

# ACCOUNTS PAYABLE AUTOMATION

## AP Automation. Should I or Shouldn't I? That is the Question!



Not sure what AP automation is all about? Come for the ROI, but stay for the efficiency, security, and compliance benefits.

Since the birth of the Industrial Revolution in the mid-1700s, automation efforts have proven to be one of the key catalysts of successful business growth and innovation. One of the most celebrated models of automation and business success was Henry Ford's car company. His implementation of the assembly line is seen as the automation success model of his century. Of course, the advent and proliferation of advanced IT systems

have automated nearly every aspect of a business. Surprisingly, however, despite the tangible and rapid ROI of automated accounts payable (AP) processes, a majority of companies have not taken advantage of the technology.

In a recent AP Department Benchmarks & Analysis survey conducted by the Institute of Finance & Management, only one-third of companies surveyed have implemented document capture and only 25 percent use some form of e-invoicing. This indicates that many companies are still tied up in manual paper processing. The same study notes that those companies that have implemented automation systems are twice as productive.

Part of the reason a surprisingly large number of companies are still manually processing their AP transactions is they are often not aware of the factors that are sucking time from staff and costing the company money. One of the more costly elements of getting an invoice paid is the waiting involved in gathering all of the necessary approvals and associated paperwork. This workflow typically runs across multiple departments and requires the attention of busy decision-makers. By automating the AP workflow, most of the waiting periods are shortened as the system simplifies, automates, and secures approvals and decisions. But saving money by saving time is just the start of the benefits of AP automation. Other significant benefits include improved efficiency, improved protection from fraud, reduced errors, reduced need for storage space, strengthened internal controls, as well as better analysis, planning, and forecasting capabilities.

To set the context for the benefits that AP automation processes can bring to companies, consider this example of a typical manual payment process:

*The National Widget Company gets an average of 100 invoices each day from its various vendors that supply its production plants. The mail room receives these invoices, stamps the received date on each, and then stacks them together for delivery to the AP department. An AP clerk then starts the work of matching each invoice to a purchase order or some other pre-approval form to document which department manager made the purchase request. Once that's done, the appropriate transactions are entered in the ERP/Accounting software. If no matching approval form is found, the invoice is copied and filed, and then a copy is sent to the department manager for justification of the expense via the completion and return of the required purchase approval forms. The AP department then reattempts processing the invoice.*

*After the invoice has been recorded, it is sent to a senior accounting manager or executive for check-run approval. Typically, each invoice is reviewed and checked against the budgets and then approved or disapproved for the check run. Once each day, the check run is executed, and checks are printed, bundled, and sent to the mail room to be folded, stuffed into envelopes, sealed, stamped, and sorted for delivery to the post office.*

As you look into this scenario, you can see that although the process of manually managing the payment of vendor invoices is well-organized and can be completed within a few days, real life happens and things don't always work as planned. Mailroom clerks typically have multiple responsibilities and when the work load gets to be too much, invoice routing can get delayed or otherwise fouled up. AP clerks are often spread thin, adding to delays and errors. Department managers are always covering multiple bases, making it difficult for them to sit down and work through their stack of invoices. Senior executives have many heavy responsibilities and, when traveling, find it a challenge to consistently review and sign the stack of waiting documents.

In short, the above scenario is not unusual, and given the imperative of many companies to do more with less, manual processes put an increasing burden on all participants. In the case of AP processes, there are inevitable delays and errors, and worst of all, and the compromised accuracy and speed of the process means critical decisions get made on compromised information.

And yet this is still not the whole problem. The costs that could result from the opportunities for security, privacy, and financial fraud in manual AP processes stand to well eclipse the costs resulting from AP delays and errors.

### **Core Components of AP Automation**

With the introduction of AP automation covered, let's now look at the basic components of AP automation solutions in the context of how these are used to streamline AP processes.

#### ***Document Scanning and Data Extraction***

When the invoices from suppliers arrive, they are scanned into an electronic accounts payable workflow system and the image is automatically date stamped. The scanned invoice is passed through an automated optical character recognition (OCR) process that extracts the invoice number, vendor name and address, and associated PO number. The paper invoice is stacked by batch date and stored for 30 days before being shredded.

In an ideal world, a vendor has electronic document processing systems of its own, so it simply sends electronic versions of invoices to customers, which can automatically be received and processed by the customer's AP automation system.

#### ***Archive/Retrieval in Content Management Systems***

In fact, some document scanning systems can index any information that's on the invoice for electronic archive and retrieval capabilities. Because the invoice is scanned, images are indexed and archived by date, invoice number, PO number, vendor name, or just about any information on the invoice for quick future retrieval by any department needing access.

#### ***Matching and Workflow***

Within seconds of being scanned and OCR-captured, the electronic data from invoices is automatically brought into the accounting systems and matched against outstanding purchase orders.

If there is no PO match, the transaction is put in a separate queue for review by an AP clerk or, if required, department managers who instantly review invoices and approve or deny them online.

For the bulk of the invoices with a positive match, AP clerks are notified via email that the batch is ready for processing and the successfully matched invoice information is automatically forwarded to senior management to review prior to the

initiation of the check run. Because of these automated electronic systems, even if a manager is out of the office, the information can be easily and quickly accessed online so that delays are minimized.

A scheduled daily check run triggers bank-to-bank electronic payments where possible, and for the rest, a file is automatically created that goes to the AP group (or even a designated third party via secure FTP), where the checks are printed and mailed. An electronic image of the check is automatically associated with the invoice and archived in the content management system.

Because of these automation steps, invoices are often turned into checks or electronic payments the same day, and very few hours of human intervention are required during the process.

### ***Reporting and Analysis***

Reports are generated and automatically routed to managers, showing the status of all incoming invoices, unmatched POs, outstanding approvals, and other information as needed. Analysis reports on financial performance by department, turnaround times, and discounts missed, etc. are also automatically generated and routed to management.

Rapid ROI...and More It's not difficult to see that these components of AP automation significantly impact the efficiency, security, accuracy, and speed of payment processing in an organization. Directly and indirectly, an organization can clearly save a lot of money, which quickly pays for the necessary AP automation technology. The Aberdeen Group recently released a study that calculated the average cost of invoice processing in AP departments at \$16.33 per invoice for companies that don't automate payment processing systems. On the other hand, those that have AP automation processes in place can bring the cost down to around \$4.80 each. Based on this, if a company processes 100 invoices a month, they will realize \$13,836 in saving each year once AP automation system is in place.

In addition, AP errors are costly in dollars, productivity, and reputation. Paper-based processing is known to have higher error rates, which in turn affects quality of service. The wasted time caused by errors ripples down through other processes, multiplying the cost factor. By implementing quality-improvement programs in conjunction with AP automation technologies, these improvements can drive costs down and improve quality measures.

Some of the other obvious benefits of AP automation include these:

### ***Increase Visibility***

Visibility entails the ability to see and understand all current and outstanding invoice transactions. Paper trail processes limit visibility as invoices and PO requests sit on various management desks waiting for approval or for forwarding to appropriate channels. This can be addressed by AP automation systems, giving decision-makers instant, secure access to invoice images and status notifications even during times that they may be traveling.

### ***Strengthen Internal Controls; Eliminate Fraud***

Increased visibility means decreased fraud. A PricewaterhouseCoopers crime survey found that 45 percent of companies worldwide deal with the issues of fraud, and many fraud issues are AP-related. By applying AP automation technologies, internal controls are simplified and centralized, and additional layers of security access controls are put in place. All of this decreases the exposure to fraudulent activities.

### ***Speed Up Closing of Accounting Periods and Give Managers Better Decision-Making Information***

Sarbanes-Oxley (SOX) regulations mandate that companies close their books quickly and accurately. In addition, speeding up period closing allows management to make timely tactical decisions. AP automation systems provide the standardization and infrastructure for more rapid closings. Of course, the more quickly accounting periods close, the more accurate the financial information that executives have. This results in faster and better decision-making, which on its own has huge benefits in terms of saving money and being more nimble to seize opportunities.

### ***Reduce Storage Space***

One small health insurance provider implemented technology to scan invoices (claims), turn the scanned invoices into readable data (OCR), and interface with their claims accounting system. This saved them \$50,000 a year simply in the costs of storage space for all their paper claims.

### ***Centralize and Standardize***

Large companies can centralize all branches on one system to implement best practices, streamline financial services, and have necessary oversight controls. Such systems force companies to implement standardized vendor records and approval processes throughout the company, which can have a large benefit on its own.

### ***Making Henry Ford Proud***

The challenges of competing in today's business climate requires the ongoing application of automation technologies in all aspects of an organization. Because of advanced IT systems and the falling costs of implementing technologies, AP automation for many organizations is among the "low-hanging fruit" when it comes to realizing an attractive ROI. Certainly this would make Henry Ford proud, but the benefits to an organization reach well beyond just simply being able to quickly recover the cost of the technology.

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