White Paper
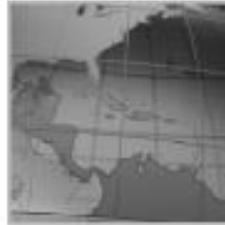
The Opportunity to Automate Accounts Payable

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Introduction

Almost every organization has an accounts payable (AP) department. AP represents a liability for a product or service that has been delivered, but payment has not been made. It is often linked to the issuance of a purchase order and proof of delivery to trigger payment. It is tied to cash management and overall costs as payment terms are typically a component of the AP process. They may include the offer of a cash discount for paying an invoice within a defined number of days. For example, "2%, 30 Net 31 terms" means that the payer can deduct 2% from the invoice if payment is made within 30 days otherwise the full amount would be due. In some cases, a penalty may be applied for late payment. This analysis examines the improvements organizations can realize by automating the accounts payable process.

Key Findings

- Manual processing of AP is expensive and time consuming. An Aberdeen study found that, on average, it took 9.7 days to process an invoice at an average cost of $15.61. This compares to best-in-class automated performance that averaged 2.8 days to process an invoice at an average cost of $2.18.[1]

- Automating AP can increase employee and vendor satisfaction. Staff members will spend less time on low value tasks and implementing an automated AP system can result in lower costs by managing payment terms and lower labor costs.

- Automating AP processes ensures financial and regulatory compliance. Information is more accessible and payables can be more effectively managed.

Recommendations

14.9 Billion
Bills were mailed in the US in 2010. Source: USPS Household Study

- If you have not automated your AP process, you should determine what solution is best for your organization and implement it. The savings opportunity is too great to overlook, and effectively managing your AP process is a critical component of sound financial management.

- If you have an AP automation solution in place, you should examine its use to be sure you are utilizing all features and it is meeting your requirements.

- You should work with a trusted partner to implement an AP automation solution, one who understands your requirements and offers a range of solutions.

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[1] *The E-Payables Benchmark Series: A/P Strategies for Success Benchmark*, Aberdeen. May 2013

AP Automation

Accounts payable automation encompasses the effort to streamline the workflow of legacy AP practices. AP encompasses the processing of payments to suppliers. Invoices have to be reviewed, processed, and paid. The transaction must be input into the organization's financial system and approvals granted to authorize payment.

Common components of AP automation include scanning, optical character recognition (OCR), routing, tracking, archiving, and can extend to electronic invoicing. Electronic invoicing allows vendors to submit invoices over the Internet and have those invoices automatically routed and processed.

An important component of most AP automation solutions is digitizing information contained in hard copy. Typically, a multifunctional peripheral (MFP) that can scan, use OCR, and print plays a role in automating AP. These devices serve as a bridge between the paper and the digital worlds.

The Legacy AP Environment

Without automation, the AP process is expensive and time consuming. The typical paper invoice is created, printed, folded, stuffed into an envelope, and mailed. After a few days, it arrives where it must be opened, sorted, and routed for processing. In AP, the information must be validated, data keyed into a financial system, approvals received, and then a check issued. There are no clear audit trails and that can lead to non-compliance with government regulations, such as Sarbanes-Oxley. Without AP automation, the risk is that information would not be current and the finances of the organization would not be transparent or accurate.

Issues associated with AP lacking automation include:

20X

The average cost of processing an invoice with a low level of automation can be up to 20 times greater than the cost of processing with a high level of automation.
Source: IOMA's AP Department Benchmarks and Analysis 2012

- **Errors**: On average, 3.6% of invoices have errors.[2] Errors can result in unnecessary expenses, wasted time, and damaged vendor relationships in the case of wrong payment.

- **Fraud**: Fraud is usually the result of an absence of adequate process controls. Recent data suggests that fraud is on the increase.

- **Duplicate Payments**: A legacy system leads to a higher incidence of duplicate payments. This tends to be more of a problem in organizations with fewer than 250 staff.

- **Inquires & Remediation**: A legacy AP system leads to a higher number of vendor inquires on status and more time spent remediating disputes. Without automated filing and archiving, this is even more of a challenge.

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[2] Institute of Management and Administration, *AP Department Benchmarks & Analysis,* 2013

- **Lost Invoices**: The more times an invoice is handled, the greater the chances of it being lost or misfiled; the cost of finding a lost invoice is estimated to be $120.[3]

The Advantages of AP Automation

The main advantage of AP automation is gaining control of your finances. AP automation brings transparency and order to your AP activities. While AP automation has a financial return on investment (ROI), the main advantage to the organization is better financial information and risk mitigation.

Table 1: Advantages of AP Automation for Specific Persons

Senior Staff	Finance	End Users
Risk mitigation	Real time data	Better AP information
Higher levels of financial transparency	Improved cash management	Improved access to AP data
Increased cost efficiency	Fewer errors	Less time spent on low value tasks

1 Year

In most cases, ROI for an AP automation solution can be achieved in one year or less. "
Source: The Association for Information and Image Management (AIIM)

- **A more efficient process**: Automation enables the more efficient processing of AP. This increased productivity results in a lower cost workplace, and reduces overhead costs.

- **Improved financial information**: AP data is available in near real time. There are fewer errors and information can be used to better manage cash and to capture the overall finances of an organization.

- **Higher employee satisfaction**: Less time is spent on lower value tasks, leading to higher levels of productivity and satisfaction. There is less frustration with lost or misfiled information, and data is easily accessible to the entire staff.

- **Improved access to information**: AP data can be easily and quickly accessed. Finding hard copy takes time. Data stored in the automated AP system can be retrieved quickly. Inquiries can be handled easily and accurately.

- **Increased security**: Unlike paper based legacy AP processes, AP automation provides security to data and enables disaster recovery.

The Role of Multifunction Copier/Printers in AP Automation

Even with AP automation, organizations have legacy paper-based documents, including invoices, contracts, and receiving documentation. A MFP routinely acts as a bridge between the physical (paper) realm and the digital electronic data world. Multifunction copiers/printers have fast, high quality scanners in addition to being able to copy, print, and fax.

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[3] The Association for Information and Image Management (AIIM)

Advanced MFPs interact with other systems, and complex functions can be enabled by pushing a "smart button" that is comparable to hitting the "copy" button. These "smart buttons" are also known as device personalization and the result is a MFP designed for individual use. This functionality enables addressing multi-step processes into one button that can scan, perform OCR, extract meta-data, use that information to index, and archive information based on pre-defined rules.

These smart scanning capabilities on a MFP can identify amount due, vendor, or other information tied to your financial systems. The automated metadata allows the information to be quickly accessed for additional action including answering an inquiry. Based on established rules, data can be routed for approvals or to provide notification.

The MFP plays a critical role in the deployment of an AP automation solution. It allows organizations to gain more value from a device that is needed to support routine office functions.

Determining Your Return on Investment

There are hard dollar and soft dollar savings associated with determining a ROI for AP automation. The primary reason to invest in AP automation is to mitigate risk, gain more transparency for AP, and to improve employee satisfaction. Typical components of an ROI analysis include:

- **Labor Cost:** The easiest way to meet a ROI for AP automation is tied to labor savings. The average savings to process an invoice with a best in class automated solution versus a manual process is $13.43[4]. As few as 74 invoices a month would provide a ROI for a solution costing $1,000 a month.

- **Prompt Payment Discounts**: AP automation allows organizations to better manage payments and take advantage of prompt payment discounts. Auditing discounts not taken provides a source of ROI.

- **Minimize Errors**: Minimizing errors, duplicate payments, and fraud provides another area of funds to provide a ROI for AP automation.

- **Less Paper**: The total cost of a paper-based page in the workgroup is between $0.51 and $0.70.[5] This includes hard costs, including equipment, supplies, and service. The cost also includes IT support, administration and procurement, production, and management. By eliminating unnecessary print, you can save a significant amount of money.

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[4] Cost saving based on best vs. average costs. *The E-Payables Benchmark Series: A/P Strategies for Success Benchmark*, Aberdeen. May 2011.
[5] ALL Associates EDAM model.

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Best Procurement Practices

AP automation solutions are available from a wide range of suppliers. As organizational requirements vary and a number of solutions are available, you should work with a trusted partner. A partner who will help you implement a solution and advise on change management is the better choice.

Implementations that are designed for continuous improvement are the most successful. As with most strategic initiatives, successful deployment is more important than any savings realized by purchasing the least expensive solution.

InfoTrends has identified a number of best practices that should be considered when choosing a partner:

- **Document Expertise**: Work with a partner who is an expert in the document space and understands the use of technology to address legacy workflow; one who has the expertise to analyze your business and develop a solution that best fits your requirements, as well as assist in developing ROI.

- **A Choice of Solutions**: There are a range of solutions available and organizations often have unique requirements. Look for a partner that offers a range of AP automation solutions.

- **A Commitment to Support Deployment:** Implementing a new system is challenging. Change is always difficult. To achieve the desired ROI of your AP automation solution, you need the right hardware, software, and professional support.

- **A Proven Ability to Deliver**: You want a partner who can demonstrate compliance with deployment requirements and SLAs; one who can ensure your implementation meets your requirements and is committed to continuous improvements.

Next Steps

The benefits and cost savings associated with AP automation are evident. The ROI is generally positive and the process improvements are compelling. InfoTrends recommends taking the following steps:

- Assess your current state. Review the number of invoices processed. Interview relevant staff by asking where the pain points are and what solutions they would like to see implemented.

- Develop your ROI goals, objectives, and the benefits you want from AP automation.

- Explore options with trusted suppliers and work with partners who have implemented comparable solutions and who understand your organizational requirements.

- Determine who will lead this initiative at your organization. They should be held accountable for the success of your implementation and manage its deployment.

About InfoTrends

InfoTrends is the leading worldwide market research and strategic consulting firm for the digital imaging and document solutions industry. We provide research, analysis, forecasts, and advice to help clients understand market trends, identify opportunities, and develop strategies to grow their businesses.

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Comments or Questions?

This analysis was commissioned by Canon Solutions America to help business leaders better understand how today's technology can optimize their business processes and how they can benefit by adopting these proven best practices.

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