

WHITEPAPER

# The case for Accounts Payable automation

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# Contents

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3 Executive Summary

4 The drivers for AP automation

6 Considering the organisational landscape and goals

7 Assessing AP issues

10 What is AP automation?

15 How to achieve AP automation success

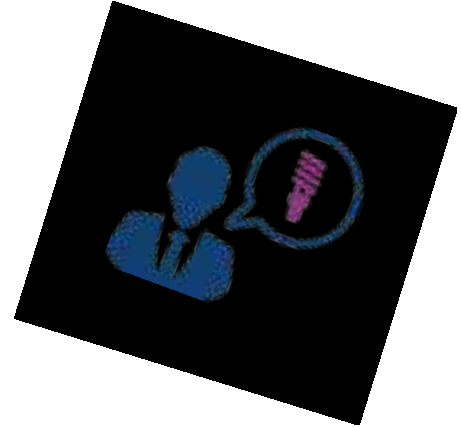
- Step 1: set priorities to start an automation flywheel
- Step 2: choose a comprehensive solution which supports staged implementation
- Step 3: create a roadmap for AP automation

17 About Documentation

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# The case for Accounts Payable automation

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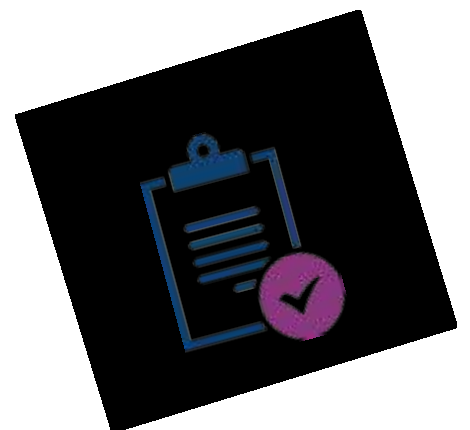


This white paper is brought to you by Documation Software.

Documation is an industry leader in document management and workflow solutions, with over 20 years' experience supplying invoice solutions to clients across industry and markets.

Previously regarded as the preserve of blue chip enterprises, development of the design and flexibility of solutions means this is no longer the case and increasingly mid-tier businesses and services are looking to invest in Accounts Payable automation.

This white paper outlines the drivers for AP automation, the make-up of an effective AP automation solution and the roadmap to successful implementation.



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# Executive Summary

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## Streamlining back office functions

The current drive to boost profit and advance business through streamlining back office functions has seen focus in the Accounts Payable department look to improving control and compliance and strengthening supplier relationships. While reducing costs and overheads, the AP team is able to transition to provide real value to the business.

## Issues for the AP department

An increase in invoice volume, organisation growth through merger and acquisition, business development and multiplication of centre locations – all these can lead to original processing systems becoming unwieldy and expensive to operate.

A paper-based system carries the burden of access concerns and costly processing and storage overheads. Inefficient processing leads to issues with potential to reduce profit – duplicate and late payment, missed early payment. Lack of control and visibility gives rise to management being unable to make the informed decisions required to drive the business forward and to the creation of an environment vulnerable to fraud.

## AP automation

Design evolution and the development of flexible, modular software means that mid-tier businesses processing 1,000+ invoices a month are increasingly investing in AP automation, with functionality incorporating:

- Invoice capture from any source – eliminating the paper mountain
- Automatic data entry and validation
- Automatic PO (purchase order) matching
- Online coding and authorisation
- Seamless integration with finance systems.

## Setting goals and priorities – putting the flywheel in motion

After setting corporate goals and priorities for processing improvements, a roadmap for automation can be created. Choosing a solution which provides all components for automation in a modular framework to allow for phased implementation enables organisations to invest initially in the segments which will have the greatest impact on the AP team's processing. This frees time for the team to focus on specifying further improvements which in turn brings additional benefits – the flywheel effect.

It is important to select a partner who understands AP automation and best practice and who can help with the identification of goals and issues. After categorising the issues according to priority the AP partner will be able to facilitate the phases for transformation to best advantage for the AP team and the organisation as a whole, allotting time to prepare the business for change and bring suppliers on board.

# The drivers for AP Automation

In today's competitive climate focus has fallen increasingly on streamlining back office functions to unlock profit and allow organisations to concentrate resources on driving the business forward. Nowhere is this more evident than in AP where control and compliance, reducing costs and maintaining first class supply chain relationships are vital features of a healthy finance function.

In many cases growth, acquisition or directional change have led to increasing invoice volume and to AP processes having become unwieldy and expensive to operate, with a negative effect on supplier relationships.

A common metric used to determine the efficiency of the AP team is the cost to process an invoice, but this varies according to organisation and process complexity. Based on research by International Accounts Payable Professionals

(IAPP), whilst 31 percent said they do not know their invoicing processing costs 29.7 percent of AP professionals say their average cost

is between \$2 and \$5 and 28.4 percent cite between \$5 and \$25+.

In addition to the processing cost the hidden costs of a traditional system include duplicate invoices remaining undetected and discount lost. Risk increases through lack of effective control and vital supplier relationships are damaged by slow payment. Above all an inefficient, paper-based AP process is a drag on resources, reducing profit and hampering progress.

AP automation offers a solution to these problems. Originally seen as the preserve of multinationals and global conglomerates this is now mature, affordable technology and, while the larger organisations continue to streamline AP processing with automated solutions, the development of the flexibility and scalability of solutions and the modular structure of software platforms means an increasing number of mid-tier organisations processing upwards of 1,000 invoices a month are recognising the advantages of automating AP.



AP professionals are being called on to do more cash management analysis and financial forecasting than ever before, but they're still handling the basic fundamentals of the job with manual tools. The good news is that executives at the highest level are becoming more aware of the efficiencies automation can bring to the process.

Ken Brown  
Executive Director Institute of  
Financial Operations (IFO)



# The drivers for AP Automations cont.

Compare the costs of a traditional process with those of an automated process and the case for AP automation is compelling. The Aberdeen Group<sup>1</sup> reports:

**3.86**

The time to process invoices: Laggard organisations are 3.86 times slower to process invoices as Best-In-Class

**0.17**

The cost of invoice processing: Best-in-Class process invoices at 0.17 of the cost experienced by Laggards

In addition, transforming the AP process provides the opportunity for the AP team to deliver real value to the business, making a positive contribution through improving supplier relations and enabling the business to grow with the same or fewer resources.

The AP team, suppliers, finance leaders, the business as a whole – all these stakeholders have an interest in making Accounts Payable processing as efficient and low cost as possible. With AP automation benefits include:

- Reduced costs and a greater number of invoices processed per FTE
- Fast payment turn-around times
- Adherence to authorisation and security policies within one cohesive system
- Control and visibility across the process
- Prevention of duplicate and late payment
- Benefit from discount
- An AP team re-focussed to strategic tasks.

1. Aberdeen Group: *From the Shadows to the Forefront - AP Automation and the Strategic Vision*

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# Considering the organisational landscape and goals

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As the background against which any changes in AP processing will take place, it is important to consider the organisational and AP landscape. This may well be shaped by organisation type, for example:

- Retail and manufacturing companies often have well defined processes for buying and ordering stock and component items, but the specialised software used for stock purchasing may not deal effectively with e-invoices or provide automated invoice matching – two of the most common factors in achieving best-in-class AP operations. Alongside this, while the focus has been on stock items, there may also be a need for increased control for non-stock expense purchases.
- For services and public sector bodies, stock purchasing may not be a significant factor, but gaining control of ad-hoc expenditure can be vital, particularly if the organisation is spread across multiple locations. Here the priority might be to improve invoice coding accuracy, enforce approval business rules and ensure prompt payment through providing visibility across all documents as well as the overall process

For some organisations the goal may be to create a holistic solution by adopting a 'No Purchase Order, No Payment' policy supported by purchase ordering coupled with AP automation. As well as tightening controls through ensuring that all expenditure is approved before commitment this approach can reap big benefits. A high proportion of invoices can fly through from receipt to automatic matching and finally to posting without any manual intervention.

In transitioning to a full purchase to pay solution, priorities will include ensuring that suppliers are switched over smoothly and the transition within the

business is carefully rolled out to ensure that, for example, poor receipting practice does not overload the AP team with invoice matching issues.

Acquisitions may have forced the amalgamation of AP teams or require working with two or more finance systems. Here the priority is to create a single common process which meets corporate standards, provides cost savings and increased efficiency across all divisions and companies, and has the flexibility to integrate with multiple finance systems.

The desire to reduce supplier numbers is a common theme cited by many organisations striving for best practice – with the aim to simplify account management, strengthen negotiating positions and reduce administration costs. The ability to monitor spend, identify inactive suppliers and view invoicing patterns and payment issues are further potential benefits of AP automation.

Any situation will be made up of its own set of facets and assessing the organisational landscape and corporate drivers is an important stage in identifying priorities.

# Assessing AP issues

It is also vital to understand the specific pain points affecting the current AP process and where possible to quantify each of them. As a specialist in AP automation we see the same issues re-occurring:

- High processing costs and slow payment cycles resulting from a paper-based system, manual data entry and lack of visibility
- Money lost and wasted through duplicate payment, lost discount and fraud
- with controls and business rules.
- Exposure to risk through lack of compliance

## The cost of poor processing

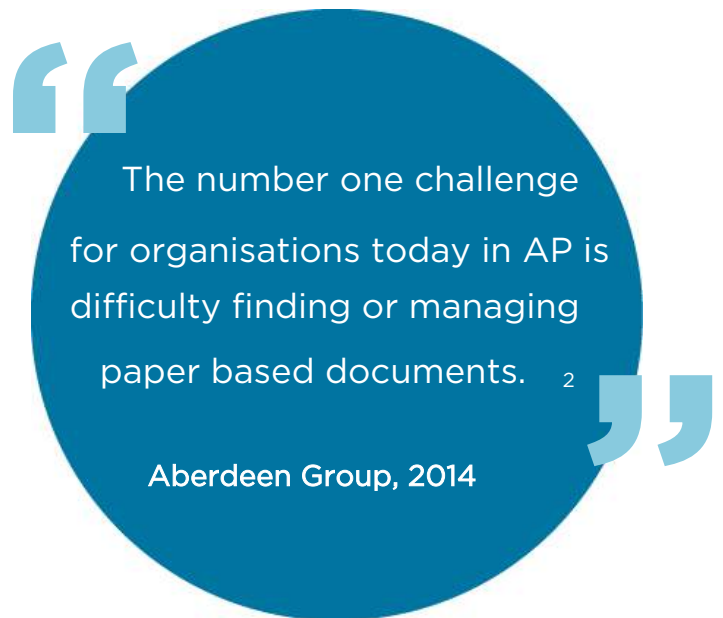
The factors which give rise to high costs and payment delays are common to many organisations:

## The paper mountain

While an increasing number of invoices are received in electronic format, many are still paper-based. The Institute of Financial Operations<sup>3</sup> reports that 79 percent of respondents to a recent survey maintain that at least half their incoming invoices are in paper format, and almost half of the respondents that 90 percent of invoices are paper-based.

Sifting through piles of paper searching for documents wastes time and even after an invoice has been paid paper storage requirements are expensive and cumbersome, with attendant risk from fire. Documents frequently need to be delivered to other business areas for coding or query response, leading to additional costs for photocopying and distribution via internal post.

When invoices arrive at multiple locations they can be delayed or mislaid before even reaching the AP team.



2. Aberdeen Group: *Business Planning and Execution Report Roundup for June 2014* 3.The Institute of Financial Operations (IFO): *2012 AP Automation Study*



# Assessing AP issues cont.

## Data entry and visibility

Whether paper invoices are used or scanned but without full process automation in place other issues can make AP processing expensive, slow and ineffective. Manual entry of invoice data and GL (General Ledger) coding or matching to purchase orders accounts for a large percentage of an AP team's time (and therefore the cost) and yet this is an activity which, although essential, adds no value to the business.

With invoices distributed out for coding and approval or to resolve queries on receipting, pricing and other discrepancies, the AP team often has limited, if any, visibility or control over the process, with the result that time is spent chasing other business areas in order to meet deadlines or to answer supplier questions about payment.

Misplaced and lost invoices create a major processing issue - AIIM (Association for Information and Image Management) puts a \$120 price-tag on tracking a lost invoice, and up to \$220 for replacement cost. Lack of visibility hampers query resolution and without relevant information management is unable to pinpoint processing bottlenecks, identify the priority and status of invoices within the system, determine company liability, or confidently make decisions affecting cash flow and the organisations bottom line.

**"It remains a fact that if you're processing over 25,000 invoices a year, you will also be processing duplicates - great for your supplier, but not so great for you" 4**

## Duplicate and late payments

It's estimated that almost a quarter of organisations overpay bills - in 2010 information services company Experian reported that duplicate invoices cost UK councils alone up to £147 million a year. Duplicate payments can be one of the biggest drivers for AP automation. One client detected duplicate invoices to a value of £16 million within a year following automation - duplicates which could easily have been paid under the old process.

In July 2014 Bacs reported a figure of £46.1 billion owed in late payment across the UK. Late payers risk losing reputation and valued suppliers, as well as incurring late payment penalties and falling foul of legislative initiatives to clamp down on late payment, including the UK government's Prompt Payment Code and the EU Payments Directive to make 'paying on time the norm'.



4. Accounts Payable News (APN), *Without a Trace - Where did all the Money go?*

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# Assessing AP issues cont.

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## Supplier overcharges

With pressure on AP time and an increasing volume of invoices it is easy to miss price or quantity discrepancies and to run the attendant risk of losing money to supplier overcharges.

## Missed early payment discounts (EPD)

The flip side of the coin to missing payment dates is that lack of visibility and control across the AP process can lead to losing out on early payment discounts.

## Exposure to risk

Where procedures have not grown and developed as an organisation itself has grown and developed, the AP team can find itself dealing with unrefined and ill-defined processes outside the AP department, unable to enforce authorisation policies, security levels, deadlines and escalation strategies.

It is hard to make business controls and delegation of authority stick in a manual process which involves a number of business areas split across multiple locations and where the participants typically see handling invoices as an unwelcome distraction from their 'day-job'. Delegation of invoice approval and the short-circuiting of authorisation controls in order to achieve payment on time can be the outcome. The result of bad practice may come home to roost in the year-end audit – or manifest itself in fraud which, whether originating from within or outside an organisation, is more difficult to detect without checks, balances, control and visibility.



# What is AP automation?

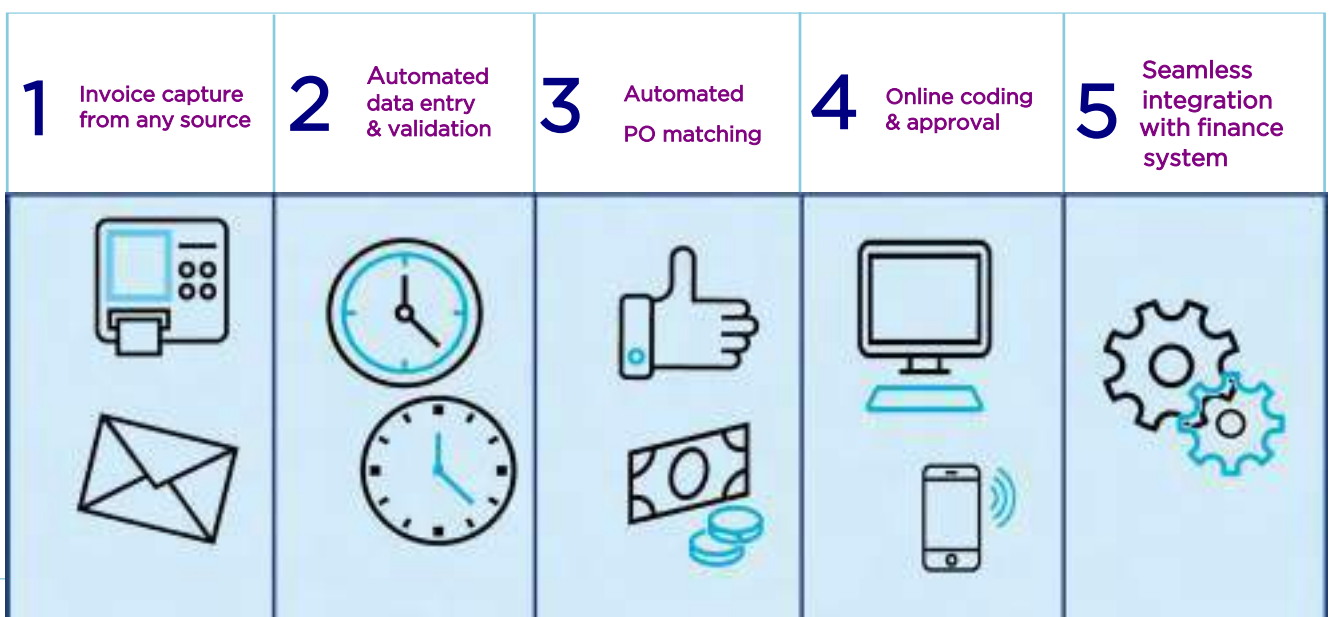
AP automation delivers straight-through, touchless processing for as many invoices as possible. AP automation can:

- Reduce the time from invoice receipt to it being ready to pay - improving cash flow and forecasting by taking control of when payments are made and through claiming early payment discounts
- Maximise the number of invoices processed per FTE and minimise other costs, such as for photocopying, internal post and paper storage
- Enforce application of controls throughout the process to ensure compliance and avoid over (or duplicate) payment
- Improve supplier relationships through paying reliably and providing dependable information.

Capturing invoices electronically and collecting the data automatically increases the number of invoices processed per FTE, reducing cost, and ensures that invoices are delivered through the process without delays and that they can be viewed on screen on demand. With automatic matching when PO systems are in place, cost savings can be even more dramatic.

AP automation also simplifies the processing of anomalies and exceptions - providing the AP team and the wider business with the tools to speedily and efficiently manage exceptions.

The following overview covers the essentials of a comprehensive system from which components can be selected to meet immediate requirements, whilst allowing for growth as needs change in the future.



# What is AP automation? cont.

## Receiving invoices – and eliminating paper

Receiving invoices in digital form is the most effective starting point for an automated solution because it eliminates the issues associated with paper and ensures processing starts immediately on invoice receipt.

- E-invoices and EDI invoices are imported automatically, incorporating a viewable version which can be used for approval or retrieval later
- Suppliers can also submit invoices in digital form by uploading them directly in to the AP system via a self-service portal or can create them online from the original purchase order, avoiding use of paper, ensuring processing starts immediately and eliminating any need for data entry by the AP team
- With an automated solution, invoices arriving via email or fax are captured without manual intervention –eliminating a common problem for organisations who still print email invoices before re-scanning them or using the paper copy. AIIM<sup>5</sup> points out that whereas 44 percent of invoices now arrive in electronic format –59 percent of these will subsequently be printed to paper.

Almost all suppliers will provide email invoices on request and implementing an AP solution is a good opportunity to persuade them to do so – the supplier saves on printing and postage and the payment process is started more quickly.

Paper invoices still received by post can be digitised by high-speed scanning. If received outside the AP department multi-function photocopiers can be used to deliver a digitised

copy straight into the AP process, saving internal postage costs as well as ensuring that processing starts immediately.

The end result is that every document, no matter its original format, will be securely stored in a digital form in one central system and accessible 24/7 from anywhere in the business; there will be no paper invoices in the process.

Earlier concerns about electronic documents and legal compliance have been shown to be unfounded. In 2013 AIIM reported on a court case in which the judge pronounced against a business which had failed to keep electronic files after printing information to hard-copy on the basis that information had been lost which might have been vital to the case.

“What this means is that hard-copy documents no longer stand as worthy substitutes for the electronically-stored information they embody... they really only tell part of the story, and, often, the least important part.”  
AIIM

5. Association for Information and Image Management: *Paper Wars 2014 - an update from the battlefield*  
6. AIIM: *Paper vs. electronic: when “best evidence” isn’t good enough*

# What is AP automation? cont.

## Automation takes the entry out of data entry

Capturing invoices in digital form is the key to unlocking further cost and time savings through minimising the need for entering invoices manually into the finance system.

Again, e-invoices, EDI invoices and invoices uploaded through a self-service portal represent the most cost and time efficient format since the initial data entry has already been done by the supplier. For other invoices OCR (optical character recognition) is used to minimise manual data entry – most invoices will require no further manual intervention, although some may need correction or confirmation.

Regardless of data source, duplicate checking, validation, flags and alerts are applied to aid fraud detection, prevent duplicates and ensure that exceptions are highlighted to the AP team while valid invoices are forwarded for automatic registration and further processing.

## Matching invoices automatically to save time

For organisations with a purchase order system a high percentage of invoices can be matched automatically. Invoices are married up with orders and receipts, approved tolerances tested, GL coding applied, and matched invoices posted without any AP intervention. If quantity or price discrepancies are identified invoices are routed online by the system to the relevant contact for resolution. The only time AP need be involved is when an invoice can't be routed automatically or if assistance is requested by the business. It is hard to overestimate the amount of AP time and cost which can be saved through automated matching.

## Simplifying coding and controlling authorisation

In most organisations, even those with a purchase ordering system in place, some invoices will still need to be coded and approved before payment can be made. A good AP automation solution will provide online facilities which allow GL coding to be entered by any approved user (even from outside the AP team) without the need to access the finance system. A benefit of this approach is that online coding is made simple for non-finance users through providing intelligent defaults and lists based on, for example, the vendor or department. Unlike coding on to a paper form, the entries will always be checked against the chart of accounts and users can be restricted to entering codes for which they are authorised. The impact is that the process is made considerably faster because the AP team save the time which would have been spent checking (and potentially rejecting) and re-keying from paper forms.



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# What is AP automation? cont.

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Authorisation also takes place online and organisation-defined security and approval policies are strictly (and automatically) applied according to business rules set, for example, by company, division, department, individual, document type, and to cover invoice totals or line values – or both.

As with automated invoice matching, the involvement of the AP team in handling invoices is restricted to dealing with exceptions and rejected invoices. In most cases valid invoices will be routed directly to the people or departments responsible for them, coding and approval will take place and the invoice posted without any AP involvement.

## Updating finance and ERP systems

A robust AP solution will provide for seamless integration with an organisation's ERP or finance system, ensuring data integrity is maintained and that processing continues without interruption or delay. Invoices can be registered and, whether matched or coded and approved, subsequently posted to the finance system without need for re-keying. Such a solution will allow for a single standard AP process to be used across the organisation even when invoices need to be posted to two or more finance systems. It is this type of flexibility which can open the door for a centralised AP function to manage one simplified process whilst still enforcing control and compliance across divisions brought together perhaps by merger or acquisition.

## Dealing with special cases and exceptions

A mature AP automation solution provides the tools to manage exceptions – such as pro-forma documents, Construction Industry Scheme (CIS) invoices, recharges, Direct Debits – without resorting to the additional complexity and risk of introducing manual work-arounds.

## Visibility puts the finance team in control

Once automation is in place the finance team have the visibility and access to control the process. With everything visible and available online, invoices can be prioritised to ensure urgent payments are made and discounts claimed. Work can be shared or re-allocated to make best use of resources.

Supplier enquiries can be answered quickly by simply calling up invoices and checking status, processing history and comments. With the ability to reject invoices back to suppliers via email or to create debit notes the AP team have the tools they need at their fingertips.

And with a self-service portal suppliers have the benefit of visibility, too, with 24/7 online access to their own invoices and key documents and with the ability to track payment progress, to self-service queries and submit supporting information – without taking up AP time.

# What is AP automation? cont.

## Measure, monitor and improve

Alongside visibility, dashboards and reporting provide a window on to the statistics of AP. Process bottlenecks can be identified as can rogue suppliers, departments and users. With the ability to benchmark performance and measure against KPIs, progress can be monitored over time so that resources are deployed to constantly improve efficiency and drive down costs.

As author and management mentor H. James Harrington said, “Measurement is the first step that leads to control and eventually to improvement. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.”<sup>7</sup>

Furthermore visibility helps finance leaders optimise cash management by providing real-time insights into the value of invoices in-process and accrual reporting. When looking to automate AP the “objective with the overwhelming lead is to improve visibility into cash management” (Aberdeen Group)<sup>8</sup>. Seventy eight percent of finance executives responding to an Aberdeen Group survey put the ability to improve visibility into cash flow and cash management as their top priority.

## Room to grow – gaining more from investment in AP automation

As well as streamlining the processing of invoices, AP automation can add value by providing for storage and online retrieval of other documents required by the AP team, such as statements, correspondence and contracts. Automating AP is often the first step in

the programme to transform other finance processes, such as purchasing, expenses and credit card statements. An investment in AP should buy into a platform which can be extended to improve these areas as well as document based processes elsewhere in the business – in areas such as HR and Customer Services.



7. *CIO Enterprise* – Section 2 – September 15 1999

8. Aberdeen Group: *Achieve business agility through e-invoicing and other key AP automation initiatives*

# How to achieve AP Automation success

Three decision steps are key to the creation of a successful transformation project:

## STEP 1 Set priorities to start an AP automation flywheel

For many organisations the AP team is caught in a vicious circle, unable to focus on strategic tasks or making improvements to the processing system because they're fully deployed resolving issues. Breaking this cycle is paramount. By adopting a flywheel approach whereby the highest priority aspects of the process are improved first through automation, AP team time is freed up to focus on the next priorities for improvement. This cycle is repeated, freeing more and more time, leading to redeployment of further AP resources and accelerating benefit.

The first step is to identify the long and short term organisational goals and assess the specific AP issues. Choosing a partner who understands

AP automation and best practice can help with the identification of these goals and issues and categorise them according to priority. Phases for transformation can be set to create the flywheel effect to see increasing benefit.

## STEP 2 Choose a comprehensive solution which supports staged implementation

It is important to source a solution which can adapt and grow as needs and circumstances change and that will handle the finer processing points, such as support for multiple companies and finance systems, credit note matching, line level authorisation, debit note creation, and processing for CIS invoices and pro-formas, plus the other exceptions that are part of AP life.





# How to achieve AP Automation success

A partial solution leads to the development of complex processes and work-arounds which defeat the object of a single holistic streamlined system – and even when a solution meets current needs consideration must be given to future changes which may demand further functionality.

A best of breed automation solution will:

- Be simple to understand and adopt, and have the support of an expert partner who can advise on best practice
- Allow implementation in phases to suit priorities – creating the flywheel effect to allow AP staff to be re-deployed to achieve ever greater benefit
- Provide the best practice features initially –and be extendible to meet changing needs in the future
- Be an investment in a platform which can bring benefit to further finance functions such as purchasing or expense management and document based processes in the wider business.

## STEP 3 Create a roadmap for AP automation

Having set priorities and selected a solution the transition journey can be defined with a structured plan to suit the organisation's specific needs. The roadmap deals with the issues in sequence, aiming to provide the AP team with time to gain benefits and transition to create a positive impact on organisational goals. It also focuses on the wider view of the other AP stakeholders – preparing the business for change and helping bring suppliers on board.

Removing problems arising from the most pressing issues frees the AP team to use the time saved to concentrate on the next implementation step. As each stage is implemented, the vicious circle of sorting problems becomes the virtuous circle of fast, efficient processing, with the AP team able to focus on strategic, value-added tasks.

Streamlining the process, and improving internal performance, exception handling and supplier compliance allows the AP team to transition to provide real value to the business.

All steps taken in the automation transition are measured against success criteria and taken with the larger picture

As an expert AP automation partner, Documation can provide information about the potential of best-practice AP automation and help assess the strength of a business case for automation.

To arrange an initial discussion – or for an informal chat contact:



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# About Documation

## Every client is unique

At Documation, developing a partnership with customers lies at the heart of the way we work. We prioritise the time to understand clients' business drivers and requirements, and clients have the confidence in knowing that they are investing in 20 years' experience of delivering innovative and proven, compliant AP automation solutions, building on best practice.

A Documation consultant can help assess priorities based on an organisation's current situation, identify best-practice solutions and work on a cost justification exercise which looks at options for alternative processes based on the organisation's own ideas and our experience, and evaluating relative costs and feasibility.

## Leveraging on investment

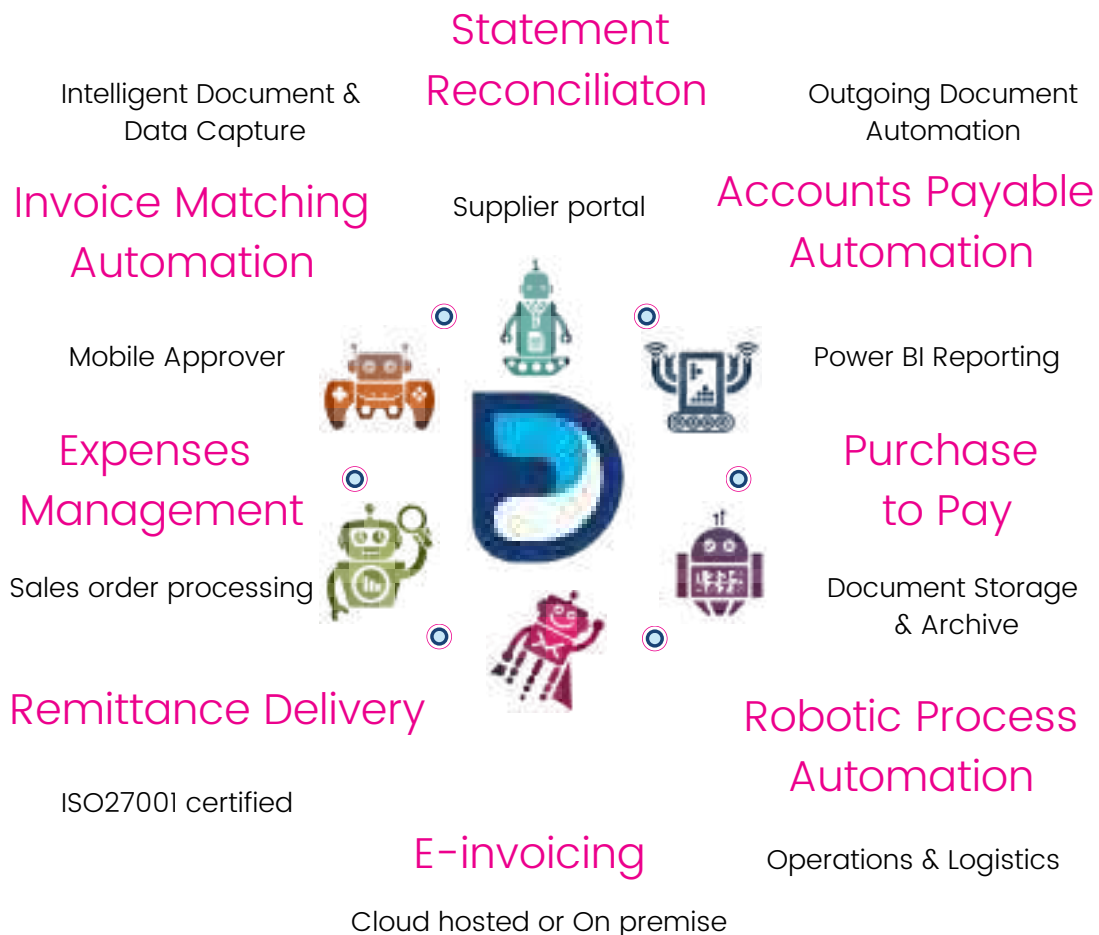
Documation's Invoice Management Solution (IMS) is built on a flexible, modular software platform, Enable, providing the core processing components.

As well as taking advantage of the phased implementation approach, clients can invest in components as and when required, as the business and the organisation changes and develops.

In addition to the Accounts Payable solution, Documation offers a portfolio of solution templates for common business areas, ranging from other finance related systems (including purchasing and expense management) to automated solutions for Customer Services and HR. Investing in a Documation solution means clients open the door to extending processing benefits to other departments using the same core software

## ENABLE SOFTWARE PLATFORM





## One platform - many solutions

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