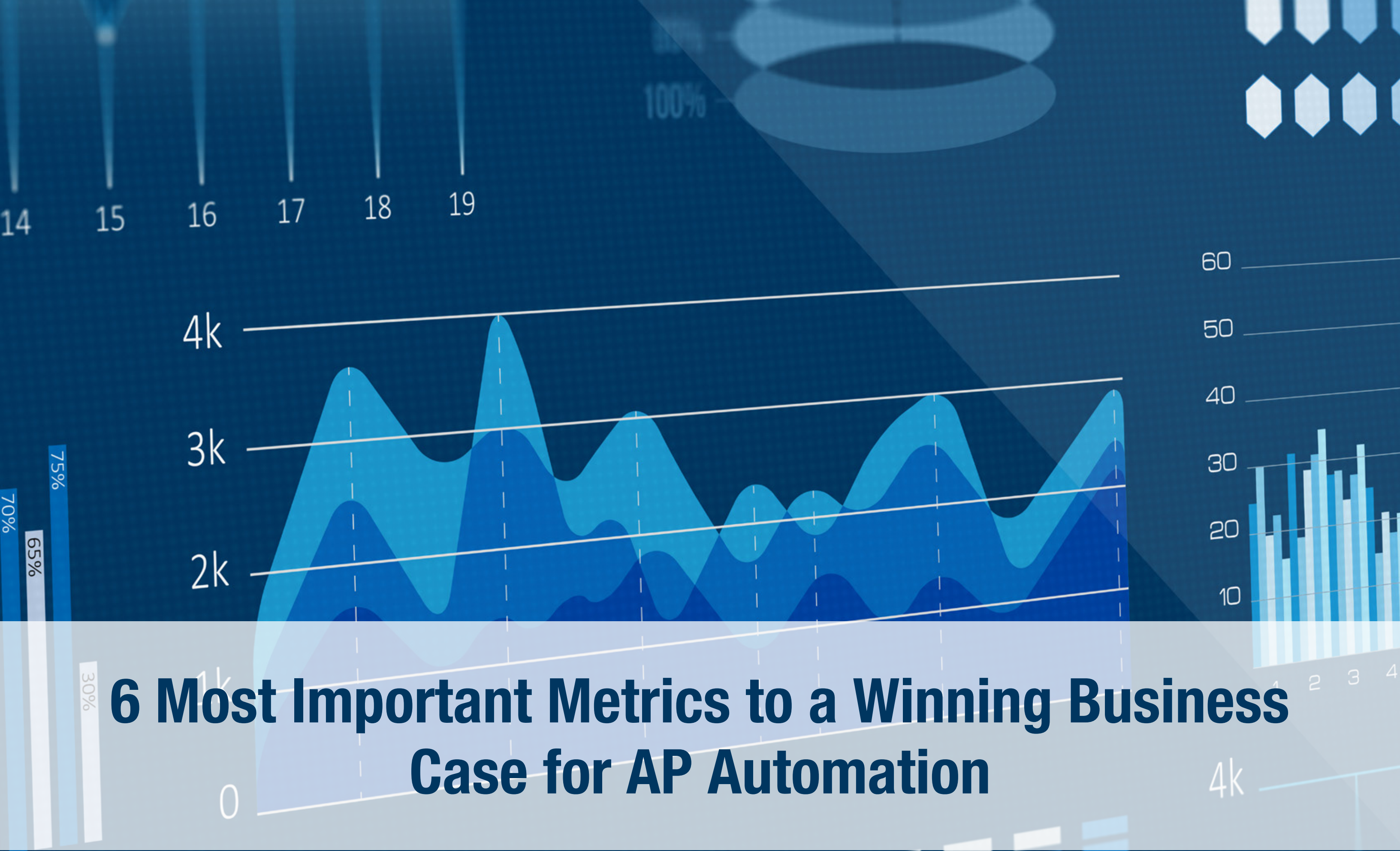

6 Most Important Metrics to a Winning Business Case for AP Automation

An AP & P2P white paper

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If the stubbornly high number of organizations that process invoices in a manual or semi-automated environment has proven anything, it's that many accounts payable leaders still struggle to articulate the value of automation and justify the expense and time to senior management. Many helplessly watch as their automation budgets are slashed or their automation projects are rejected or postponed.

Businesses cite numerous reasons for continuing to rely on manual or semi-automated accounts payable processes, including a lack of capital budget, too many competing priorities, a lack of IT and/or departmental resources, and no senior-level champion. But the primary reason that many accounts payable departments have not automated their invoice processing is that they do not know how to build a convincing business case for automation. This white paper addresses that challenge by using benchmark data from the Institute of Finance and Management (IOFM) to show the six areas where automation pays the biggest dividends. Focusing on these areas in your business case is sure to win senior management approval for deploying an automated accounts payable solution.

Efficiency Metrics

Top performers pay more than 90 percent of their supplier invoices on time

- Only 4 percent of businesses surveyed by IOFM pay all their invoices on time.
- Only 7 percent of businesses pay all their purchase order PO-based invoices on time.
- Six percent of businesses pay less than half their supplier invoices on time.

A big reason that most accounts payable departments cannot pay more of the invoices they receive from suppliers on-time is the manual and semi-automated invoice processes on which they rely.

Compared to manually keying data from paper invoices and physically routing the invoices for approval, automation greatly accelerates cycle times for PO-based and non-PO based invoices. Best-in-class accounts payable organizations process invoices in less than one-quarter the time of their peers (3.6 days versus 16.6 days), Ardent Partners' *ePayables 2015 – Higher Ground* report.

Less than ¼
of accounts payable departments are "highly automated," per IOFM..

How Automation Delivers:

Automation eliminates many of the time-consuming tasks associated with processing PO-based and non-PO based invoices. Invoices from any delivery channel, and in format, are received, digitized and standardized and aggregated into single platform. Intelligent data capture technology automatically extracts supplier, header and line-item data (such as amounts) from invoices that are received as paper or electronically.

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Invoices then are matched with POs and/or goods or services receipts. Invoices that require approval (such as non-PO-based invoices) or exceptions handling are digitally routed based on pre-configured business workflows. And automation ensures that invoices requiring review are always sent to the appropriate person; automation eliminates the possibility that invoices will become lost, misfiled or "stuck" on the desk of an approver who is out of the office.

The Payoff:

Top-performers process PO-based invoices 29 percent faster than their peers, according to The Hackett Group. Top-performers process non-PO-based invoices 33 percent faster than their peers.

Paying more invoices on time 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 more timely 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.

Top performers capture 97 percent of early-payment discounts offered

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's *2016 AP Key Performance Indicators Study* reports. These results are more sobering when you consider that 79 percent of businesses say their suppliers offer payment terms of 30 days or more. Only 27 percent of businesses surveyed by IOFM capture more than 80 percent of early-payment discount offers.

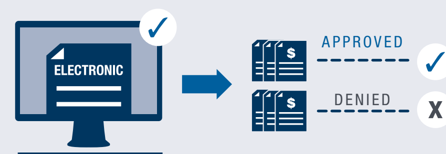
How Automation Delivers:

IOFM's *AP Department Benchmarking & Analysis* finds that moving to higher levels of automation clears the way for businesses to pay more of the invoices they receive within the discount period.

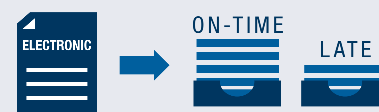
Companies with automated solutions can process invoices in less than half the time of average companies (3.7 days versus 8.8 days) and in less than one-third the time of laggards (3.7 days versus 14.3 days), according to PayStream Advisors' 2015 Invoice Workflow Automation report.

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.

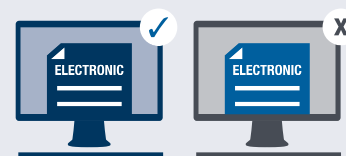
Automation eliminates the need for time-consuming manual matching and approvals.



45% of businesses achieved higher percentages of on-time payments because of automation, PayStream Advisors 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.



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The Payoff:

Eighty-percent of the businesses surveyed by IOFM in 2016 receive invoices that offer early-payment discounts. In fact, 5 percent of those surveyed said 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. However, the savings potential for a buyer from early-payment discount programs can be as high as 14 percent if all invoices they receive from suppliers are settled on optimum payment terms, per MasterCard's Creating Payments Energy study.

The savings from early-payment discounts add up. Top performers capture 7-times more early-payment discounts as a percentage of spend as their peers, per The Hackett Group. That means that a $1 billion-revenue company that previously captured $200,000 annually in early-payment discounts stands to gain $1.4 million a year in additional early-payment discounts through automation.

Automation also provides businesses with greater control over the timing of payments to suppliers. This flexibility supports corporate objectives for Days Payable Outstanding (DPO). More businesses are optimizing DPO as part of their efforts to more effectively manage working capital. Top-performing businesses have an average DPO of 49 days, versus 35 days for median performers and 26 days those in the bottom-quartile, The Hackett Group's *2015 P2P Performance Study* found. Extending DPO by 14 days or more through automation can slash a business' borrowing costs.

Top performers process nearly 23,000 invoices annually per full-time equivalent (FTE)

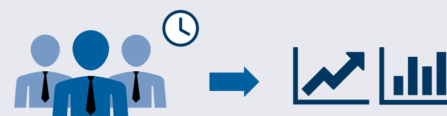
Top-performers process 175 percent more invoices per FTE than their peers, per The Hackett Group.

The disparity in operator production can be attributed to the manual and semi-automated processes on which most accounts payable departments rely. In a manual or semi-automated environment, invoice header and line-item data and general ledger information must be manually keyed, invoices must be manually matched with POs and/or proof-of-delivery documents, approvers must be tracked down, paper documents need to be physically routed, stored and maintained, and information on approved invoices must be keyed into an ERP platform. Many accounts payable departments also require invoices to be hand-stamped and/or photocopied as they are processed. It also is not uncommon in a manual or semi-automated environment for invoices to be handled multiple times during the approval process or lost, misfiled or pushed to the bottom of an approver's "in-box."

44% of buyers that responded to a survey conducted by MasterCard indicated that they would prefer to pay immediately in exchange for receiving a higher discount.

42% of businesses plan to deploy dynamic discounting within the next two years, per Ardent Partners' *ePayables 2015: Higher Ground* report.

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



Inadequate accounts payable processes and systems result in **27 percent** of time spent on waste and activities that could be automated, per PriceWaterhouseCoopers (PwC) research.

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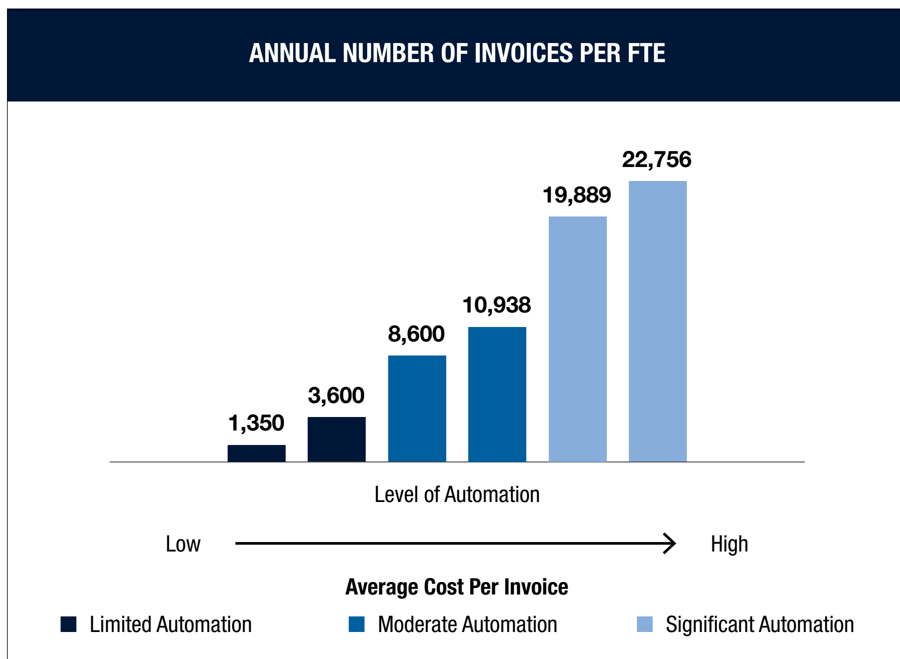
Resolving invoice exceptions requires back-and-forth phone calls and e-mails as accounts payable staff cannot access all the information they need. And accounts payable staff must manually prepare reports and physically retrieve documents required for supplier inquiries or auditor requests.

The results of IOFM's *2016 AP Key Performance Indicators Study* illustrates the productivity impact of manual invoice processing. Of the 69 full-time equivalents (FTEs) employed in accounts payable departments (on average across all locations), all but one FTE 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), IOFM reports.

How Automation Delivers:

Automation improves 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.

More than ¾
of businesses lack automated processes that fully optimize accounts payable, per MasterCard's Creating Payments Energy report.

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. **Fifteen percent** of those surveyed identified developing and maintaining effective policies as a top accounts payable concern, while **7 percent** of businesses pointed to staffing levels as a top concern.

39% of finance executives cite improved business process execution among the most important benefits realized by automating financial operations, CFO Research says.

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Dashboards automatically alert managers to bottlenecks and users to invoices approaching their due-date. The technology also tracks key productivity metrics.

The Payoff:

The Hackett Group estimates that full automation delivers a 175 percent improvement in productivity. Imagine what an accounts payable department can accomplish with those working hours, or the cost savings from eliminating that labor.

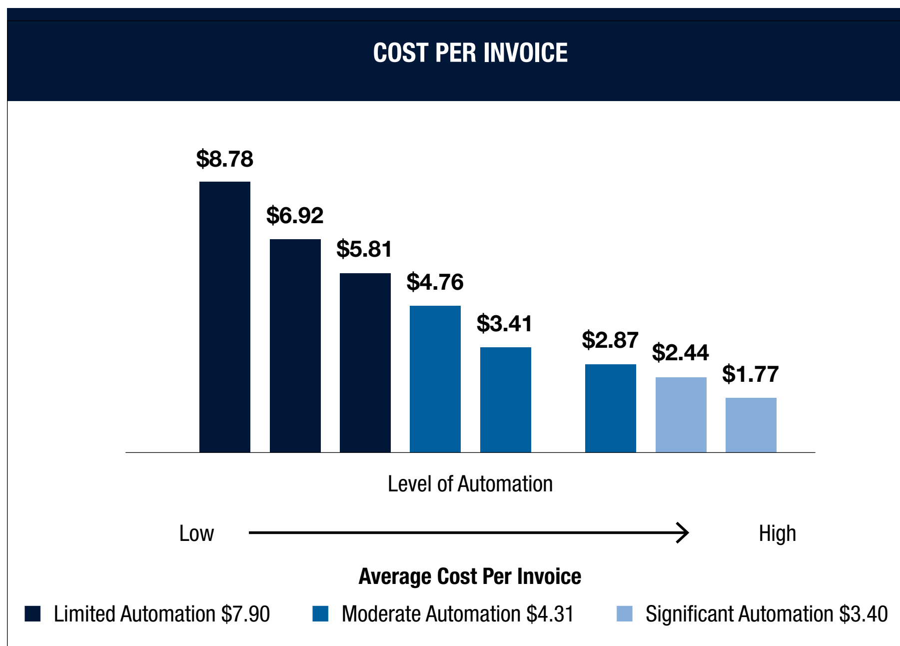
The productivity improvements provided by technology are a big reason that half of all businesses that have automated accounts payable achieved return on investment in nine months or less and that 22 percent of businesses that have automated achieved return on investment in just six months, per the Association for Information and Image Management (AIIM), headquartered in Bethesda, MD.

Top performers spend just $1.77 to process a single invoice

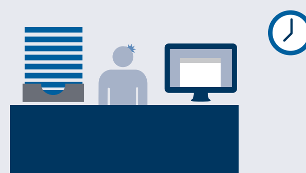
The average cost to process an invoice stands at $12.90 for all businesses, AIIM reports.

Interestingly, AIIM found that there is little correlation between average invoice processing costs and the size of an organization. AIIM attributes this to the fact that while larger organizations tend to have more overhead, they also may have centralized processes, offshore labor, and some automation.

But average invoice processing costs do not tell the whole story.



17% of businesses identify invoice data entry as their top challenge, while invoice coding is the top challenge for **15 percent** of accounts payables departments, IOFM reports.



Accounts payable professionals spend **84 percent** of their time bogged down by a seemingly endless list of manual transaction processes, IOFM reports.

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.

Reducing operations costs is a priority for senior executives: controllers rank reducing costs as their second most-important priority, reports IOFM's Senior Finance Executive Survey.

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Businesses surveyed by AIIM report that it costs them an average of 2.2 times more (and a median of 1.65 times more) to process invoices that do not have a PO compared to PO-based invoices. This puts the average cost to process a non-PO-based invoice at between $18 per invoice and $25 per invoice, AIIM's research finds. What's more, one quarter of businesses say it costs them at least 3 times as much to process an invoice that does not have a PO compared to PO-based invoices.

How Automation Delivers:

Automation eliminates the manual processes that drive up the cost of accounts payable processing:

- 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

The Payoff:

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 accounts payable automation.

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

Effectiveness Metrics

Top performers match 90 percent of their invoices and POs on the first-pass

Matching invoice line items with data in a PO system is the top point of pain for 28 percent of accounts payable departments, according to IOFM's *2015 AP Technology Survey*. Twenty percent of businesses report that obtaining proof of delivery documents required for matching is their biggest accounts payable challenge. What's more, 20 percent of businesses identified reconciling duplicate invoices among their top challenges in processing paper invoices, according to IOFM's research.

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How Automation Delivers:

Automation provides two-way and three-way matching of invoices and POs and/or goods receipts.

The technology automatically captures invoice data, checking for duplicate invoices, validating supplier information, and calculating the line-item data on invoices. Extracted data is automatically matched with POs and proof of delivery documents. Information can be 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-configured rules.

This functionality is why 82 percent of best-in-class organizations can automatically perform two or three-way matching, and that 70 percent of best-in-class organizations can process invoices straight-through without human operator intervention, according to 2015 research from Ardent Partners.

The Payoff:

Top-performers achieve overall first pass match rates 13 percent higher than their peers (88 percent for top-performers versus 78 percent for peers), according to research from The Hackett Group. The higher the first-pass match rate, the less labor an accounts payable department will require.

Top performers must correct only 1 percent of all the supplier invoices they process

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 businesses, IOFM's *2016 AP Key Performance Indicators Study* found. 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, per IOFM's AP Department Benchmark and Analysis. Top performers have a duplicate payment rate of less than 1 percent.

How Automation Delivers:

Manual invoice processes increase the chance of errors because of mis-keyed information, and no validation of invoice data. The problem is compounded when invoice errors are detected late during the processing cycle. Detecting errors late in the processing cycle is big reason for delayed approvals, resulting in late-payment penalties and missed early-payment discount opportunities.

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Automation improves accuracy by:

- Validating invoice data early in the process against information 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

Moreover, collaborating electronically with suppliers and internal stakeholders enables accounts payable departments to resolve disputes in a more structured and efficient manner than manual environments that typically rely on back-and-forth e-mails and phone calls with no tracking.

The Payoff:

Duplicate payments represent 26 percent of what accounts payable departments uncover through recovery audits, The Hackett Group reports. Overpayments and pricing errors accounts for 15 percent of what accounts payable departments uncover through recovery audits. 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.

Conclusion

The business case for accounts payable automation is compelling and proven. Yet most accounts payable departments struggle to articulate the value of automation. Focusing on the six-metrics laid out in this white paper provides a foundation for a business case sure to win over senior management.

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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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