Taking The MYSTERY Out Of Accounts Payable Automation an e-Book

INTRODUCTION

If you walk through the finance department of most any mid- or large-sized company, look for stacks of paper rising halfway to the ceiling. Then peer into a cubicle around the stacks. You'll see a hardworking employee manually entering data into a computer, stuffing intra-office envelopes, taking phone calls from vendors, filing, punching keys on a calculator, and — when time permits — swigging coffee from an urn-sized mug for fuel to get through the day. Welcome to Accounts Payable: the final frontier for automation in Finance.

Aberdeen Group estimates that more than 80% of inbound invoices are paper. That number approaches 100% for mid-sized, non-manufacturing companies (hundreds of thousands of pieces of paper invoices annually). For years, companies were content to accept paper invoices as a fact of life. No longer. There is a movement underway toward paperless invoice processing in corporate America.

However, it's a movement filled with lurches, jerks and pauses. Paperless invoicing is the destination, but few have really arrived. Confusion is often the buzzword when it comes to the different options available for automating invoice processing. This Executive Briefing will review some of the challenges with processing inbound invoices that are driving organizations to automate as well as the types of solutions available to facilitate automation.

INVOICE PROCESSING CHALLENGES

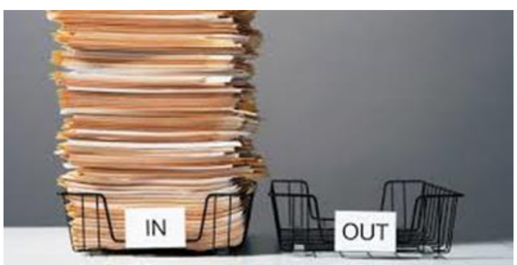
The following section presents a short overview of the most common challenges facing accounts payable organizations today and the organizational impact of each challenge:

1. Cost to process invoices is too high.
Why? Simply look at those stacks of paper in AP and the painstaking work that's involved to process invoices. Too many processes are manual: the data entry, the approval process for non-PO

invoices, the matching process for PO invoices, not to mention the enormous manual effort to manage invoice exceptions and resolve discrepancies.

All of these manual processes result in too many people allocated to non value-added activities. *Aberdeen Group* reports that the cost to manually process each invoice is in excess of $21. The cost per invoice for “best-in-class” organizations (which typically have taken steps toward automating invoice processing) is less than $10 and can be as low as $2. Much of the savings comes from staff reduction or reallocation.

2. Takes too long to get invoices validated for payment.
Why? Again, look at the stacks of paper. To manually enter invoice data, to manually validate a PO invoice against a PO and receiving documentation, and to manually put an invoice into interoffice mail takes significant time. And that’s only half the story. The staff who receive those inter-office mailings in the field must open and approve and mail back the invoices — tasks not high on their priority lists. An even larger invoice bottleneck occurs when suppliers send invoices directly to field offices, not AP, and payment is incumbent on the field offices to review, approve and send in those invoices to AP for payment.



What happens when an invoice take too long to validate? Late payments, missed term discount opportunities, eroded supplier relationships, tension between AP and the Purchasing department, and usually a high degree of frustration within AP because there are simply too few people to manually manage the high volume of invoices.

3. Lack of timely visibility into costs

Why? Organizations typically have little visibility into accruals and upcoming payments until the invoice is entered into a system. And as previously mentioned, manual invoice data entry is time consuming. Plus, many organizations do not bother entering invoices until they have been approved, which can take a week or more. The largest culprits are those invoices sitting under piles of paper on desks in field offices — completely unbeknownst to AP.
When organizations affected by the Sarbanes-Oxley Act lack visibility into these upcoming expenses, their statements of liabilities are in error, which is a SOX violation that can bring penalties and investor mistrust. In addition, larger organizations have Treasury functions who continually strive to optimize working capital. Poor visibility into cash outflows inhibits their capital planning activities.

4. Too many keying errors

Why? Keystroke errors, improper approval routing, mis-assigned GL codes, careless invoice matching, and poor duplicate invoice checking are the most common culprits. Organizations commonly have a preventable error rate of greater than 2% *but end up catching and fixing less than half of those errors*.

These errors cost money. Not only in the time to catch and fix them, but in what isn't remedied. Overpayments and duplicate payments are common. Checks are cut without invoices going through proper approval cycles — another SOX violation and potential for fraud. When mis-coded invoices are charged to the wrong expense account, managers don't have accurate visibility into financial performance.

"This sounds like a nice-to-have but will it really save us money"?

SOLUTIONS OVERVIEW

Invoice Automation is a broad term, with plenty of room for interpretation. Confusing matters even more is the range of solutions designed to help organizations achieve automation. The following section of this report will present an overview of the most common types of invoice automation solutions.

1. Invoice scanning/imaging

What is it? Taking a picture of a paper invoice and storing it as an electronic file.

For invoice processing, there are two approaches to scanning:

1. Back-end scanning — In this approach, invoices are scanned only after they have been entered and approved for payment.

2. Front-end scanning — This approach is more proactive and presents greater potential for automation. Invoices are scanned when they arrive, prior to data entry or approval routing.

Invoice scanning is the most prevalent and basic way to automate. Getting started is relatively easy; however, the higher the invoice volume, the more attention needs to be paid to the process. Invoice volume will also dictate the types of hardware and software that should be used.

Note that scanning does not eliminate paper invoices coming into your organization (unless a 3rd party handles your scanning — more on outsourcing later in this report). In addition, prior to scanning, manual effort is required. Invoices must be "prepped" — opened, sorted into batches with separator sheets in between, smoothed out, turned the correct way, staples and paperclips removed, etc.

Your organization will also need to revisit its invoice archiving policy before you begin scanning, as paper invoices do not need to be maintained long-term if a quality scanned copy is available. Most organizations maintain paper copies for between 30 and 90 days before destroying them.

Why Improve Accounts Payable?

2. Optical character recognition (OCR) and intelligent character recognition (ICR)

What is it? Software that intelligently recognizes and extracts relevant text from a scanned invoice image or data file. Sounds like magic. Right?

OCR/ICR has been around for decades, but in the past five years, its general use has become more widespread as recognition accuracy rates have increased significantly. OCR/ICR works very well when each document is formatted the same way, with specific text elements in the same place on eachdocument. But as we know, invoices do not follow that pattern — each one is different, radically in some cases (believe it or not, many Fortune 1000 companies receive several hundred *hand-written* invoices each year!).

Where OCR/ICR makes the most sense is in organizations large enough to allocate an employee to making the technology successful. The approach should focus on those few vendors who send the largest volumes of paper invoices — provided those invoices are all formatted the exact same way. Due to the expense of OCR/ICR, it is best suited for organizations processing at least 10,000 invoices per month.

3. Outsourcing invoice processing to a 3rd party service organization
All or parts of accounts payable can be outsourced. Third-party companies will handle pieces of invoice processing, such as:

- Mailroom operations — A "lockbox" (dedicated mailbox) is set up by the 3rd party company to which all invoices are delivered. Those invoices are picked up once or twice daily, opened, sorted and preppedfor scanning.

- Scanning — The 3rd party will scan the invoices and create an online index of the resulting image files.

- Data capture — The 3rd party will capture the invoice data, including invoice header information (vendor, invoice number, invoice total, invoice date, due date, etc). Some organizations have their outsource provider capture invoice line items as well, though this process can dramatically increase the cost per invoice.

- Archiving — The 3rd party will store the image of the invoice on a server, with secure access provided to your organization (either directly or via a link from a separate software system).

Many outsource companies guarantee that invoices can be scanned, entered and ready for electronic approval or matching within 24-48 hours. Pricing is typically per invoice processed plus a per-keystroke rate if invoice line items are to be entered.

Why NOW is the Perfect Time to Automate!

4. Supplier Portal
What is it? A secure web site for your vendors to create electronic invoices and view the status of open invoices.

The concept of a supplier portal is relatively new. Through an automated process, you can invite selected suppliers to register to access the portal. Once registered, suppliers can view the status of purchase orders, retrieve purchase orders and create invoices. How are invoices created? Several ways:

- Via purchase order "flip," where suppliers are notified that a PO has been delivered to them, and they can retrieve it from the portal and then — when the order has been filled — convert the PO into an electronic invoice with a single button click and add tax, freight, notes, etc.

- Direct invoice entry into an online form

- File upload from the supplier's billing system

Many supplier portals provide "dynamic discounting" capabilities. That is, the supplier can offer — through the online portal — a discount on an order if payment is received in a specified number of days. The customer can choose to take the discount, or not. This breaks away from the old rigid 2-10 NET 30 terms and allows greater flexibility and control over working capital for customers and their suppliers.

Portals are highly effective tools because the burden of invoice entry shifts to the supplier and away from your organization. The key, however, is supplier adoption. Organizations that have sufficient leverage over a portion of their suppliers are able to achieve a fairly high rate of supplier adoption quickly. Otherwise, convincing suppliers to use the portal (known as supplier enablement) can take some time and effort.

5. Supplier Network
What is it? An online "hub" to facilitate sending and receiving electronic invoices. Suppliers enroll into the network once, which means they can submit invoices to multiple customers who use the same network. Supplier networks present streamlined ways for suppliers to send and receive invoices. But due to the costs — both to suppliers and their customers — supplier networks do not always provide financial savings.

If considering a supplier network, find out exactly how many of your suppliers are already members of the network and develop an understanding of the time and money required to enable additional suppliers.

6. EDI & XML

What is it? EDI = Electronic Document Interchange. XML = Extensible Mark-up Language. So, what is it? A computer-to-computer transfer of business information using standard data formats. For Accounts Payable, this means suppliers can send invoices directly into your invoice processing system. EDI has been around for decades and XML gained popularity with the rise of the internet in the 1990s. Both achieve the same goal: computers speaking a common, specific language to each other.

This type of e-invoicing is ideal for suppliers with whom there are a high volume of purchases and invoices. In fact, they are most commonly found in manufacturing and retail environments.

7. Matching & Approval Workflow

What is it? Validating an invoice using electronic rules-based approval routing (usually for non-PO invoices) and/or an automated matching process with purchase order, receiving and other data (usually for PO invoices).

"It's like having a GPS for my accounts payable invoices".

Non-PO invoices — typically these invoices require approval from the person who purchased or received an item or service. Workflow solutions route non-PO invoices for approval along pre-defined paths determined by business policy such as invoice or line item totals, vendor, location, commodity type, etc. A system should accommodate unlimited levels of approval. Because timeliness is so important when processing invoices, software should provide automatic notification of invoices needing approval as well as prompt approvers or supervisors if an approval is overdue.

At any point in the workflow process, a software system should provide visibility into the status of the invoice. Assigning a general ledger expense account is often part of this process and can be done automatically based on business intelligence built into workflow software. Budget checking should also be possible to prevent overspending specific budget and to provide visibility into the status of a budget.

PO invoices — best practices dictate that invoices originating from a purchase order should be compared with the PO to make sure that prices and units on the invoice match prices and units on the PO. AP should also ensure that the invoiced goods or services have indeed been received. This is called a 3-way match. In some cases, additional data points, such as validation against a contract or an inspection step at the time of receiving, can be required before invoice payment. This is a 4-way match. Software should be able to perform the matching process without human intervention, unless there is a discrepancy as determined by “tolerance” levels (more on discrepancies in the next section).

Many accounting systems offer some level of 3-way match; however, most do not offer sufficient automation of that matching process. Specialty invoice automation systems can integrate with ERP and accounting systems to pull in PO and receiving data to automate the 3-way match.

8. Exception Workflow

What is it? Electronically identifying when the invoice does not match the PO and/or receiving and initiating a resolution/exception process.

Exception invoices are commonplace in AP departments today. Their cost to process is often 2 to 3 times the cost of a regular invoice. Most software systems offer no discrepancy resolution tools or workflow. In some extreme cases, exception invoice are so time-consuming to rectify, they are paid anyway.

Specialty invoice automation solutions offer discrepancy resolution tools that recognize discrepancies automatically and distinguish between a pricing discrepancy and a receiving discrepancy. The system should then initiate a resolution workflow process based on the organization’s business rules that sends the discrepancy to the appropriate person to follow up. For example, for a price discrepancy, the resolution process may start with a requisitioner or a purchasing agent. For a receiving discrepancy, the resolution process may start with a warehouse manager or a requisitioner.

Software should be able to intelligently make these decisions so that AP is largely removed from the discrepancy resolution process and that process minimizes the level of human effort required. The system should also capture a detailed audit trail of every step of resolving a discrepancy.

CONCLUSION — WHICH SOLUTION IS BEST?

There is no “one size fits all” solution that will give you optimum efficiency in invoice processing and the automation process is often evolutionary. You may start with front-end imaging, add in workflow automations and eventually integrate with your ERP or financial system to further take advantage and gain efficiencies.

So after all reviewing all of the different solutions available for automating invoice processing, which is best? Well, the answer is that no one solution is “best.”