Kofax White Paper

The Top Seven Reasons to Automate Accounts Payable

Introduction

The accounts payable (AP) process is difficult to tame, yet well worth the effort. The reasons for investing in accounts payable automation are compelling, and in this paper we will make them clear. Yet, while few processes offer such tangible and fast return on an automation investment, many organizations err in judging AP as a low-value activity not worth that investment.

Accounts payable organizations are charged with simultaneously reducing costs, improving performance, achieving regulatory compliance, increasing visibility and enabling the corporation's strategic initiatives. Not only do these goals conflict at times, they compete for the same resources, limiting AP's ability to accomplish them.

Many technologies have been applied to the accounts payable process, including financial management systems (ERP), capture, intelligent document recognition, EDI, e-Invoicing, workflow, and the cloud. But industry experts agree that substantial benefits remain to be realized through an end-to-end invoice and AP process automation that these technologies have not delivered.

As The Hackett Group reports in its 2013 Purchase-to-Pay Performance Study, finance departments continue to seek improvement in a range of efficiency and effectiveness metrics that include first pass match rate, on-time payment rate, level of spend visibility, compliance to preferred supplier policies, cost per FTE, transactions per FTE, and invoice processing cycle time. This paper discusses why you should move now to capture the benefits available through implementation of end-to-end Accounts Payable automation.

Scope of the AP Process

An automated accounts payable process is essential to the health of the enterprise. Many attempts at AP automation falter because they fail to address the true scope of the AP process, so let's take a moment to agree on the nature of the challenge:

1. **Large volumes of transactions arriving in different media and formats.** The typical organization lives the nightmare of 80% paper invoices, but the remaining 20% come in all shapes and sizes – EDI, XML invoices from supplier networks, fax, email attachments, etc.
2. **Challenges in identifying the right data to extract and enter in the financial system of record.** No two invoices are alike. Is this a recognized supplier? Which site? Are there line items? Where is the invoice number? Is there a purchase order number? Does it match with the ERP? Does it all enter successfully into the ERP?
3. **Discrepancy resolution and approval workflows that reach to the edge of the organization, and the need to ensure the highest integrity.** Were the goods received? Is the price discrepancy approved or sent back to the supplier? Does the user have the authority to approve the invoice? Will it be charged to the correct cost accounts?

The seemingly simple process of AP in fact is intricate and complex. Still, the benefits of addressing this intricacy and complexity with the right automation are clear and compelling, as we'll explore in this fresh look at the *Top Seven Reasons to Automate Accounts Payable.*

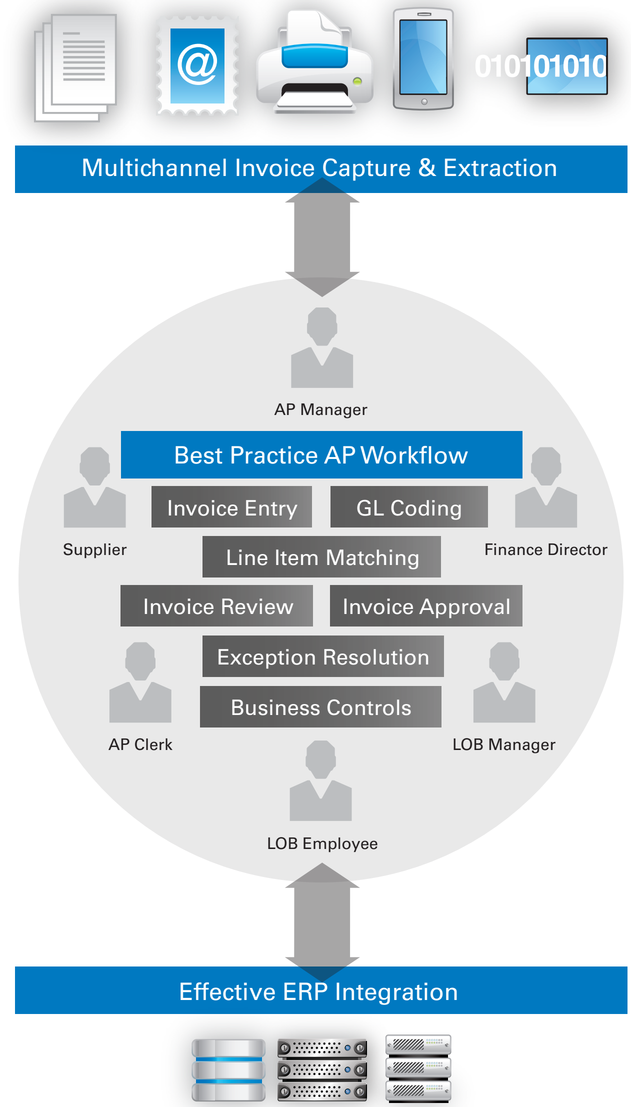

Fig. 1 AP Automation Must Address the Scope Illustrated

ONE: It's a Good Investment

Accounts payable automation's attractiveness as an investment is well documented. Studies by The Hackett Group, the Institute of Finance and Management, Nucleus Research, Aberdeen Group, the Institute of Financial Operations and many other independent industry experts document broad and substantial cost savings.

In a straightforward example, the Aberdeen Group's May 2012 report, AP Invoice Management in a Networked Economy, measures efficiency leaders at less than $2 to pay a bill, while the majority pays $6 - $25 or more, indicating available savings of more than $40,000 for every 10,000 invoices annually in most organizations. How can the majority resist the attraction of investing in technology that pays for itself? Creating your own business case for change in how you do AP is a good starting point – there is enough evidence to give you confidence that your case will be compelling.

In addition to the reduction of personnel costs for the capture and entry of invoice data, organizations also benefit from self-service supplier interactions, a reduction in duplicate invoices, increased discount capture, and the elimination of late payment penalties.

So where should you look when estimating the benefits that can justify your investment in end-to-end AP automation? Here are some of the common areas that yield the greatest return:

- There is great value in a single, consistent, automated process for all types of invoices, paper and electronic. Without this technology, organizations rely on different processes, managed by different people, with different methods of viewing and interaction.
- The capture, extraction, validation, and entry of invoice data automates the most painful part of the process. This is where errors multiply, where delays occur, and where the headcount costs are visible. It is universally viewed as a low-value activity.
- Automated purchase order matching removes low-value work from the outset. Successful matches result in straight-through processing.
- Workflow for discrepancy resolution and approval is the heart of the process. It engages all employees, so it has to be easy to use. It requires complex tasks, such as ensuring valid accounting codes and enforcing approval limits and hierarchies. This is where segregation of duties must be embedded, and where fraud can be trapped.
- A self-documenting audit trail removes the painful task of supporting audits and responding to inquiries.
- The real-time status of all invoice liabilities, alerts and escalations bring focus on priorities before others notify you. It positions AP to perform a fast period close.

TWO: Optimize Cash

Accounts payable is one of the organization's largest consumers of cash. The automated accounts payable process enables AP to accurately project its pending cash requirements, eliminating guesswork and negotiation.

On-time payments to suppliers are required to capture discounts. This requires on-time approvals by buyers and cost center managers. Automated alerts and escalations reduce the nagging by AP. Meanwhile, in its 2013 AP Automation Study, the Institute of Financial Operations reports that 42.5% of survey respondents captured less than 10% of early payment discounts.

Visibility into the process enables AP to manage priorities so they focus on the activities that will impact cash most positively. It's what enables on-time payment for all invoices.

High-value invoices can be isolated and managed by AP without "assistance" from buyers and management.

Dynamic discounting offers suppliers earlier payments in exchange for a payment discount, earning an annual return that can be in excess of 30%. Without automation, it is not feasible to implement dynamic discounting.

THREE: Strengthen Internal Controls

A manual AP process is a breeding ground for fraud. An automated AP process embeds controls that prevent and deter fraud, saving money. Since the implementation of regulations such as Sarbanes-Oxley, the stringent adherence to internal controls that mitigate fraud and ensure integrity of financial results has increased AP's compliance requirements and responsibilities. There is simply no way to ensure these controls in a manual process. Organizations with manual AP processes rely on audits, which further increase the cost of the process yet only provide a partial view into adherence. With controls embedded into an automated process, AP reduces the workload and cost of compliance.

The most common source of corporate fraud is in Accounts payable. A 2013 survey by the Association of Finance professionals reported that 61% of organizations suffered attempted or actual payment fraud in 2012 and that 27% indicated that incidence of fraud had increased. An errant employee creates a fraudulent supplier, followed by an invoice that is entered, approved and paid. Or an unscrupulous "supplier" submits invoices that are paid when they should not be. The automated process limits users to authorized functions (e.g., create supplier, enter invoice, approve invoice) and ensures that invalid invoices are not paid. Segregation of duties is enforced, ensuring, for example, that the same person cannot enter, approve and pay an invoice for a supplier, while supplier and invoice validation can be locked down by automated business rules. Most AP departments cannot dedicate staff to limited roles; rather, they seek to segment transactions to limit the possibility of a violation.

FOUR: Optimize Visibility

The manual AP process suffers from lack of visibility. This is fueled by decentralized invoice receipt and a different process for each type of invoice (paper, EDI, email, fax, etc.) When invoice receipt is decentralized, e.g., invoices are sent to employees or field offices rather than directly to AP, invoices can languish for days, weeks, and months. Suppliers who expect on-time payment are unhappy and quickly become the source of AP's pet peeve and drain on resources: rush invoices.

When invoices are not visible at the end of accounting periods, there's a risk of not recognizing a material portion of liabilities. Incomplete accruals may understate expenses and thus overstate income, and can result in "cut-off fraud."

The centralized receipt, immediate capture, extraction, validation and entry of data for all types of invoices accelerates the recognition of liabilities. It delivers a complete audit trail of every step and participant in the process and puts management in the position to quickly resolve potential problems. It eliminates most inquiries, as employees, finance, and suppliers have self-service access to invoice and payment status.

FIVE: Satisfy Customers

The automated process provides the foundation for the assessment of AP's productivity and effectiveness. It provides the data to prove that AP is achieving its cost objectives and meeting its service level commitments. It delivers metrics including cost per invoice, cycle time, process throughput, queue throughput, and user productivity. Insight from these metrics enables AP managers to more effectively leverage resources and to substantiate service levels to employees and suppliers. It promotes AP's image from a messy cost center to an efficient and effective contributor that supports the organization's strategy.

AP must reach a large constituency of internal and external customers. The manual process requires interoffice mail and email, with cumbersome forms that are difficult to decipher. An automated process makes it easy for internal customers and suppliers to participate, providing self-service, browser-based interaction for inquiries, discrepancy solution, and approval via their desktop, tablet or mobile device—while ensuring adherence to organizational security standards.

"Lost" invoices result in late payments (the primary source of supplier dissatisfaction) and duplicate payments that increase AP's costs. These are eliminated when suppliers leverage self-service portals for invoice submittal and inquiries and are greatly reduced by centralized receipt. Satisfaction is ultimately achieved by paying them accurately and on time.

SIX: Improve Quality

Errors in AP are costly in all "currencies," including dollars/Euros, departmental productivity, cash flow flexibility, and the organization's reputation as well. They are a major source of embarrassment. The challenge is to understand where and why errors occur and to systematically address and eliminate them to improve quality. And errors are surprisingly costly, as revealed when an AP error is broken down into the steps required to address it. For example, a supplier short-pay error requires that an organization:

1. Respond to the supplier's complaint
2. Investigate the error
3. Respond to the supplier with the disposition of the error
4. Issue a credit or initiate a new payment
5. Approve the new payment and, if necessary, reconcile with the PO
6. Mail the payment and inform the supplier
7. Account for this new liability
8. Manage the supplier's satisfaction
9. Manage the impact of delayed or withheld products from the supplier (which may impact production schedules)

Each step is time consuming for AP, the internal buyer, and the supplier. The labor cost alone is significant, and errors can cost cash as well.

Error rates plummet from the automated capture, extraction, validation and entry of invoice data, including supplier names, invoice numbers, invoice dates, invoice amounts, PO numbers, or specific line items ordered.

Yet, according to the Institute of Financials Operations' 2013 survey, less than 60% of organizations use invoice imaging at the beginning of their AP process and a shocking 77% fail to exploit OCR technology to automatically extract invoice data. It's no wonder that quality is so low and inefficiency, cost and error so high.

Automated workflow that is fueled by high-quality invoice data, and validates that against ERP records, drives validation and approval processes that avoid error, delay and unnecessary cost. When exceptions occur and remedial steps are needed, they are handled within the workflow, not in an expensive, uncontrolled, unaudited, non-compliant offshoot process.

SEVEN: Operational Flexibility

Accounts payable must support the organization's strategy. This may require handling of increased transaction volumes due to growth or acquisition. It may require displacement of functions into a different geography. It demands that AP provide higher value services, including spend analysis and forecasting.

Manual and disparate processes are not responsive to change. If strategy or requirements change, manual, people-intensive and non-standard processes can only adapt to these changes by investment of significant additional resources. Such processes are hard to move from one location to another. And manual and disparate processes encumber AP with low-value work and leave AP unable to staff higher-value services.

Not so with the automated AP organization. Increased volumes require considerably fewer resources. Shifting gears in an automated process is much less expensive than increasing people costs in a highly manual and non-standardized process. Automation facilitates the movement of functions to other geographies. The process is easily extended in support of mergers and acquisitions and delivers an efficient process at a low cost.

While control and compliance are critical in an AP process, flexibility is a must in today's economic environment. An AP process must be capable of responding to change, whether by dealing efficiently with one problematic invoice or by supporting business expansion, consolidation or rationalization quickly. Leaders now invest in AP process automation that provides a world-class service to their organization.

Conclusion and Next Steps

The payback period for investment in invoice and AP automation is short, ranging from 6-18 months on average. A proven problem with proven solutions, AP process automation is a low-risk investment. In our experience, successful AP automation projects are chartered on the basis of some or all of the seven reasons to invest as outlined in this paper. And the most common first step we observe in organizations that succeed with AP automation is the early creation of a well-researched business case.

The good news is that the reasons to automate AP are clear, and much of the information needed to create a compelling business case is often readily available to finance departments, either from internal systems or from industry sources such as those mentioned above.

We recommend three simple steps to set your organization down the path to successful AP automation:

1. **Build your AP automation business case:** Leverage available internal and external data to make tangible the benefits that will accrue to your organization specifically.

2. **Invest in the preparation of your case:** It's not enough to have the right business case. You must also present it in a form that is compelling to all the internal audiences who need to support you in the realization of the benefits you propose. As over 50% of respondents in the 2013 Institute of Financial Operations survey indicate, competing for executive attention and sponsorship over other projects is the #1 obstacle to getting AP automation projects approved.

3. **Partner:** Recognize that success necessitates internal and external partners, colleagues and vendors. This is true in the building of your case,

in its presentation and in the selection and implementation of your AP automation solution. Yes, AP is a difficult process to tame, but with the right partners it's well worth the effort.

Kofax AP Automation Solutions

Recognize that success necessitates internal and external partners, colleagues and vendors. This is true in the building of your case, in its presentation and in the selection and implementation of your AP automation solution. Yes, AP is a difficult process to tame, but with the right partners it's well worth the effort. Kofax integrates modular solutions to automate the end-to-end AP process.

Paper, fax, email attachments, EDI and XML invoices can be captured using production scanners to address high volume, batch processing needs; multi-function peripherals (MFPs) and desktop scanners can be used at distributed sites for on-demand needs; and, the cameras in mobile devices can be used by employees and suppliers. Kofax smart capture capabilities overcome traditional challenges of capturing images and content by automatically classifying, separating, extracting, perfecting, validating and delivering invoice data to over 100 different financial management systems (ERP). For many this is the first step.

Kofax smart capture integrates with Kofax solutions for workflow automation. Pre-built workflows deliver the industry's best finance practices integrated with the financial management system. All invoices (regardless or original format – paper, email, fax, EDI, e-invoices) are handled with a single, consistent, best practice process, providing complete and clear visibility. The original invoice is associated with the ERP record. Each transaction is routed to the appropriate reviewers (along with all related backup information) and a detailed audit history trail is maintained. This expertly designed approach successfully manages, optimizes and turbo charges end-to-end financial processes while facilitating regulatory compliance and self-service audits.

Kofax significantly enhances the AP internal controls environment through process simplification, standardization and centralization, leveraging the ERP and workflow technologies to establish preventative practices. Integrating the automated AP process with a company's system of record (ERP) for all invoices, and their associated back up, increases a company's financial control and greatly reduces the risk of duplicate payments, overpayments, errors and fraud. Kofax best practice workflows enforce adherence to corporate policies, provide greater efficiency, enforce segregation of duties for each transaction and use processes that are independent of any one member of the AP staff.

With a well-chosen investment in Kofax TotalAgility™ Accounts Payable Automation solutions, organizations can completely transform accounts payable processes to reduce costs, increase data quality and visibility, strengthen controls, maximize the use of cash and reap a tangible and attractive return on investment.

About Kofax

Kofax® is a leading provider of smart process applications for the business critical First Mile™ of customer interactions. These begin with an organization's systems of engagement, which generate real time, information intensive communications from customers, and provide an essential connection to their systems of record, which are typically large scale, rigid enterprise applications and repositories not easily adapted to more contemporary technology. Success in the First Mile can dramatically improve an organization's customer experience and greatly reduce operating costs, thus driving increased competitiveness, growth and profitability. Kofax software and solutions provide a rapid return on investment to more than 20,000 customers in financial services, insurance, government, healthcare, business process outsourcing and other markets. Kofax delivers these through its own sales and service organization, and a global network of more than 800 authorized partners in more than 75 countries throughout the Americas, EMEA and Asia Pacific.

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