

## **Invoicing and Workflow**

Transforming Process Automation into Operational Cost Control

April 2010

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## Executive Summary

The accounts payable function is becoming increasingly strategic to the overall enterprise, but a lack of technological maturity and reliance on paper-based documents and manual processing methods is impeding its evolution. This study, conducted in March and April of 2010, provides an overview of the current state of accounts payable, and focuses on improving the approaches enterprises take when handling invoice receipt and approval workflow. This is the first major step in the A/P process, and can be crucial toward driving this function's strategic value across business cost containment efforts.

### Best-in-Class Performance

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Aberdeen used the following two key performance criteria to distinguish Best-in-Class companies:

- Cost to process a single invoice: \$4.84
- Cycle time to process a single invoice: 3.7 days

### Competitive Maturity Assessment

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Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics. They are:

- 69% more likely than all other companies (Industry Average and Laggards combined) to have clear policies covering the invoice receipt-to-payment workflow
- 59% more likely than all others to employ system-level controls for the segregation of duties for each transaction
- More than twice as likely as all others to have processes in place to measure compliance to established workflow policies

### Required Actions

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In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Gain a clear picture of the current state of their A/P departments. Review policies and performance, consult with functional counterparts, and discuss improvement opportunities with top suppliers.
- Improve and expand performance measurement. Lay the groundwork now for increasing the data available for management to make strategic decisions regarding competing areas for improvement, and set a benchmark against which to measure future results.

### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

### E-Payables Defined

Aberdeen utilizes "e-payables" as an all-encompassing term to refer to the automated processes associated with the Accounts Payable (A/P) function, including invoice receipt and handling, reconciliation and approval, disbursement scheduling, settlement (including confirmation and reporting), and internal and external service support.

"We are still, and continue to be, focused on faster, cheaper, better. In addition, we are more focused on managing cash."

~ AP Director,  
Large services management  
firm

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## Chapter One: Benchmarking the Best-in-Class

### Business Context

In recent years, Aberdeen research has heard a consistent message from survey respondents: the strategic importance of accounts payable is on the rise. For an area in the early stages of technological maturity, this is a formidable challenge to undertake. This study, based on the responses of over 150 enterprises across a broad set of industries, will discuss how a mastery of tactical elements can lay the foundation for A/P's strategic contribution to the greater enterprise. The sections that follow will present a picture of the current state of surveyed A/P departments, the cost impacts of inefficiency, and the approaches to automation that Best-in-Class enterprises have taken to improve their accounts payable processes during the invoice receipt and approval stages.

### Setting the Stage: The Current State of Accounts Payable

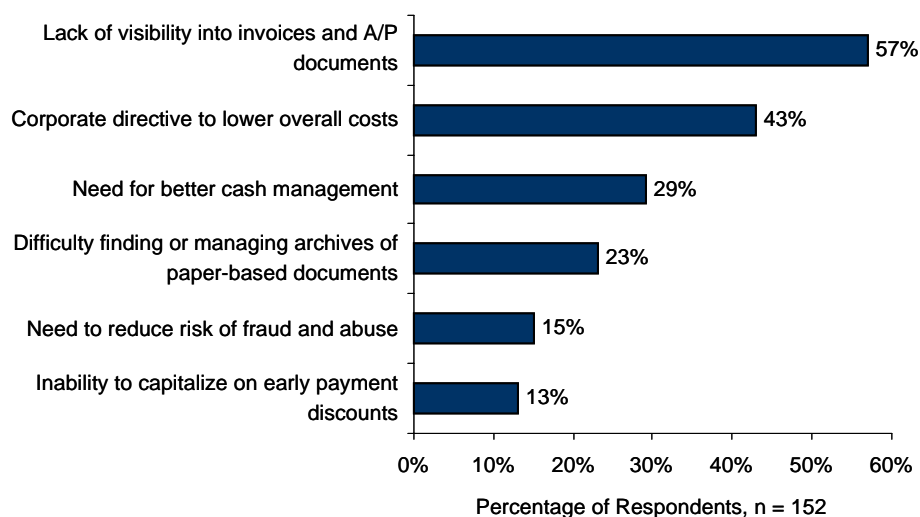
For the vast majority (96%) of responding enterprises, paper-based invoices are still flowing in through the mail and over the fax, constituting 72% of total invoices received, on average. Even within Best-in-Class enterprises, paper-based invoices account for an average of 60% of total invoice volume. What happens with these documents once they arrive? For 58% of respondents, they are used as-is, handled manually for indexing and movement through the approval process. With these invoices being received by an average of just over 17 different offices or locations, this presents an immense and time-consuming challenge for A/P management.

It is not surprising, then, to see visibility and cost top the list of pressures driving respondents' focus on accounts payable improvement (Figure 1).

#### Fast Facts

- √ 72% of all received invoices are paper-based
- √ 58% of responding enterprises have manual processes for indexing and approval

**Figure 1: Top Pressures Driving Focus on A/P Improvement**



Source: Aberdeen Group, April 2010

Without visibility into invoice status, A/P staffers fielding inquiries from suppliers are not able to provide a timely picture of whether an invoice was received, where it stands in the approval process, and when payment might be expected. Similarly, without adequate visibility, it is difficult for the CFO and the greater finance organization to make informed decisions when attempting to manage the enterprise's cash position and forecast crucial budgetary items. On a related note, those disparate and manual processes that leave stakeholders in the dark also serve to extend processing times and increase processing costs. Although the economy has caught its first glimpses of recovery, the marketplace's tempered optimism should make clear that there will be no room for continued inefficiencies moving forward.

Against this backdrop of A/P's largely manual processes and resulting pressures on management for improvement, the natural question is "what are enterprises doing to fight back?" When crafting an answer, it is instructive to segment respondent companies in order to compare the strategies followed for groups who have achieved differing levels of A/P performance.

## The Maturity Class Framework

Aberdeen used two key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations. The following definition looks to provide a balanced picture of invoice processing performance by capturing both cost and quality components: namely, the dollar cost of processing an invoice from receipt through payment scheduling as well as the amount of time required to complete this process.

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ <b>\$4.84 cost</b> to process a single invoice</li> <li>▪ <b>3.7-day cycle time</b> to process a single invoice</li> </ul>
<b>Industry Average:</b> Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ <b>\$18.27 cost</b> to process a single invoice</li> <li>▪ <b>14.2-day cycle time</b> to process a single invoice</li> </ul>
<b>Laggard:</b> Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ <b>\$25.83 cost</b> to process a single invoice</li> <li>▪ <b>41.3-day cycle time</b> to process a single invoice</li> </ul>

Source: Aberdeen Group, April 2010

## The Best-in-Class PACE Model

Beginning with the highest-performing enterprises in our latest survey, we present a picture of what pressures and strategies have risen to the top. For the Best-in-Class, it is clear that meeting the corporate directive to lower overall costs associated with invoicing requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as shown in Table 2.

**Table 2: The Best-in-Class PACE Framework**

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Corporate directive to lower overall costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Automate the invoice receipt and workflow process</li> <li>▪ Centralize A/P processes related to invoice receipt and approval workflow</li> <li>▪ Integrate e-payables solutions with procurement, finance and/or back-end systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clear policies for invoice receipt-to-payment workflow</li> <li>▪ Automation of header data validation / duplicate invoice verification</li> <li>▪ System-level controls for segregation of duties for each transaction</li> <li>▪ Executive support for imaging and workflow automation</li> <li>▪ Complete audit trails on demand</li> </ul>	<p>Solutions providing:</p> <ul style="list-style-type: none"> <li>▪ Payment scheduling</li> <li>▪ Spend analytics (for invoices)</li> <li>▪ Electronic invoice enablement (XML/EDI)</li> <li>▪ Complete A/P automation</li> <li>▪ Electronic Invoice Presentment and Payment (EIPP)</li> </ul> <p>Also including:</p> <ul style="list-style-type: none"> <li>▪ Document scanning and data capture solutions</li> <li>▪ Supplier networks</li> <li>▪ Supplier portals</li> <li>▪ Enterprise image repository and management systems</li> <li>▪ Digital signatures for invoice approval</li> <li>▪ Commercial cards (for payment)</li> </ul>

Source: Aberdeen Group, April 2010

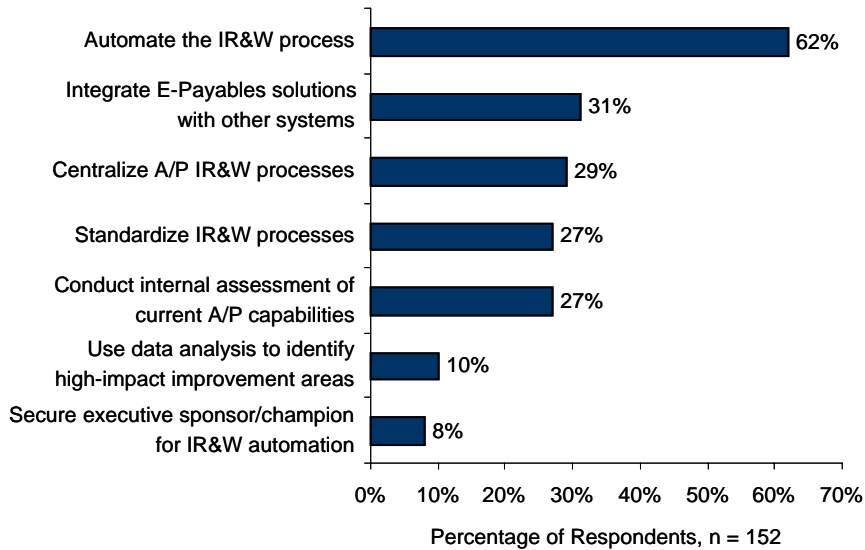
## Best-in-Class Strategies

When examining the strategies followed by Best-in-Class enterprises, one observation stands out: they are nearly identical to the priorities of the remainder of respondents. For a large majority of all enterprises surveyed, automation of the invoice receipt and workflow process was one of their top two strategies for reigning in costs and improving visibility. The bottom three actions listed below, while providing incremental benefit on their own, also set the stage for an automation initiative:

- Standardization creates a single rule-set for A/P across the enterprise, potentially integrating informal best practices and improvements as the standard is determined
- Centralization lays the groundwork for a single point of contact for A/P, and if supported by the chosen solution, can reduce the number of required implementation sites and/or solution seats

- Internal assessment of A/P capabilities can identify areas of current competence, where potential solutions should accommodate existing practices, and deficits, where available functionality and process designs can serve as a 'shopping cart' for points of improvement.

**Figure 2: Strategies for Improvement**



Source: Aberdeen Group, April 2010

To provide insight into the end-goals of these strategies, and to provide context for the capability differences between the Maturity Classes discussed in the following chapter, here is a brief comparison of key quantitative aspects for the Best-in-Class versus all other enterprises.

**Table 3: Building the Business Case**

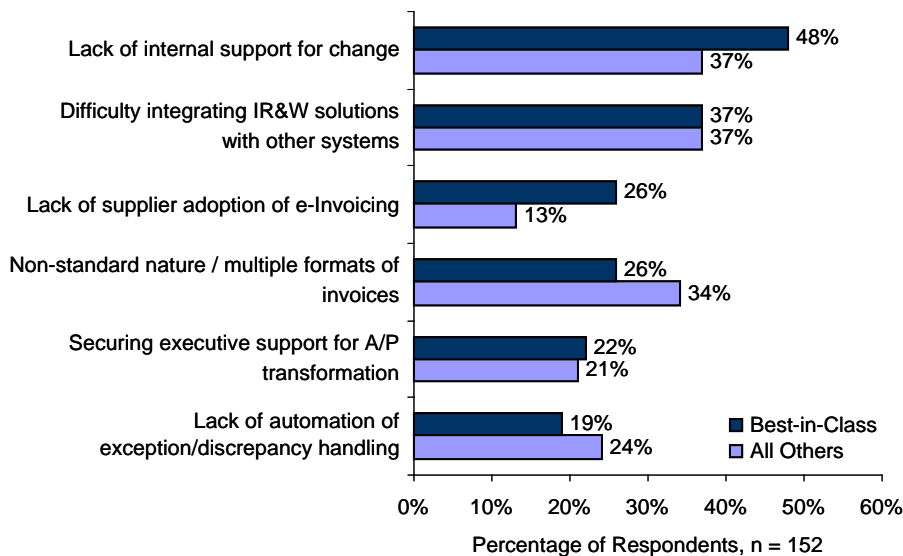
Measure	Best-in-Class	All Others
Number of invoices processed per month	14080	9409
Value of invoices processed per month	\$67.8m	\$45.9m
Percent of invoices that are PO-based	63.1%	62.0%
Invoice processing cost (single)	\$4.84	\$20.13
Annual invoice processing cost	\$817,644	\$2,273,076
Annualized benefit of Best-in-Class performance	n/a	\$1,726,656
Payments receiving early payment discount	8.8%	6.0%
Annualized impact of 1% gain in early payment discount capture (at 2/10 net 30)	\$162,795	\$110,051

Source: Aberdeen Group, April 2010

When comparing the number and value of invoices processed per month, one of two objections may be raised: first, that the higher number of invoices processed (and lower costs) hint that the Best-in-Class is comprised of smaller companies, dealing with less complex invoices, or; second, that the higher value indicates that these top-performers are heavily skewed toward larger enterprises, benefitting from economies of scale. While these are important questions to ask, neither is accurate. All three Maturity Classes contain between 20% and 24% small enterprises, very close to the 22.9% level of the total response pool. When looking at potential economies of scale, it is helpful to note that of the three groups, Laggards have the highest percentage of large enterprises (56%). Pursuing this point further, Industry Average respondents process more invoices per A/P employee (917 versus 824) than the Best-in-Class, and all three groups achieve similar results when looking at the value of invoices processed per employee (all falling between \$3.5m and \$3.9m per month). Accounts payable is certainly not a simple function, and the performance differences between the Maturity Classes are, similarly, not the simple byproduct of purely structural attributes.

The preceding table directly addresses the quantitative cost-concerns of executive management, as evidenced by the pressures outlined in Figure 1. What remains to be added to a compelling case are the qualitative benefits of improved visibility (and its impact on cash management and maintaining supplier relationships) and the ability to reallocate staff to value-added tasks once resource requirements are lessened for receipt and approval. With these benefits, why is it that every enterprise is not achieving Best-in-Class performance?

**Figure 3: Impediments to A/P Automation**



Source: Aberdeen Group, April 2010

"As a financial organization, the procurement function is less mature than other industries. The 'credit crunch effect' gave procurement a bigger scope of activity and mandate to look for costs savings opportunity. Therefore, AP processing has been identified as an area for potential savings but also a key point for enabling the company to get accurate data on spend."

~ Procurement Professional,  
 Large European Financial  
 Services Firm

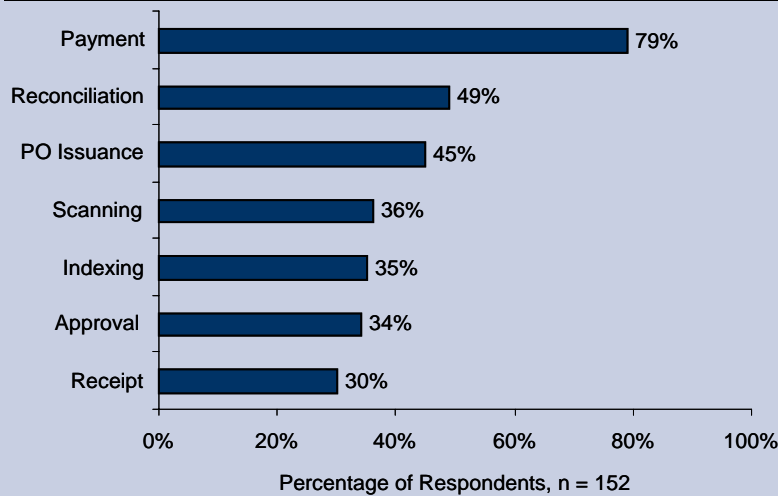


As Figure 3 illustrates, a realistic picture of A/P improvement will include a certain number of challenges to be overcome. Lack of support, either via A/P staff's resistance to change or the lack of a clear message from executive management, can make any project difficult to get off the ground. The key to effective change management in this area is building the case for your different audiences: cost savings and better ability to manage cash for the executives, streamlined workflow and time to work on more strategic tasks for staff, and more timely payment and improved status visibility for suppliers. The list above contains technical hurdles as well. When beginning the process of selecting a solution for A/P automation, companies should keep these challenges in mind, and push the providers to detail how their offering may avoid - or at least remedy - these potential pitfalls.

### Aberdeen Insights — Centralized A/P Processes

Although A/P automation and strategic awareness of this once back-office function play into the true value of the accounts payable department and its importance in 2010, one telling aspect of the general program gaps enterprises face is the lack of process centralization. Figure 4 details the centralization of key accounts payable processes.

**Figure 4: Centralization of Key A/P Processes**



Source: Aberdeen Group, April 2010

Although the payment / settlement portion (nearly 80%) of the A/P process is a centralized process, aspects such as invoice approval (34%) and invoice receipt (30%) are decentralized program processes that have a direct link to inflated invoice-processing costs, invoice approval times, and overall invoice / spend visibility. Disparate / decentralized invoice receipt processes can cause an inherent mess of hazy visibility, leaving A/P program heads with little information regarding invoice status, while decentralized approval processes can wreak havoc on financial forecasting and payment scheduling efforts.

In the next chapter, we will see what the top performers are doing to achieve the level of performance outlined above.

## Chapter Two: Benchmarking Requirements for Success

In the accounts payable arena, the processes followed are equally as important as the technologies chosen to support and enhance them. This chapter will explore the underlying capabilities present in Best-in-Class enterprises that may explain how they achieve superior results and streamline the beginning stages of the A/P process in an effort to propel this once back-office function into a strategic value-add function.

### Case Study - Gaining Efficiency and Visibility at M.S. Walker

M.S. Walker is a privately-held U.S. wine and spirits distributor in its fourth generation of family-run operations. It serves customers in 27 states, in both direct distribution and wholesale environments. With 1,500 invoices running through the system daily, there is a lot of information to manage.

In the past, M.S. Walker's processes were completely manual, according to Michael Saitow, Chief Information Officer; "Our warehouse guys would write out, by hand, what they received, and send a large stack of paper up to purchasing. There, a clerk would figure out what invoices could move through the system. If the price was right, they'd give it to the payables clerk. If there was a discrepancy, they'd give it to a higher-level purchasing [manager], who would go through all the paper and the email trail in order to find the correct price. That's how the typical package made its way through the system." An additional challenge came from the existing system's inability to differentiate layers of costs for purchased products (allocating a specific invoice / purchase price to an item upon sale to a customer, instead of a generic FIFO/LIFO approach). Because the system would store only one price per item, the most recent purchase price was applied globally, resulting in skewed gross profit calculations down the line.

To address these challenges, M.S. Walker developed a solution in-house to handle their procure-to-pay process. In the system, each step is tied to its predecessor. The receipt is built from the purchase order, the invoice is matched against the receipt, and the payment voucher is 'automagically' created based on the invoice. As Saitow explains, "When you process an invoice, you pull up the PO, it pulls up the receipt, and if a matching line is found, you can assign it to the invoice. If there are 20 line-items that we're buying and 19 of them are right, the high-level person only has to deal with the one line of exception." This allows for quicker matching once passed off to accounting (since the data is already in the system), leading to lower voucher setup time and higher accuracy.

*continued*

### Fast Facts

- √ Best-in-Class enterprises secured early payment discounts at a rate 46% higher than all others
- √ Best-in-Class enterprises are more than twice as likely as all others to have executive support for their A/P automation initiatives

**Case Study - Gaining Efficiency and Visibility at M.S. Walker**

The company is also using their solution to keep a close eye on performance through a ‘vendor scorecard.’ This scorecard breaks out three sets of information: granular data, week-by-week analysis of quantitative measures (number of POs cut, number of problems, types of problems, etc.), and vendor-specific details (performance by item). “Now we have a tool that we track in real-time, every day. It shows POs, payables, and identifies how many problems there are in the PO-to-pay process,” says Saitow. When problems are identified, the system highlights whether it is due to pricing, product, or quantity concerns, allowing the team to focus on fixing the issue. According to Saitow, “We take the data every day from POs, receipt and invoices. The scorecard is based off of PO-line item detail at the most granular level. By just bringing some focus to it, we moved from low-20s [for percentage of invoices correctly matching POs] to high-70s.”

Remarking on the overall project, Saitow relates, “One of the things we realized was the biggest area for improvement was the PO confirmation stage. [Getting it right there] can prevent things from becoming a problem at the dock door. It pushes the approval process down-stream: when you spend the time upfront to verify price, item, and quantity early on, you don’t have to spend that time down the line fixing errors.”

**Competitive Assessment**

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

**Table 4: The Competitive Framework**

	<b>Best-in-Class</b>	<b>Average</b>	<b>Laggards</b>
<b>Process</b>	Clear policies for invoice receipt-to-payment workflow		
	59%	40%	27%
<b>Organization</b>	Executive support for imaging and workflow automation		
	46%	34%	21%

	Best-in-Class	Average	Laggards
<b>Knowledge</b>	System-level controls for segregation of duties for each transaction		
	54%	36%	31%
	Complete audit trails on demand		
	46%	30%	29%
<b>Technology</b>	Automation of header data validation / duplicate invoice verification		
	54%	24%	22%
	A/P solutions providing:		
	<ul style="list-style-type: none"> <li>▪ 68% - Payment scheduling</li> <li>▪ 42% - Spend analytics (for invoices)</li> <li>▪ 42% - Electronic invoice enablement (XML/EDI)</li> <li>▪ 33% - Complete A/P automation</li> <li>▪ 32% - EIPP (Electronic Invoice Presentment and Payment)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 47% - Payment scheduling</li> <li>▪ 29% - Spend analytics (for invoices)</li> <li>▪ 22% - Electronic invoice enablement (XML/EDI)</li> <li>▪ 22% - Complete A/P automation</li> <li>▪ 7% - EIPP (Electronic Invoice Presentment and Payment)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 45% - Payment scheduling</li> <li>▪ 15% - Spend analytics (for invoices)</li> <li>▪ 19% - Electronic invoice enablement (XML/EDI)</li> <li>▪ 17% - Complete A/P automation</li> <li>▪ 7% - EIPP (Electronic Invoice Presentment and Payment)</li> </ul>
	Processes in place to measure compliance with workflow		
36%	23%	8%	
<b>Performance</b>	Dashboards for overview of A/P processes (outstanding invoices, number of exceptions, etc.)		
	27%	15%	8%

Source: Aberdeen Group, April 2010

## Capabilities and Enablers

Based on the findings of the Competitive Framework (above) and interviews with end users, Aberdeen's analysis of the Best-in-Class reveals that top performing companies differentiate themselves by adopting processes that allow management to measure performance, structure reporting, and inform process design to maximize A/P performance. The following discussion provides a closer look into these findings, based on the Competitive Framework presented above.

"The economic environment has focused us on expense control and ways of eliminating and or reducing manual / exception based processes."

~ AP Manager,  
 Midsize US Apparel and Home Goods Retailer

## Process

Picture the greatest hitter in baseball history. Now imagine him with a cricket bat in his hands, standing on the pitch, staring down an imposing bowler. Would you still expect excellence? The athletic ability remains, but the game has changed. Without a clear understanding of the rules, even the most skilled player will struggle - so too with accounts payable.

The existence of clear policies detailing how invoices are handled from receipt through approval and payment set the rules of the game. Best-in-Class enterprises are 69% more likely than others to have such rules in place. Individual enterprises will differ, of course, on the current state of affairs. Formal policies may be in place, but if difficult to navigate, may lead A/P staff to veer out of compliance. Existing rules may be incomplete or inefficient, leading to informal workarounds developed by workers trying to do their jobs well *despite* the current process or system in place. While this informal alteration may improve performance, those results are limited in scope and without formalization, cannot propagate across the enterprise to provide benefit across the entire operation.

## Organization

If your policies are the rules of the game and your staff the players, then executives assume the role of club manager. With top-down directives standing as the second-most cited pressure facing respondent A/P professionals, it is clear that the C-Suite already has an eye on accounts payable. What it requires - and what the Best-in-Class are 59% more likely than others to show - is that upper management is not only calling for results, but that they are also providing support for improvement initiatives. Process change requires staff buy-in, which is better-facilitated when there is a clear and consistent message from the top. Technology improvement requires investment, which is likewise only possible with budgetary approval.

From the A/P manager's perspective, support should not be assumed. Like respect, it must be earned. As detailed in Chapter One, there are quantitative business benefits to accounts payable automation. These serve as a foundation for the business case. There are also qualitative benefits, such as improved visibility (supporting more effective cash management) and reduced time required for administrative activities (allowing for greater focus on value-added activities) that complete the picture. Viewing executive support as something to be won - and not simply given - will also help in prioritizing the various elements of your improvement initiative.

## Knowledge Management

To paraphrase a recent political leader, you've got three types of information: known "knowns" (data you have in-hand), known "unknowns" (data you know exists, but do not know the value of), and unknown "unknowns" (those things that you do not even know to measure). When it comes to accounts payable, especially in the compliance arena, there is now

a fourth: those that you (or your staff) know, but should not. This is the essence of the problem addressed by system-level controls for segregation of duties and information (adopted by the Best-in-Class 59% more often than others). Can the same employee with permissions to add a new supplier to the system also approve payments to that supplier? Can a customer service clerk look up the Taxpayer Identification Numbers of any 1099 contractors in your system? Segregation of duties introduces a system of checks and balances, strengthening safeguards and reducing the potential for unauthorized transactions.

The value of this capability is not limited to its reduction of potential fraud. In order to take advantage of this, you must first document your processes, understand all of the steps and pieces of required information, and build a workflow model that includes all parties involved. In short, the work of improving your compliance efforts can also aid you in uncovering structural/procedural inefficiencies in your existing processes.

On a related note, well-designed controls can be sidestepped, and beneficial policies can be avoided if your company lacks timely visibility into what has happened during the procure-to-pay process. In this regard, on-demand access to complete audit trails (which Best-in-Class companies are nearly 60% more likely than their peers to have in place) allows management to monitor policy compliance to ensure efficiency and detect potential fraud. It can also help to speed up customer service response time when handling supplier inquiries as to payment status. This is, however, a sore point across the respondent pool, as evidenced by invoice visibility's presence as the top-most cited pressure detailed in Chapter One.

## **Technology**

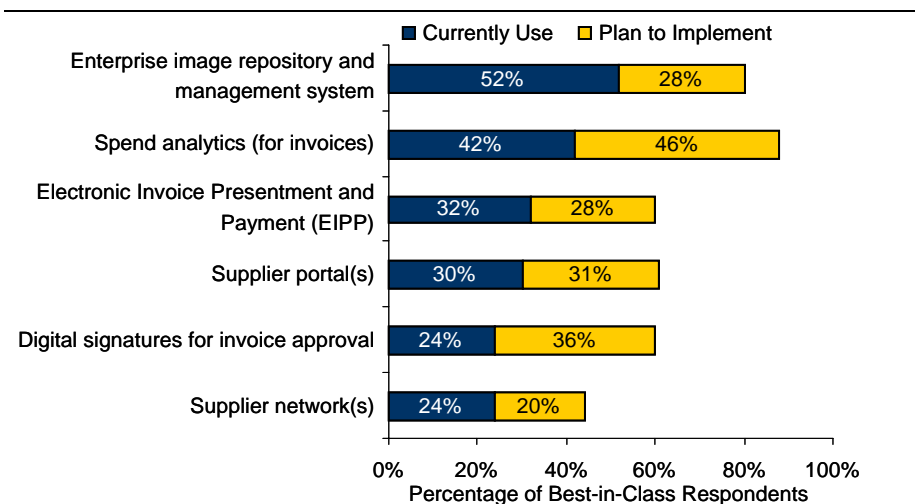
Why is home insurance cheaper for properties with alarm systems installed? Why do health insurers provide incentives for health club and gym memberships? For the same reason that automation of header data separates Best-in-Class enterprises from the rest of the field: prevention is far more cost-effective than treatment. Initially cross-checking invoice numbers, PO numbers, pricing, etc. against previously-processed invoices can both reduce duplicate payments (and the costs associated with identifying and recouping them after-the-fact) and also alert management to potential deficiencies in the receipt and approval process that lead suppliers to send repeat invoices. This is a capability the Best-in-Class are more than twice as likely as others to have in place - but to what end?

Are paper-based documents sitting idle on a desk, awaiting approval? Has your A/P department been historically lax in catching errors, leaving itself open for exploitation? The source is most likely the former, but the result is the same: your enterprise pays more than was necessary, and incurs additional costs as another invoice passes through the system. With proper screening, problems can be caught before these additional resources have been expended, and processes can be improved to reduce the likelihood of similar difficulties moving forward.

Even those enterprises whose tactical mastery has vanquished duplicate payments may still fall victim to a strategic folly: failing to properly time payments to support the CFO's cash management objectives. This boils down to one fundamental question: when do you pay your invoices? For many Industry Average and Laggard enterprises, the answer may be the same: at the wrong time. Best-in-Class A/P organizations are 48% more likely than others to automate their payment scheduling, ensuring that they are in a position to better control cash outlays. Coupled with an efficient receipt and approval process, quick payment can help secure early payment discounts - which promise impressive returns. But prompt payment coupled with inefficient processes may result in payments beyond the discount window that reduce cash balances well before late payment penalties are assessed. Beyond securing discounts or avoiding penalties, the lack of a means to automate payment scheduling makes the finance organization's job more difficult when seeking to manage the cash position without adequate control over outbound funds.

When enabling these capabilities and looking toward future improvement, which technologies have the Best-in-Class prioritized? As illustrated in Figure 5, these top-performers are looking to a wide variety of sources. EIPP, portals, and networks eliminate paper from the invoicing process altogether, providing direct data communication over the web. Image repositories provide organization and ease-of-access to digitized versions of physical invoices. Spend analytics on the invoice-side can arm A/P's Procurement colleagues with valuable information (aggregated spend levels and supplier performance, for example) for use in future negotiations. Transitioning from hand-written to digital signatures can streamline the approval process by allowing an entirely digital post-receipt workflow. What all of these solutions have in common is the removal of manual steps from A/P, utilizing the processing, storage, and retrieval speeds of computerized solutions to gain cost- and time-saving efficiencies throughout the receipt and approval process.

**Figure 5: Technology Choices of the Best-in-Class**



Source: Aberdeen Group, April 2010

## **Performance Management**

Measure twice, cut once. This is sage advice for carpenters, and with slight revision, equally appropriate for A/P managers. When changing policies, or reducing staff, you cannot expect top-tier results without a truly informed decision-making process. Although as a group, the Best-in-Class are more than twice as likely as others to have the ability to monitor their workflow compliance, even they have room for improvement. Low compliance levels may highlight the existence of unclear, overly-burdensome, or inefficient processes. It may signal that higher compliance will yield cost benefits. In the alternative, it may be that adherence to existing policies would actually be to the detriment of the enterprise. Without knowing whether your A/P staff is in compliance, you cannot begin down the road of root-cause analysis to identify and remedy potential problems.

While compliance tracking contributes to the measurement side of the visibility equation, usage of dashboards aids in the immediacy of access to information. These tools, used by the Best-in-Class more than 2.2-times as often as others, provide a structured summary of critical measurements providing a quick reference for management. While lacking the detail of comprehensive reports, dashboards provide a first line of defense for identifying and responding to processing issues as they occur. They are also a critical element during times of process or policy change, making visible positive trends in A/P performance, or serving to highlight unexpected negative results to enable quicker re-evaluation.

### **Aberdeen Insights — Of Documents and Data**

Invoices can be received in a variety of formats, over various means of transmission. Viewed from a high level, however, they can all be categorized by the position they occupy across the document-to-data spectrum (Table 4). This breakdown compares invoice alternatives across three different aspects: the speed with which each form can be exchanged between stakeholders; the factors that can influence the quality or usability of the information, and; the potential reasons for loss of information during the IR&W process. It is important to note that the breakdowns below seek to identify only those elements that are attributable to the nature of each individual form, and not due to problems that are common across all invoice preparation methods, such as user entry error or neglect.

*continued*



**Aberdeen Insights — Of Documents and Data**

**Table 5: The Document-to-Data Spectrum**

Source	Speed Limits	Quality Limits	Risk of Loss
Paper documents	<ul style="list-style-type: none"> <li>▪ Postal process (invoice)</li> <li>▪ Inter-office mail (approvals)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Condition of physical document</li> <li>▪ Legibility of printing and/or approval signatures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Physical damage</li> <li>▪ Being misplaced / mis-filed</li> </ul>
Scanned images of paper documents	<ul style="list-style-type: none"> <li>▪ Network access method and related speed (ex. slower via email than shared drive)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Condition of source document</li> <li>▪ Image resolution and scan quality</li> </ul>	<ul style="list-style-type: none"> <li>▪ For an integrated solution: data loss or system-level error, or difficulty of querying/search functionality</li> <li>▪ For separate solutions: reliance on human intervention and organization of file locations</li> </ul>
Data captured from paper / images	<ul style="list-style-type: none"> <li>▪ Network speed (negligible)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Condition of source document</li> <li>▪ Image resolution and scan quality</li> <li>▪ Accuracy of character recognition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Dependent on solution's querying/search functionality</li> <li>▪ Without a physical copy, can also depend on automated reminders to draw attention to neglected documents</li> </ul>
Direct data transmission	<ul style="list-style-type: none"> <li>▪ Network speed (negligible)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Dependent upon data matching required format for successful import / integration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Query/search functionality; ability of system to bring new entries to the user's attention</li> </ul>

Source: Aberdeen Group, April 2010

*continued*

### Aberdeen Insights — Of Documents and Data

Why is this important? Automation in the accounts payable world is less mature than in other business areas, with many enterprises employing completely manual processes and paper documents for invoice receipt and approval. As detailed in Chapter One, current respondents have noted stark differences in processing costs between paper and electronic invoices. Table 5 seeks to highlight the differences across the range of available options that may account for improvements in speed (and related staff costs) and data integrity that underlie those benefits. For enterprises struggling with compliance, it may be the promise of a centralized repository for invoices and related documents that offers the greatest benefit. For high-transaction-volume business, efficiency gains may be the main target. Take a look at your operations and reference Table 5 to frame out which approach might work best for your individual operations.

## Chapter Three: Required Actions

Whether a company is trying to move its accounts payable performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

### Laggard Steps to Success

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- **Review current receipt and approval policies and identify major program gaps.** Do not underestimate the benefits of picking 'low hanging fruit.' Survey respondents with clear policies in place achieve payment processing times 42% quicker than others (12.2 days versus 20.9). Take the time to review your policies to identify areas for removing duplicated efforts, and to integrate informal best practices into formal documents. Keep an eye on how easy to use the documents are for your staff. If not properly communicated, even the greatest tactics will fail in implementation.
- **Measure compliance to enterprise invoice / purchasing policies.** If you do not know whether established policies have been followed, you will not know whether performance improvement requires better procedures or better staff adherence. Those respondents that have processes in place to measure receipt and approval workflow compliance have been able to reduce the number of transactions incurring late payment penalties by 3.7-times as much as others (8.9% improvement versus 2.4%).
- **Engage upper management in strategic and technological A/P initiatives.** Do not simply expect support; you must develop a compelling business case (see Chapter One). Those that have secured executive support for automation initiatives are 2.3-times as likely as all others to have adopted some degree of automation (from back-end document capture through front-end data capture and ERP integration). The results of their efforts: invoice processing costs that are 21% cheaper and processing cycle times 44% faster than their peers.

### Industry Average Steps to Success

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- **Automate header data validation to improve visibility into invoices and reduce unneeded staff attention.** Data lookup and comparison is a computer's bread-and-butter. Once an incoming invoice is fed into the system, let it bear the burden of comparing PO numbers, supplier IDs, and dollar amounts to verify completeness and identify potential duplicate documents. Responding enterprises that have automated this task have been able to reduce the number of personnel required for invoice processing by 1.7-times more than all others over the past year.

#### Fast Facts

- √ 68% of Best-in-Class enterprises have solutions in place to automate payment scheduling versus 45% of Laggards
- √ Only 27% of Laggards have clear policies in place for the receipt-to-payment workflow, compared to 59% of top-performing enterprises

- **Investigate electronic invoicing for a streamlined A/P program.** Once clear and efficient policies are in place, you can begin to make intelligent decisions about which technologies are well-matched with your operations. There are multiple avenues for receiving invoices electronically - whether as digitized documents (email, PDF, etc.) or pure data. Taking just one example, current respondents utilizing Electronic Invoice Presentment and Payment (EIPP) are able to process invoices 63% cheaper and 58% faster than those working manually.

## Best-in-Class Steps to Success

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- **Improve visibility into invoices and translate that intelligence to other business units and stakeholders.** Even for companies that can minimize the time and cost required for invoice processing, A/P can provide further benefit to the overall enterprise. Dashboard users are 1.8-times as likely as non-users to describe their visibility into invoice status as 'good' or 'real-time,' while for respondents that have enabled on-demand auditing are 2.6-times as likely as others to cite those levels. Beyond the core A/P department, this visibility aids Procurement in strengthening their supplier relationships, and provides valuable intelligence to the CFO when examining the enterprise's cash position.
- **Increase the use of dynamic discounting.** What good is 2/10 net 30 on Day 11, to either you or your supplier? The customer has no incentive to expedite approval and payment, as the purchase cost will remain the same for nearly three more weeks. The supplier is no better off, as the likelihood of receiving funds early-on is likely nil. Overall, respondents utilizing dynamic discounting receive early payment discounts on nearly 11% of their invoices, as compared to 6% for their peers. Don't wait for your suppliers to come to you - if you have the capability to react quickly enough to adjust payment terms mid-process, engage with your top suppliers to introduce the topic yourself.
- **Close the loop with data integration.** The Best-in-Class lead the way when integrating captured data directly into their systems of record, but even within this high-performing group there is room for improvement. Automating this process removes the expense and potential for error inherent in human data entry, and improves overall enterprise access to invoice and payment-related data. Respondents who have taken this step are more than twice as likely to cite good or real-time visibility into invoice status and documents. Overall, they also achieve 32% faster processing times, with a larger 47% gain when processing exceptions.

"Our credibility [around] the globe is getting impacted because of . . . not having proper tools: fully automated process as an extended enterprise; too many hops in the approving process, which leads to delayed payment to vendors; and multiple invoice formats submitted by vendors creating confusion for centralized authority clearing A/P."

~ CPO,  
Large International IT Services  
Firm

### Aberdeen Insights — Summary

For the majority of enterprises, the initial stages of the accounts payable process are mired in manual and paper-laden methods; this reliance on outdated and inefficient processes can result in dire effects on the sequential steps within the A/P structure. As the A/P department moves into a strategic realm (with fellow siblings in finance, procurement, and supply chain), enterprises on the bottom of the performance food chain must look to improve, restructure and streamline their existing invoice receipt and workflow processes as a means of increasing the greater value of this once back-office business function.

Companies with inflated invoice-processing costs and cycle times should look within for immediate efficiencies; they will be rewarded from cutting invoicing bottlenecks and identifying major program gaps before making the leap into an automated A/P technology solution or tool. Enterprises can put together a strategic business plan by benchmarking current processes / methods and how these invoicing steps are currently affecting invoice-processing costs and cycle time.

Accounts payable automation can transform an existing, manual-based A/P department into one that provides a spend visibility, accurate / real-time financial forecasting, and strategic value through business cost containment. It is through a rigorous balancing act of automated tools, internal capabilities, departmental efficiencies and executive / C-level support that the modern accounts payable department can be transformed into and leveraged as a strategic, value add corporate function.

## Appendix A: Research Methodology

Between March and April 2010, Aberdeen examined the use, the experiences, and the intentions of more than 150 enterprises handling the invoice receipt and workflow portions of accounts payable in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on their A/P strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: C-Level Executive / President (14%); GM / EVP / SVP / VP (14%); Director (20%); Manager (31%); and other (21%).
- *Department / function:* The pool included respondents from the following departments or functions: accounts payable (29%); finance / administration (19%); procurement / purchasing (18%); corporate management (10%); IT (7%); and other (17%).
- *Industry:* The research sample included respondents from a wide variety of industries, including: software (10%); financial services (10%); insurance (6%); retail (5%); food and beverage (5%); government / public sector (5%); health / medical / dental services (5%); automotive (4%); among others.
- *Geography:* The majority of respondents (72%) were from North America. Remaining respondents were from Europe (18%), Asia-Pacific region (7%) and the Middle East / Africa (3%).
- *Company size:* Forty-two percent (42%) of respondents were from large enterprises (annual revenues above US \$1 billion); 35% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 23% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Sixty-four percent (64%) of respondents were from large enterprises (headcount greater than 1,000 employees); 20% were from midsize enterprises (headcount between 100 and 999 employees); and 16% of respondents were from small businesses (headcount between 1 and 99 employees).

### Study Focus

Responding executives and professionals completed an online survey that included questions designed to determine the following:

- √ The degree to which automation technologies are deployed in their accounts payable departments and the financial implications of the technology
- √ The structure and effectiveness of existing A/P implementations
- √ Current and planned use of supporting technologies to improve A/P activities
- √ The benefits, if any, that have been derived from A/P improvement initiatives

The study aimed to identify emerging best practices for A/P automation usage, and to provide a framework by which readers could assess their own management capabilities.

**Table 6: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, April 2010

**Table 7: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, April 2010

**Table 8: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, April 2010

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [\*The CFO's View of Procurement: Work in Progress\*](#); November 2010
- [\*E-Payables: Electronic Payments Reduce Your Payment-Processing Costs\*](#); July 2010
- [\*E-Payables: Invoice Receipt and Workflow: Cut Invoice-Processing Costs and Time by Over 90%...Now\*](#); May 2009
- [\*The CPO's Agenda 2009: Smart Strategies for Tough Times\*](#); April 2009

Information on these and any other Aberdeen publications can be found at [www.aberdeen.com](http://www.aberdeen.com).

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