

## Cutting Costs With Accounts Payable Automation

*By Mark Brousseau, IAPP-TAWPI*

Automation is a tricky word when it comes to accounts payable operations. For some departments, those just starting the journey toward becoming fully automated, it means introducing imaging technology that streamlines the way they handle invoices. For departments that have embraced the latest advancements in AP technology, it means taking advantage of dynamic discounting through portal software that lets vendors service their own accounts.

One thing is clear: Technology holds the key toward transitioning accounts payable from a cost center into a profit center and making the AP professional's job strategic and even more relevant. The problem, industry watchers say, is that there's no "one size fits all" solution, and each department is left to cobble together its own set of tools to fit its individual needs. So should an AP department automate or not? It's a tough call. Some aren't sure where to begin, how much to automate, or what technology to use.

But there's good news. The number of tools is growing as innovative companies work to solve the AP automation dilemma. And users are largely satisfied with AP automation technologies, once they implement them. As the AP profession gains new stature, capturing the attention of controllers, CFOs, and even CEOs looking to cut costs and preserve precious dollars in an economy hit hard by recession, companies that offer solutions in AP technology are racing to come up with ways to improve speed and accuracy in processing payables.

"It's a green field for us," says Joe Flynn, president and CEO of Lavante, a San Jose, Calif., company that specializes in strategic recovery and vendor file management. "We're introducing technology where none exists and through means that are affordable and accessible to companies of all sizes."

### **The challenge**

How much is the AP profession using technology? Not much yet, according to the 2009 AP Automation Study conducted by International Accounts Payable Professionals, Hyland Software Inc., and IAPP's sister organizations, International Accounts Receivable Professionals and The Association for Work Process Improvement (TAWPI).

Proponents say automation can help AP departments save time and money, reduce errors, and recover dollars lost to unrefined processes. It can free AP professionals to focus on strategy while technology takes care of the tactical work. But right now many departments are using just enough to get the job done. AP departments have a long way to go before automation becomes the norm. Similarly, the field is wide open to those companies that specialize in AP automation.

Based on the survey participants, 95 percent of AP departments are still receiving their invoices via paper/mail. More than half of respondents (54 percent) still use a manual process to capture data and facilitate the approval process. In addition, 62 percent of the respondents indicate a minimal amount of automated invoice data capture, with manual entry of invoices.

It's important to note that the manual capture and approval process impedes the AP operation for many reasons. Among them: The mail process is not 100 percent reliable; processors are handling piles of paper in many formats; and those receiving the paperwork may need to remove staples or paper clips, or even tape invoices back together. In addition, unless there is a reliable mechanism in place to manage the approval process, a significant amount of time is spent on follow-up with approvers.

Travel and entertainment expense reporting is another area where significant opportunity exists for cost savings. More than 50 percent of respondents do not use technology or automation to manage the travel and entertainment process within their organizations. This is despite the benefits touted by those AP departments that do use it, including increased visibility into travel spending, more effective controls and business rules, and streamlined regulatory compliance.

The dependence on paper and manual tasks among AP departments isn't expected to change dramatically anytime soon. Fewer than 12 percent of those surveyed plan to introduce the latest automation tools into their AP processes within the next year. With paper still the most expensive way to process invoices (according to 22 percent of survey respondents), AP organizations are missing a golden opportunity to reduce costs.

And there are many cost-saving technology options available to companies:

- Front-end data capture – scanning invoices when they come in.
- Back-end data capture – archiving documents by scanning them in after they're used.
- Optical character recognition (OCR) – scanning documents to mine pieces of information such as words and numbers and electronically move them into the database.
- Approval workflow – routing tasks based on a user's role and access.
- Electronic invoicing – transmitting invoices to suppliers electronically.
- Electronic payments – transmitting payments to suppliers electronically.
- PO flip – electronically generating invoices from purchase orders.
- Electronic data interchange (EDI) – sharing information between computers electronically by using standard formats for items such as purchase orders, invoices, and payments.
- Electronic funds transfer (EFT) – generating electronic payments and collections.
- Evaluated receipt settlement (ERS) – conducting a transaction without an invoice, using only a purchase order and a receipt.
- Dynamic discounting – working with a sliding scale of payment terms depending on timing of remittance.
- Supplier/vendor portal – using a Web-based interface that allows suppliers to see and update the status of their transactions and electronically communicate with the purchasing company.

These are also increasingly used for vendor on-boarding, or introducing new supplier information into the database.

- Travel and entertainment expense reporting system – submitting and processing receipts and expense reports electronically.
- Outsourcing scan and capture – hiring a company to scan in documents and capture information from them into a database.

Even though the receipt of invoices via EDI was strong among survey respondents (at 71 percent), other processes involving automation, such as electronic invoicing, outsourced scan and capture services, and PO flip, remain at less than 60 percent, according our findings.

“We’re always surprised at how little automation is being used out there,” says Jim O’Rourke with ICG Consulting in Scottsdale, Ariz., which helps AP departments integrate technology into their processes. “You’ll find different companies using different elements of it. Some companies are using imaging, some on the front end and some on the back end. Some are using OCR, EDI, PO flip. In any one of those given technology silos, there’ve been a lot of good advancements. But we’re not seeing a lot of holistic adoptions. ... We’re not seeing that one killer technology solution. That’s what’s still missing.”

### **Baby steps**

One of the biggest obstacles to implementing paperless processes, says Nick Sprau, vice president of marketing for Metafile Information Systems headquartered in Rochester, Minn. is the fear that customers will walk away if you ask them to do something new, or that entering information for all of an AP department’s vendors – the on-boarding process – will be too cumbersome.

“We need to relieve the mentality of AP departments that it’s either all or nothing,” he says. “This is a spectrum of efficiency that can be traveled at their own pace. Typically, 80 percent of invoices are coming from 20 percent of your suppliers. If you are doing major business with suppliers and you ask them to do something, they will adhere to it because they value your business. If you can do that, this will eliminate 80 percent of the problem right off the bat.”

A single type of AP automation doesn’t fit all scenarios, O’Rourke adds. “Very few people are helping do a holistic, unified process. There is no one technology vendor, no single source, so the AP department has to have a vision, plan, be patient, and then go out and follow this path.”

Accounts receivable doesn’t have the same concerns when it comes to automating, O’Rourke says. “In AR, there aren’t the cultural differences. Everybody wants to collect money and collect it fast. It’s all the same game, and it doesn’t matter what business you’re in or what margin you’re working with. ... AR gets a lot more focus, because guess what: Companies are more willing to invest in something that helps them collect money – not in helping them pay their bills. When it comes to standing in line at budget time, AP doesn’t get a lot of visibility.”

## **The future**

While some AP departments make initial decisions about the basics of jumping into the technology pool, the industry that supports them continues to plug away at the latest, greatest solutions. That's a challenge because the AP profession is evolving, which means service providers are aiming at a moving target.

Vendor/supplier portals and dynamic discounting seem to be the pinnacle of AP automation, but other gee-whiz technology is keeping the industry interesting.

The results of IAPP's study show that significant use of manual processes still exist. This means that there are plenty of opportunities for organizations and finance professionals to take their AP departments to the next level with automation and the myriad solutions available.

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