4 Reasons Businesses Must Transform Accounts Payable with Digital Technologies

An AP & P2P white paper

APP2P Network

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No matter what future you see ahead for your accounts payable (AP) organization, one thing is sure: If your organization is going to succeed in the emerging digital trade and commerce environment, it will need to process transactions more efficiently than ever, have faster access to AP information, and be able to act upon information and identify opportunities more quickly. This will require AP organizations to transform their processes with digital technologies. Accounts payable departments that delay their digital transformation initiatives risk falling behind their peers and putting their business at a competitive disadvantage in the global business landscape. This white paper details the growth of digital technologies, the dangers of relying on manual and semi-automated AP payable processes, the benefits of using digital technologies in AP, and how effective change management ensures the success of digital transformation efforts.

Digital Transformation

To compete in the emerging global economy, businesses must transform their corporate strategies to embrace digital. Indeed, digital transformation is a high priority in the boardroom. Eighty-five percent of businesses have an established digital transformation function as a focus for innovation, per Ernst & Young. Eighty-seven percent of businesses surveyed by Ernst & Young are explicitly considering digital transformation in their capital allocation planning for the next two to three years.

Best-in-class organizations are already digitizing their business processes. The number one digital transformation strategy is to promote collaboration across the organization, as well as between multiple technologies, in support of business processes, Aberdeen Group reports. Organizations also are striving for greater flexibility in their business processes, more intelligent workflows, simplified and more efficient business processes, faster cycle times, and fewer paper-based business processes.

Some of the technologies organizations are using as part of their transformation initiatives include:

- Automation

- Mobile and cloud computing

- Artificial intelligence

- Robotic process automation

- The Internet of Things

This transformation is evolving financial systems and processes.

A WHOPPING
82% of businesses are seeing measurable returns from their digital finance investments, per Accenture Strategy.

Forty-eight percent of senior finance executives believe that digital technologies will fundamentally change everything that finance does, a recent study from Accenture Strategy reported. CFOs are increasingly relying on digital technologies for security threat intelligence, blockchain and artificial intelligence. Buoyed by greater-than-expected returns from these digital investments, CFOs also are incorporating digital into their organizations at large to drive transformational change, Accenture Strategy reports.

Digital transformation is also on the AP department's agenda. Most payables departments are investing in process standardization and automation, per a recent IOFM study.

The Dangers of Manual Processing

Accounts payable earned a dubious trifecta in IOFM's recent survey of controllers: Payables topped the lists as the most time-consuming, laborious, and paper-intensive finance and administration function, ahead of activities such as accounts receivable (AR), payroll, tax, and audit and reporting.

In fact, AP received nearly twice as many votes from controllers as the most time- and labor-intensive finance and administration function than the next highest-ranked function.

Efforts to improve AP processes have historically been undermined by the double-whammy of high paper volumes and a lack of automation to facilitate timely payments and working capital optimization. Most departments have been forced to rely on sub-optimal manual processes, reinforcing the long-held perception that AP is a tactical, back-office function.

Manually processing paper invoices results in:

- Costly and error-prone keying of invoice information

- Lost or misplaced invoices

- Long approval and exception resolution cycles (which result in late fees and missed discounts)

- Compliance and security risks

- High paper storage and retrieval costs

- Delays uploading data on approved invoices to downstream systems

- Time-consuming supplier inquiries regarding invoice and payment status

- Difficulty implementing operational best practices

42% of organizations identify automation as a key step to improving financial management, Aberdeen Group reports.

Improving processes and automating manual processes ranked among the top AP concerns for **41 percent and 33 percent**, respectively, of businesses surveyed by IOFM. What's more, **15 percent** of businesses identified developing and maintaining effective policies as a top AP concern, **while 7 percent** pointed to staffing levels as a top concern.

The results of IOFM's *2016 AP Key Performance Indicators Study* illustrate the inefficiencies of manual invoice processing. Of the 69 full-time equivalents (FTEs) employed in AP departments (on average across all locations), all but one FTE performs invoice data-entry.

Manual processes also increase the chance of payment errors. Thirty-nine percent of businesses report that duplicate payments and over-payments represent more than 1 percent of their payments. Worse, duplicate payments and over-payments account for 2 percent or more of all payments at 14 percent of the businesses surveyed for IOFM's *2016 AP Key Performance Indicators Study*. A rule of thumb is that a duplicate payment rate over 0.5 percent indicates weak controls, or that the master vendor file needs a good weeding out, IOFM noted in its AP Department Benchmark and Analysis study.

Additionally, paper processes limit visibility into invoice information — a top AP concern of 7 percent of businesses surveyed by IOFM. In a paper-based environment, critical information is not captured, data is poorly organized, information is not timely, systems are not well-integrated, and decision-makers cannot access key variables. Moreover, it is hard for staff to track the status of invoices and other documents in a paper-based environment and to ensure that the appropriate individuals have approved documents in a timely manner. Paper invoices can sit for days on an individual's desk, get stuck in inter-office mail awaiting approval, or become lost or misfiled.

Manual processes take significantly longer than their digital counterparts. Thirty-seven percent of organizations surveyed by Aberdeen Group point to the time it takes to complete financial processes, along with the demands they place on internal resources, as a leading pressure they face.

Four Reasons to Use Digital Technologies

Digital transformation brings a new level of ease and efficiency to AP by enabling users to optimize their every decision and action via a customizable dashboard display.

No more Excel spreadsheets. No more email trails. No more guesswork.

Data from Aberdeen Group overwhelmingly illustrates that best-in-class organizations leverage the automated capabilities of financial solutions to alleviate pressures and improve overall performance.

62% of organizations surveyed by Aberdeen Group identified eliminating complex and/or risky processes among the top priorities for digital transformation.

TOP PRIORITY

Best-in-class organizations achieved an **18 percent** improvement in the cycle time of key business processes over the past **12 months,** per Aberdeen Group.

IMPROVED
18%
12
MONTHS

An electronic invoice is an invoice that moves from the supplier's billing system to the buyer's accounts payable system without any data entry.
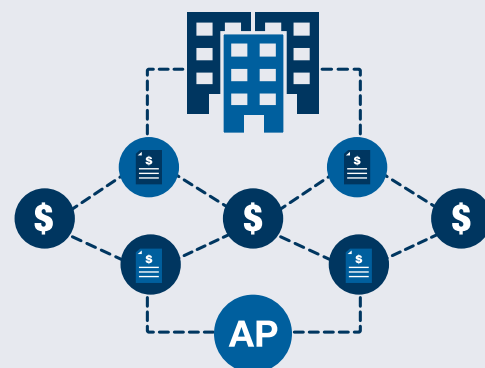
AP

But there are four big reasons that AP departments should deploy digital technologies:

1. **Increased productivity**: One-third of organizations struggle to process high transaction volumes at their current staffing levels, per Aberdeen Group. This is no surprise when you consider that the average AP department manually handles nearly two-thirds (61 percent) of the invoices it receives, per *IOFM's 2016 AP Key Performance Indicators Study.* Digital technologies automate most of the steps associated with invoice processing including invoice receipt and validation, extraction of header and line-item data, matching of invoices and purchase orders (POs) and/or proof-of-delivery receipts, routing of invoices for approval or exceptions handling, and the upload of information on approved invoices to an enterprise resource planning (ERP) or financial system. Digital technologies use three-way match verification to check for corresponding POs and goods receipts when invoices arrive. Any quantity/price mismatches are instantly flagged so personnel can quickly resolve. With digital technologies, PO and non-PO invoice posting are automated and fully auditable. Thirty-six percent of businesses that have deployed digital technologies improved AP staff productivity, Accenture reports. Digital technologies enable organizations to process 3.9 times as many invoices and post 63 percent more invoices straight-through, without operator intervention, Aberdeen Group reports. Improved staff productivity enables businesses to reassign staff to value-added activities such as data analysis. Moreover, automating AP with digital technologies is one reason that best-in-class organizations spend one-fifth what it costs peers to process an invoice from receipt to approval ($3.34 versus $16.67), per Aberdeen Group.

2. **Better invoice tracking**: Twenty-nine percent of organizations surveyed by Aberdeen Group cite the difficultly locating and managing paper-based documents as their biggest accounts payable challenge. Poor invoice tracking and control makes it harder to assess AP operations, optimize the use of cash, and develop strategies for improvement. It is no wonder that 46 percent of best-in-class organizations surveyed by Aberdeen Group are using digital technologies as part of their invoice receipt and workflow processes. Digital technologies track every invoice with Key Performance Indicator (KPI) dashboards that provide users with the readily available data needed to perform daily tasks, monitor performances, and spot problems or opportunities as soon as they arise. Department managers also can run a report on how many invoices are awaiting approval. Invoices are processed based on predefined criteria and automatically sent down the appropriate workflow path. Users can manage and monitor invoices at their fingertips.

74% of best-in-class organizations surveyed by Aberdeen Group employ solutions that automatically post transactions to general ledger or financial systems.

A complete audit trail of every point within the process also provides peace of mind regarding Sarbanes-Oxley Act compliance, giving insights into "who did what, when and where." Established workflows also can be automated to ensure that policies are adhered to and that purchasers and management approve invoices, when needed. Automated workflows eliminate the chance of lost or misfiled invoices, or invoices becoming "stuck" on the desk of a purchaser or manager who is out of the office. The technology allows for the creation of alerts and reminders for approvals and exceptions resolution, all while providing updates on the status of invoices. The mobile applications offered by some providers enable on-the-go purchasers and managers to:

- View the list of vendor invoices awaiting approval, or those on hold

- View invoice images as received by the accounting department

- Instantly access key invoice data as well as any comments from previous approvers

- Review and edit coding and payment information for each line item

- Approve, put on hold, or return invoice to previous approver with the option of adding a comment at each step

3. **More opportunities to capture early-payment discounts**:
Manual routing, processing and signoff procedures can lead to missed vendor discounts, late payment penalties and even strain supplier relationships. It is no wonder that time management and on-time payments are among the top AP concerns of one-quarter (25 percent) of businesses surveyed for IOFM's *2016 AP Key Performance Indicators Study*. Transforming AP with digital technologies improves cash management and creates additional discount capture opportunities — both among the top concerns of business surveyed by IOFM. Eighty percent of the businesses surveyed by IOFM receive invoices that offer early-payment discounts. In fact, 5 percent of those surveyed reported that more than 25 percent of the invoices their business receives offer discounts for early-payment, while 3 percent of businesses say between 16 percent and 25 percent of the invoices they receive offer early-payment discounts. Businesses that take advantage of just a discount term of 1/10 net 30 earn an annualized 18 percent return — a lot more than they can earn from a typical interest-bearing bank account. This is why 42 percent of best-in-class organizations cite capturing early-payment discounts as a top priority of AP management, Aberdeen Group reports. But most businesses capture less than 21 percent of all early-payment discount offers, and 12 percent of businesses are unable to capture any early-payment discounts, per *IOFM's 2016 AP Key Performance Indicators Study.*
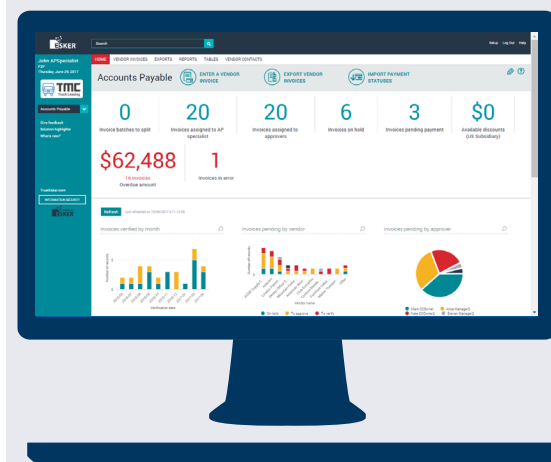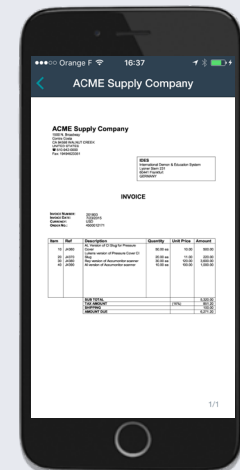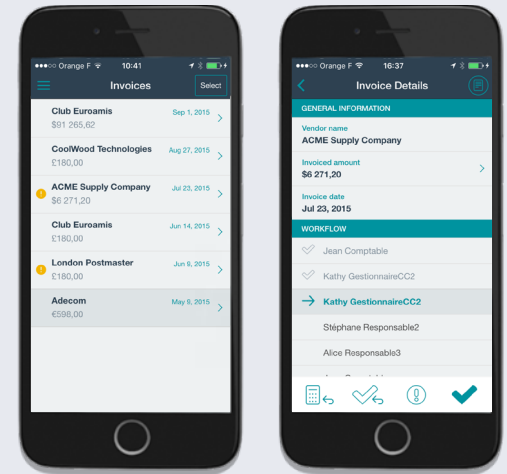
Accounts payable departments with digital technologies process invoices in less than half the time of average companies (3.7 versus 8.8 days) and in less than one-third the time of laggards (3.7 versus 14.3 days), according to PayStream Advisors. In fact, 37 percent of AP departments that have deployed digital technologies report faster invoice cycle times, Accenture reports. Faster cycle times enable businesses to eliminate late-payment penalties, strengthen supplier relationships, gain leverage at the negotiating table, and create more early-payment discount opportunities. Some solutions also track early-payment discounts and late-payment fees.

4. **Enhanced visibility**: From audits to vendor inquiries, finding information quickly can be virtually impossible when invoices are stored and retrieved using manual methods. Only 15 percent of AP departments currently track their metrics with technology like dashboards that display KPIs, per IOFM. This lack of visibility can have big consequences. Accounts payable specialists have a harder time prioritizing tasks, department managers cannot get a clear picture of their team's performance, and finance executives fail to get the oversight they need into cash flow and finance/administration functions. Demand for real-time data is a big challenge of AP departments, per Aberdeen Group. Digital technologies put real-time decision making into a CFO's hands like nothing else before it. Built-in dashboards provide decision-makers with real-time access to KPIs such as: cost to process a single invoice, time to process a single invoice, number of invoices processed per day/per AP specialist, percentage of invoices linked to a PO, invoice exception rate, accrual reporting, and spend by category and supplier. Dashboards provide CFOs with data such as organization spend overview, AP cash flow, AP process metrics, and Days Payable Outstanding (DPO). Meanwhile, dashboards provide cost-center owners with information such as requests pending approval, budget control and forecasts, and spend analysis and trends. And digital copies of invoices are accessible to authorized staff at any time, from any location, for as long as needed. Accenture Strategy predicts that digital technologies could soon make monthly and quarterly management reports a "quaint relic of a bygone time." Sixty-eight percent of best-in-class organizations surveyed by Aberdeen Group employ an automated solution that provides real-time visibility and control into all cash account balances.

Parts Town

Parts Town, a fast-growing supplier of original equipment manufacturer (OEM) restaurant equipment parts, is one business that is transforming its AP functions with digital technologies.

40% organizations surveyed by Aberdeen Group identify the need for real-time availability of data as a top AP pressure.

Parts Town quickly outgrew the largely manual methods it previously used for accounts payable. Moreover, the company had no controls in place when routing invoices for approval. That's when Parts Town made the decision to transform its AP department with Esker's automated solution. Parts Town already used Esker for order processing and accounts receivable tasks.

Transforming its AP function with Esker's digital technologies provided Parts Town with immediate benefits. For starters, the efficiency provided by the automated solution freed staff to focus on value-added activities such as data analysis, sorting through discrepancies and contacting manufacturers before due dates. Esker's solution also provided increased visibility into important invoice information such as invoices pending approval and available early-payment discounts. The company also gained full transparency and accountability over invoices routed for approval.

Other benefits that Parts Town anticipates because of deploying digital technologies include:

- Fifty percent more early-payment discounts captured

- Sixty percent better productivity per AP user

- Support for 30 percent annual growth without additional headcount

Managing the Transformation

None of the benefits from digital transformation are possible without effective Change Management.

A lack of employee engagement results in staff resisting change and refusing to adopt new tools and processes. Poor Change Management also can significantly impact operational performance and customer service and impede an organization's ability to achieve return on its digital investments.

The first step in an effective Change Management program is to carefully review your current processes and identify as many manual touch points as possible. At times, there may be a manual step in a company's invoice process that is critically important (i.e., there is a reason why it is done), and it should not be eliminated altogether but simply automated as much as possible. Only then is it the best time to look for areas where paper can be removed through digital transformation.

Some strategies for successfully managing change during a digital transformation initiative include:

- Establish a Change Management team with defined roles and responsibilities

- Identify and position stakeholders and influencers as spokespersons for change (e.g., CFO or controller) and share information in optimal sequences

Staff must become comfortable with digital technologies.

- Engage front-line staff to work closely with the Change Management team

- Create incentives to drive behavioral changes and keep staff engaged

- Seek "quick wins" to make the benefits of digital transformation tangible early

- Use hard, objective metrics to measure progress throughout the deployment

- Keep it simple and do not try to do too much at one time

Some digital transformation solutions providers embrace an Agile methodology and Change Management practices. This type of collaborative and phased approach allows users to get hands-on solution experience early on in incremental stages while also being more receptive to procedure changes once the solution is in place.

Benefits of Agile and Change Management practices include:

- Gaining the benefits more rapidly with faster ROI

- Ability to make decisions with context and experience

- Quickly receiving new features to test

- Direct involvement in the project

- Greater process insight

- Investing resources in the most valuable features

- Reducing risks and lowering overall startup costs

Conclusion

More businesses are transforming their finance operations with digital technologies. When combined with an effective Change Management program, digital technologies enable businesses to transform finance processes such as AP to improve productivity, more closely track invoices, create more opportunities to capture early-payment discounts, and enhance visibility into AP information. Businesses that delay migrating to digital technologies such as AP automation miss out on higher profit margins, and risk falling behind their competitors.

About Esker

Esker is a worldwide leader in cloud-based document process automation software. Organizations of all sizes use its solutions to automate critical areas of business communication. For the past 30+ years, Esker has helped over 11,000 companies around the world Quit Paper and improve operational efficiency. Its headquarters are located in Lyon, France, but you can find Esker just about anywhere paper needs quitting.

About the AP & P2P Network

The AP & P2P Network is the leading provider of training, education and certification programs specifically for Accounts Payable, Procure-to-Pay, Global and Shared Services professionals as well as Controllers and their F&A teams.

Membership to the AP & P2P Network (**www.app2p.com**) provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Payable and Procure-to-Pay process.

Focus areas include best practices for every AP & P2P function; AP & P2P metrics and benchmarking data; tax and regulatory compliance (e.g. 1099, 1042-S, W-9, W-8, Sales & Use Tax, Escheatment, VAT, Canadian Tax, Internal Controls); solutions to real-world problems challenging your department; AP & P2P automation case studies; member Q&A networking forums, Ask the Experts, calculators, and more than 300 downloadable, customizable AP & P2P policies, flowcharts, templates and internal control checklists.

A membership to the AP & P2P Network provides tangible ROI to any organization – saving your organization time, money and keeping you compliant.

Over 10,000 professionals have been certified as an Accredited Payables Specialist or Manager (available in English, Simple Chinese and Spanish), and Certified Professional Controller through the AP & P2P Network and its parent company, the Institute of Finance & Management.

AP & P2P Network also hosts the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), designed to facilitate education and peer networking.

The AP & P2P Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable and Orderto-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.