Six Ways that Accounts Payable Departments Can Drive Business Process Improvement

An AP & P2P white paper

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Businesses are rethinking the way that they operate.

The confluence of disruptive global competitors, ever-increasing reporting demands, and a hailstorm of management, security, and regulatory challenges is creating pressure to improve the efficiency and effectiveness of operations. Businesses are expected to do more with less and run leaner and smarter.

The drive towards business process improvement has big implications for finance organizations and their accounts payable departments. Long-established business processes and tired legacy systems provide tremendous opportunities to improve operational efficiency and effectiveness.

This white paper details the corporate push for business process improvement, highlights the inefficiencies of traditional finance operations, shows six ways that accounts payable departments can deliver significant process improvements, and offers proven strategies for moving forward.

The Search for Process Improvement

Lean processes have received a lot attention in recent years, principally in manufacturing. The objective of lean processing is to focus resources only on those activities that add customer value and to eliminate activities that don't. But more finance organizations are embracing lean processes to eliminate waste and reduce manual, repetitive processes, and their associated errors and delays.

Some businesses are adopting Continuous Accounting, which transforms the way finance processes are managed by emphasizing real-time processing with highly skilled employees, coupled with deep analysis.

And more finance organizations are performing a "voice of the customer" analysis, the in-depth process of capturing stakeholder preferences and expectations. A voice-of-the-customer analysis helps finance organizations better align their processes with the business needs of stakeholders.

The new titles being adopted by businesses reflect the increased focus on financial process improvement:

- Performance improvement leader
- Finance and business transformation leader
- Work process improvement leader
- Director of finance process improvement
- Director of shared services and process improvement

Regardless of the approach that a finance organization takes to improve its processes, the objective is to get more out of existing staff and to get staff more engaged to improve performance in a way that will deliver sustainable benefits.

More than half

of finance executives report being frustrated by spending too much time on non-strategic work, per The Hackett Group.

In an ideal case, process improvement is embedded in day-to-day operational roles and becomes the responsibility of everyone within the finance organization. That's why more finance organizations have implemented a "daily huddle" to review overall performance.

Seventy-three percent of finance executives surveyed by The Hackett Group believe that it is "highly" important (58 percent) or "critically" important (15 percent) that their organization redeploy capacity to more value-creating activities to help the company achieve its strategic objectives.

Better Use of Finance Staff

Process improvement cannot come soon enough to most finance organizations.

The conventional finance and accounting model is burdened by tedious and expensive tasks, a high risk of errors that can damage the quality, accuracy and timeliness of results, and a lack of visibility.

Fifty percent of businesses surveyed by The Hackett Group say that achieving and maintaining a competitive enterprise cost structure is of "high" importance. Forty percent of businesses say that it is "critically" important that they achieve and maintain a competitive enterprise cost structure.

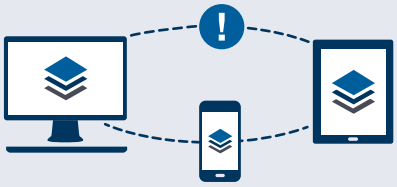
Thirty-three percent of finance executives believe that redesigning process workflows would make their finance organization more effective, PriceWaterhouseCoopers finds. Chief among the many manual and inefficient processes in finance is the time spent capturing, managing, and disseminating data from paper and electronic documents. The data captured from finance documents is often incomplete or inaccurate, requiring additional manual intervention. A proliferation of disparate delivery channels typically creates information siloes and may require data to be entered by hand. Poorly integrated systems and processes make it difficult for decisionmakers and remote staff to access data. And many manual custom reports are usually needed to satisfy numerous stakeholders.

It is no wonder that manual processes are still the biggest bottleneck in financial close and accounting operations for 70 percent of businesses, per The Hackett Group's research.

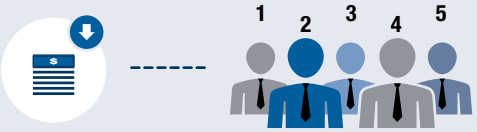
Top-performing finance organizations operate at lower cost, but also make more effective use of their staff. Enhanced efficiency means finance can reallocate staff to value-added activities such as:

- Supporting closing procedures, preparing financial statements, providing guidance to accounting principles, and designing enhanced processes and accounting techniques

40% of finance executives say that modernizing finance application platforms is among their top initiatives.



71% of finance executives cite reducing costs and headcount within the finance function among their top initiatives, per The Hackett Group.



"Today's CFOs are embracing digital more than ever."

—David Axson, managing director of Accenture Strategy, CFO & Enterprise Value.

- Providing input on financial reporting from a group and management perspective
- Supporting the business in the decision-making process regarding revenue management, margin management, capital management, and supplier and spend management
- Taking proactive steps to help ensure regulatory compliance

Rethinking Accounts Payable

As operational efficiency and effectiveness inches its way to the top of the corporate agenda, finance departments are incorporating accounts payable automation into their transformational strategy.

Accounts payable earned a dubious trifecta in an IOFM survey of controllers: the function topped the list as the most time-consuming, laborious, and paper-intensive finance and administration function, ahead of notoriously burdensome activities such as accounts receivable, payroll, tax, and audit. In fact, accounts payable received nearly twice as many votes from controllers as the most time- and labor-intensive finance and administration function than the next highest-ranked task (receivables).

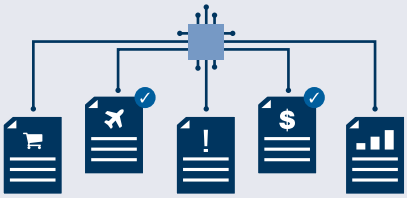
The results of IOFM's *2016 AP Key Performance Indicators Study* illustrates the inefficiencies of processing invoices in most accounts payable departments. Of the 69 full-time equivalents (FTEs) employed in accounts payable departments (on average across all locations), all but one performs invoice data-entry. Manual invoice processes also consume the time of accounts payable managers. Accounts payable managers spend a greater percentage of their time on transaction processing (36 percent) than on managing staff (34 percent), reviewing reports (21 percent), or planning (9 percent).

The root of the inefficiencies in accounts payable is that less than 25 percent of departments operate in a highly automated environment with predominantly electronic touchless processing, per IOFM. While enterprise resource planning systems collect, track, and analyze financial data, they do not automate many critical accounts payable processes, Deloitte warns. Even where partial automation is present, there are typically further opportunities to streamline processes and reduce waste and the time spent performing tasks that could be automated. The typical accounts payable department spends 27 percent or more of its time on waste or performing processes manually that could be automated, per finance benchmark data and performance surveys from PriceWaterhouseCoopers.

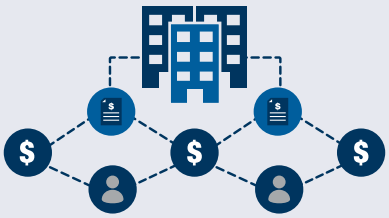
The first step many accounts payable departments take towards becoming more efficient and effective is to centralize processing, frequently with a shared services center with a focus on streamlining transactional processes, Ernst & Young says. Most accounts payable departments operate as a separate, centralized function, per IOFM's 2018 *Future of Accounts Payable Survey.*

TOP PERFORMING FINANCE ORGANIZATIONS operate at a **40 percent** lower cost as a percentage of revenue compared to average performers, per PriceWaterhouseCoopers.

48% of finance executives believe that digital technologies will fundamentally change everything finance does, Accenture Strategy reports.



IMPROVING PROCESSES AND AUTOMATING MANUAL PROCESSES ranked among the top accounts payable concerns for **41 percent and 33 percent**, respectively, of businesses surveyed by IOFM.



Twenty percent of accounts payable departments operate as part of a regional or global/multi-regional shared services center. Process improvement teams also are moving accounts payable beyond batch processing and embedding automation, control and real-time data visibility and analysis within the function's daily activities. Within the next three years, 51 percent of accounts payable departments expect to eliminate most of the paper invoices they currently receive from suppliers, per IOFM research. Nearly one-third of accounts payable departments expect to eliminate between 25 percent and 50 percent of the paper invoices they currently receive from suppliers.

The Opportunity for Process Improvement

Industry benchmarks illustrate the huge opportunity for process improvement in accounts payable:

- **Reduced costs:** Top-performing accounts payable departments spend $1.77 to process a single invoice, while their peers with no automation spend more than four times as much, per IOFM benchmarking data. The high costs of accounts payable can be directly attributed to the fact that staff spend 84 percent of their time on a seemingly endless list of manual tasks:
    - Keying invoice information
    - Matching invoices with POs and proof-of-delivery documents
    - Tracking down purchasers
    - Physically routing invoices for approval
    - Back-and-forth phone calls to resolve exceptions
    - Searching for lost or misplaced invoices
    - Filing and retrieving invoices
    - Setting up payments
    - Reconciling payments
    - Resolving payment issues
    - Preparing reports
    - Gathering information for auditors

  Based on the IOFM and AIIM benchmarks for invoice processing costs, an accounts payable department that processes 5,000 invoices per month stands to save $55,650 per month ($64,500 per month versus $8,850 per month) and $667,800 annually through automation.

- **Higher staff productivity:** Top-performing accounts payable departments process nearly 23,000 invoices annually per FTE, while their peers with no automation process less than 2,000 invoices annually per FTE, IOFM finds. Imagine what an accounts payable department can accomplish with those working hours, or the cost savings from eliminating that labor.

37% of senior finance executives say that reducing invoice processing costs is their top accounts payable priority, Ardent Partners finds. **Fifty-three percent** of executives want to reduce costs through the automation of accounts payable processes over the next 24 months.

ONE-IN-FOUR BUSINESSES are realizing greater than expected returns from digital, Accenture Strategy finds. **Eighty-two percent** of finance departments are achieving measurable return on investment from their investments in digital technologies.

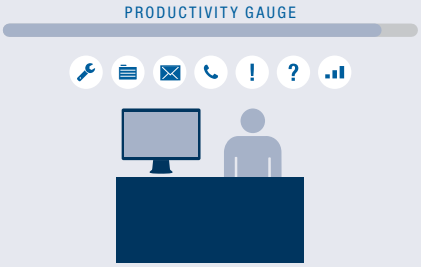
Automation improves staff productivity by eliminating the data entry, matching, paper handling and routing, and physical document storage required in a manual or semi-automated environment. The technology automatically extracts and validates invoice data, matches invoices with POs and proof-of-delivery receipts, and posts approved invoices directly into an ERP platform. Any invoices that require review, approval, or exceptions resolution are electronically routed to specific individuals based on pre-configured rules. Dashboards automatically alert managers to bottlenecks and users to invoices approaching their due date. The technology also tracks key productivity metrics. Staff productivity improvements are a big reason that half of all businesses that have automated accounts payable achieved return on investment in nine months or less and that 22 percent of businesses that have automated achieved return on investment in just six months, per AIIM.

- **Less paper handling:** Top-performing accounts payable departments match 90 percent of their invoices and purchase orders on the first pass, IOFM finds. Conversely, most accounts payable departments must manually handle more than 70 percent of the supplier invoices they receive. Automation provides two-way and three-way matching of invoices and purchase orders and/or goods receipts. Extracted invoice data is automatically matched and validated against data sources such as an ERP platform, business rules, and applications. Matching rules are defined based on business tolerances. Any unmatched invoices are electronically routed to a queue for inspection and data correction or electronically routed to stakeholders based on pre-set rules. Higher first-pass match rates enable accounts payable departments to process invoices faster and with less labor and fewer opportunities for errors.

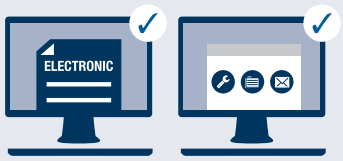
- **Faster cycle times:** Top-performing accounts payable departments (which typically operate in a highly automated environment) process purchase order-based invoices 29 percent faster than their peers, per The Hackett Group. Top performers process non-purchase, order-based invoices 33 percent faster than their peers. Accelerating invoice approval cycle times enables businesses to eliminate late-payment penalties, reduce supplier inquiries regarding invoice status, strengthen supplier relationships, gain leverage at the negotiating table, and capture more early-payment discounts. Faster cycle times also enable executives to analyze data in a timelier manner to make better-informed financial and business decisions. And combining faster invoice approval cycle times with the analytics tools in automated solutions enables businesses to develop a more strategic payment scheduled on a supplier-by-supplier basis.

- **Fewer errors:** Top-performing accounts payable departments correct less than 1 percent of all the payments they make to suppliers, while their peers must correct more than twice as many, per IOFM.

DIGITAL TECHNOLOGIES HAVE HELPED 36 PERCENT of finance organizations improve staff productivity, Accenture Strategy reports.



AUTOMATION STREAMLINES WORKFLOWS – from invoice receipt and approval routing, to invoice and PO matching, to review and exceptions management, to final approval for payment.



Duplicate or incorrect payments to suppliers result in strained supplier relationships, late payment penalties, missed early-payment discounts, poor cash forecasting, lower profit margins, and potentially higher bank fees. Automation reduces errors by:

- Validating invoice data early in the process against data in downstream systems
- Eliminating the manual processes and paper handoffs that often result in errors
- Providing fast online access to supporting data
- Flagging duplicate invoices
- Facilitating collaboration between suppliers and internal stakeholders
- Using analytics to flag problem suppliers

By flagging duplicate payments and overpayments or pricing errors before the supplier is paid, businesses save themselves downstream operational headaches, and the risk of never discovering these errors. Duplicate payments represent 26 percent of what accounts payable departments uncover through recovery audits, The Hackett Group reports.

- **More discounts captured:** Top-performing accounts payable departments capture 97 percent of early-payment discounts offered, per IOFM's *AP Key Performance Indicators Study.* Most accounts payable departments capture less than 21 percent of all early-payment discount offers, and 12 percent of departments are unable to capture any early-payment discounts, IOFM reports. Automation clears the way for businesses to pay more of the invoices they receive within the discount period. Once an invoice is approved for payment, the buyer presents the supplier with options for early-payment via e-mail or an online portal. The earlier the payment before the invoice due date, the bigger the discount; the shorter the time before the invoice due date, the smaller the discount. Capturing more early-payment discounts enables accounts payable to deliver significant value to the enterprise. Eighty percent of the businesses surveyed by IOFM receive invoices that 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. However, buyers in industries such as pharmaceuticals, consumer packaged goods and high-tech capture early-payment discounts of more than six percent, IOFM finds.

39% of accounts payable departments surveyed by Ardent Partners report that a high percentage of errors is their biggest challenge.

36% of CFOs measure accounts payable performance based on cash management metrics such as early-payment discounts captured, Ardent Partners finds.

Making Process Improvement a Reality

A critical step to becoming more efficient and effective is to evaluate the current state of accounts payable's operations including the technology, people, processes, and data flows it is using now.

Evaluating key performance indicators for costs, staff productivity, accuracy, and timeliness, among others, enables accounts payable departments to establish baselines and review results to facilitate continuous improvements over time. These metrics also allow finance leaders to see how their department is performing so they can manage their operations efficiently and head-off problems.

If accounts payable departments don't take time to measure their performance, they cannot identify and proactively resolve bottlenecks or monitor the impact of process improvements. Unfortunately, one-quarter of accounts payable departments do not regularly track key performance indicators, and 40 percent of accounts payable departments never track invoice processing costs, per IOFM.

With key performance indicators in hand, an organization can define its future state.

Automation also is critical to improving finance operations. Technology stands alone in its ability to deliver business benefit and reduced costs, IOFM's research finds. Top-performing accounts payable departments are improving processes using technologies such as electronic invoicing and the cloud.

When evaluating solutions to improve payables processes, look for a technology platform that:

- Incorporates the features and functionality most important to your department
- Layers services on top of technology
- Simplifies and automates the financial flow
- Eases supplier adoption and employee training
- Is backed by an established, reputable partner

Finally, accounts payable departments should regularly monitor their metrics and results, exceptions, and progress against original objectives to identify opportunities for business process improvements.

Conclusion

The pressure on businesses to become more efficient and effective is increasing. Tired ways of doing business will need to be rethought as a result. The challenge for accounts payable is how to eliminate wasted time and effort and support the strategic objectives of the business. Accounts payable must make the shift from a transactional cost center to a highly efficient and effective partner for their business. This starts with taking a hard look at an accounts payable department's key metrics and long-established processes and systems. How does your accounts payable department compare?

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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.

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