staff to focus on more mission-critical tasks like dispute resolution and discount capture. A major benefit of outsourcing lies in the fact that these solutions usually require minimal up-front infrastructure investment and can provide direction on best practices.

**Improving Cash Management**

The concepts of dynamic discounting and third-party financing have been hot topics within electronic invoicing circles. By providing an incentive to suppliers for early settlement, dynamic discounting serves the cash management needs of buyers and suppliers alike. While discounts have been traditionally driven by suppliers as an incentive for securing early payment, enhanced visibility into invoice status outlined above is turning the tables and enabling buyer organizations to proactively propose early settlement discounts to suppliers.

With third-party financing, buyers can extend their payment terms through the injection of third-party capital without adversely affecting supplier relations. Conversely, suppliers gain additional cash liquidity and stronger balance sheet positions by eliminating the need to utilize high-cost financing options like factoring or asset-based lending. Early settlement agreements also mitigate uncertainty surrounding the timing and amount of payments, allowing for superior cash flow forecasting capabilities for suppliers. PayStream estimates that by leveraging dynamic discounting, buyers are able to reduce their working capital requirements, some by as much as 40 percent, and suppliers gain access to capital at a more competitive rate than they are likely to obtain through a local bank.
**Conclusion**

In a seemingly short period of time, AP automation initiatives have gone from back-burner IT initiatives to the front-burner of finance department priorities as the broader, strategic value of accelerating invoice approval has come into full view. But while the path to optimized working capital and supply chain finance is comprised of a series of stepping stones, little progress can be made without accounting for how best to accommodate paper invoices. To achieve the broader promise of electronic invoicing, organizations must look to more pragmatic technology solutions capable of combining paper conversion with aggressive supplier on-boarding capabilities. Through this approach buyers can begin realizing the benefits of electronic invoicing today, while continuing to reduce paper inefficiencies throughout the financial supply chain.

**About PayStream Advisors**

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the Web at www.paystreamadvisors.com.