Measuring the Impact of AP Automation – A 5 Step Guide

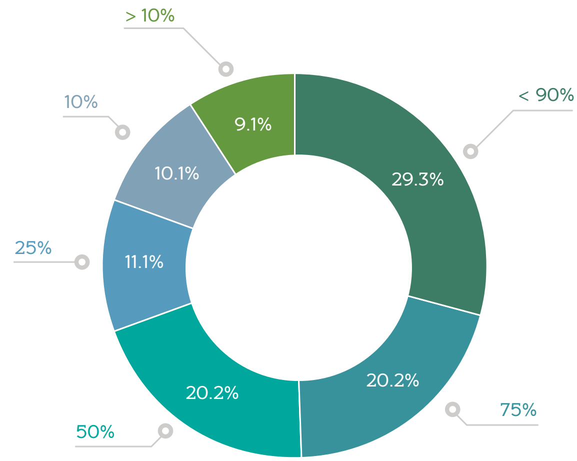
Bottomline Technologies

Technology is constantly evolving, with change accelerating seemingly overnight. When the professional networking site LinkedIn launched just a decade ago, videotapes were, well, still videotapes and the smartphone wasn't very smart. Today, people network on multiple electronic platforms, they stream video and more over the Internet, and they make bank deposits and pay their bills with their phones.

At the same time, **70 percent of companies process more than half of their invoices – and organizations in general pay most of their bills – the old-fashioned way, on paper.**

In this digital age, it seems companies would be quick to embrace a technology that not only increases productivity, but also increases cash yield, reduces fraud and dramatically improves accountability, compliance and reporting. Yet CEOs and CFOs who don't think twice about swiping their credit cards (or scanning their smartphones) to buy a $2 cup of coffee hold fast to outdated paper processes that could be costing them millions of dollars a year in errors, wasted effort, and missed early payment discounts.

Percentage of Total Paper-based Volume[1]



Research suggests that more executives would embrace AP automation if they could quantify the return on investment. This white paper helps make that case in 5 steps, documenting the risks and waste of paper-based processes, and providing quantifiable solutions that will allow senior executives to make an informed decision. This paper will also discuss the advantages of AP automation solutions that utilize and extend a company's existing IT infrastructure investments, including their ERP and ECM platforms, to support a lower total cost of ownership and maximize user adoption.

1 Slaying the Paper Tiger

AP professionals can easily cite a variety of drawbacks to paper-based systems, including:

- Invoices that go missing or are difficult to find
- Lengthy processing and approval cycles
- Unnecessary charges due to late payments; missed early payment discounts
- An inability to adequately track and report on outstanding invoices and cash liabilities
- Employee time dominated by data entry, scanning and other cumbersome tasks
- Paper storage and retention costs
- Human error

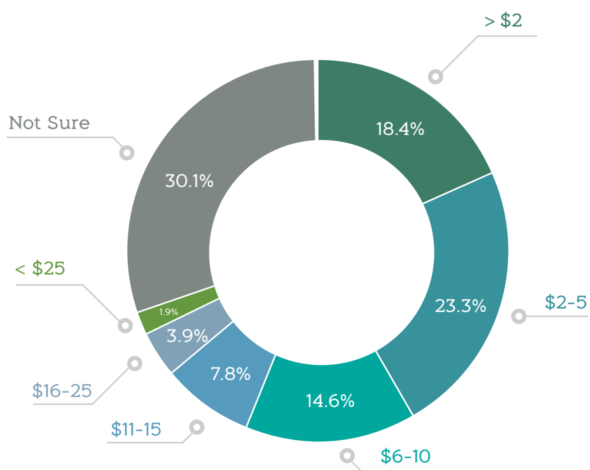
When processing a single invoice can take days or weeks amid an ever-rising tide of paperwork, it is nearly impossible for executives to know the state of AP or cash flow in real-time. Such an environment is low in accountability and ripe for fraud.

1. Source: The Institute of Financial Operations; 2014 AP Automation Study

2 Assessing Invoice Processing Costs

There's an old saying that a company can manage only what it can measure. So, the first step toward building a business case for AP automation is to get a handle on cost. Incredibly, almost one-third of respondents (29%) to the Institute of Financial Operations (IFO) 2014 AP Automation Study said they did not know the per-invoice processing cost at their company. Without this information, how can anyone determine the real impact of an alternative processing system?

Average Cost to Process Paper Invoices[2]

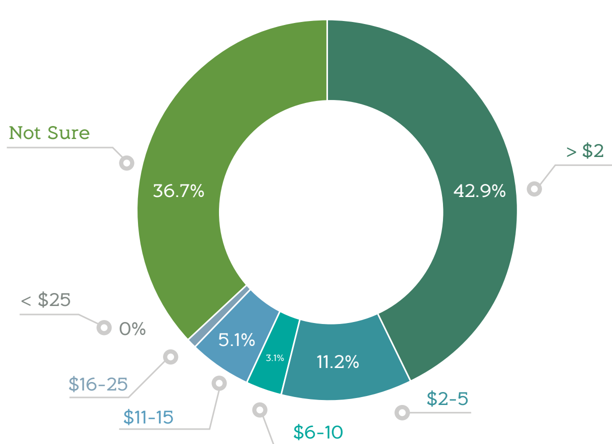


For companies that can cite a number, the processing cost ranged anywhere from $2 to $25 or more per invoice, based on factors that include labor, postage, paper storage, infrastructure and other overhead. Here's how it might play out: **even for a mid-size company near the low end and spending $4 per invoice to process 10,000 invoices a month, the outlay is $480,000 annually.** For a company spending $25 each, although in the minority, the tally is a staggering $3 million a year.

Some costs are difficult to quantify. For example, inefficiencies in a paper-based system may result in missed opportunities for early payment discounts, which can add up to huge savings over the course of a year. Most companies capture fewer than half of these discounts; for nearly 43 percent of companies, the capture rate is less than 10 percent, according to the IFO 2013 study.

Other expenses come from the challenges of pulling together all the relevant paperwork in time for monthly closings. Although many AP professionals would agree this is a key pain point, making a business case requires quantifying the cost of difficult closings in terms of AP employee hours, overtime and the direct impact on other resources.

Average Cost to Process Electronic Invoices[3]



It's important to quantify as many costs as possible in current procedures in order to transparently present AP automation's advantages. One way to do this is to determine what might go away, and put a price tag on it. For example, electronically receiving and sending invoices can cut or eliminate the need for postage, paper storage, envelopes and, to a great extent, printing.

Indeed, most paper-based expenses are significantly reduced when a company installs AP automation. According to the IFO study, nearly 38 percent of companies processing paper invoices said it cost them between $2 and $10 each. In contrast, 43 percent of those processing electronic invoices kept costs to $2 or less.

2-3. Source: The Institute of Financial Operations; 2014 AP Automation Study

3 Measuring The Not-So-Intangibles

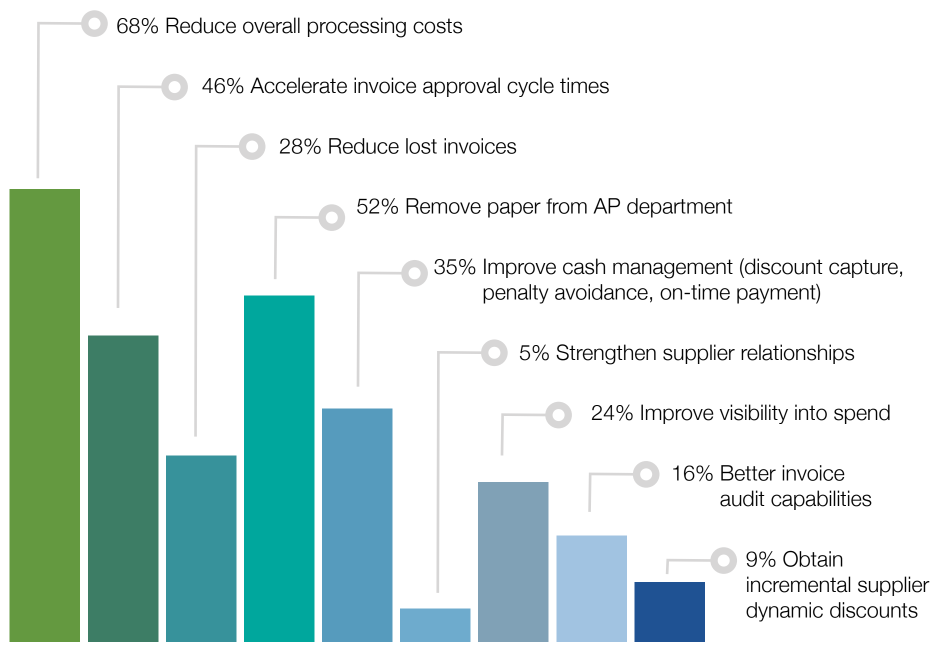
There are other improvements, in addition to controlling expenses, that can build a measurable argument for AP automation. These include:

Visibility. Decision makers want accurate information and they want it now. Data entering an automated system can be available instantly to a CFO, Controller or others with appropriate access, providing visibility to cash flow at virtually any point in the process and even allowing for the tracking of a single invoice, if necessary.

Accuracy. What did it cost to clean up that last man-made mistake? e-Invoicing often means data transfer directly into an AP system without human intervention. This cuts or eliminates the potential for human error and frees up staff for higher-level tasks, thus increasing productivity and operational efficiency. Electronically matching an invoice with a purchase order (PO) also facilitates automatic approval when that invoice meets correct criteria.

Assurance. Schemes and scams continue to keep companies on their toes, but automation removes a key entry point for deceit by eliminating one of con artists' favorite targets – paper checks, which can be falsely issued or misdirected to criminals. Automating also creates transparency that makes it much easier to detect fraud or simply troubling behavior before it becomes endemic.

Why Automate?[4]

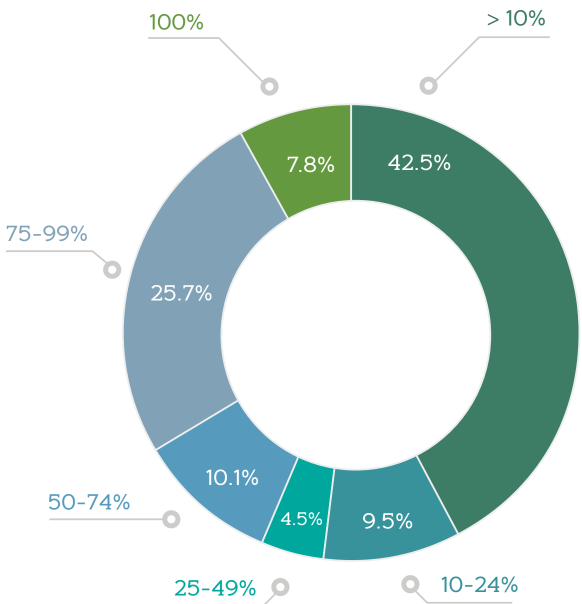


A recent survey by PayStream Advisors cited additional factors driving AP automation, including:

- Reduced overall processing costs
- Accelerated approval cycles
- Fewer lost invoices
- Elimination of paper in the system
- Improved cash management

4. Source: Source: PayStream Advisors; Electronic Invoice Adoption Benchmark Report - Q1 2013

Percentage of Early Payment Discounts Typically Captured[5]



Don't Pass Up a Sale

A "hard" ROI that deserves special mention is the cash that companies can realize from taking advantage of early payment discounts. According the 2013 latest IFO survey, **42.5 percent of companies capture less than 10 percent of early payment discounts. Yet, even the standard discount of "2 percent if paid within 10 days" can mean an annual, risk-free return on cash of up to 36 percent.** There are very few investments that can earn such a high a rate, and even fewer are risk-free.

4 It All Boils Down to ROI

Inevitably, any discussion of AP automation will focus on the potential return on investment (ROI). Fortunately, the return on AP automation is easily quantifiable and can be measured in terms of:

- **Reduced invoice processing costs.** Many companies that installed AP automation systems report processing costs that were reduced, on average, by half. Even a company that hasn't quantified its per-invoice costs should be able to measure the bottom line improvement to the entire department.
- **Increased returns on available cash. Even the standard 2 percent discount for payment within 10 days translates into an annualized return of more than 36 percent** (See chart above). This alone may generate more than the cost of automation.
- **Reduced fraud. According to the Association of Certified Fraud Examiners, the average organization loses 5 percent of revenue to fraud.** A significant percentage of fraud originates within AP and can be prevented with the checks and balances built into an automated payment system.

Senior management will want to know both the "hard" and "soft" ROI for any AP automation project. Hard ROI would include any reduction in invoice processing expenses, savings resulting from less paper storage, audit costs, IT infrastructure benefits and the any redeployment of AP labor resources to more productive tasks.

The rewards of "soft" ROI may not be immediately reflected in a company's profit-and-loss statement. However, over time, they may prove even more valuable than a "hard" ROI.

Increased efficiency is the most obvious soft benefit. AP solutions allow data to be uploaded quickly and accurately. This reduces employee time spent correcting data entry mistakes and reconciling discrepancies. More accurate data also gives Finance staff and the CFO greater confidence in audit results and financial projections.

Visibility and accountability gained through automation is significant. Managers can access invoice status at any point in the process. The system aggregates data, making accurate, real-time information on amounts paid, owed, and days outstanding available throughout the company. This affords executives the ability to make real-time decisions about cash flow, approvals and discount offers.

5. Source: The Institute of Financial Operations; 2013 AP Automation Study

There are additional "soft" benefits, including:

- Why stop at invoices? A growing number of providers are offering solutions that go beyond invoice processing to include complete payables automation, including integrated e-payments and online remittance delivery in multiple deployment options (SaaS and on-premise). If your organization is looking for straight-through processing, including payments, these extended options are worth a closer look.
- It's easier for management to monitor individual employee performance and measure handling speed on an employee-by-employee basis. This, in turn, can lead to faster approval cycles.
- Automation solutions help companies track compliance with relevant federal, state and local regulations, including the Sarbanes-Oxley Act (SOX). The solution identifies compliance issues that might arise during the approval process and enables them to be dealt with quickly.

5 Building a Budget

There are a number of AP automation vendors on the market, and their prices vary based on the level of service that a customer requires. It's important to shop around and find the system that works best for your particular business.

The first step is to compare each solution's overall and component costs. This involves more than just the licensing fee. For example, does the solution require the IT group to learn, support, and maintain a separate web portal and document storage repository or does it leverage existing enterprise content management software such as Microsoft SharePoint? Also, is the solution's pricing based on the number of modules, such as data capture, supplier portals and custom reporting, or does one price cover all features?

Make sure to calculate staff involvement required to implement any new system. Will an AP employee need to drop other tasks to become a full-time project manager? How much time is required for training and implementation?

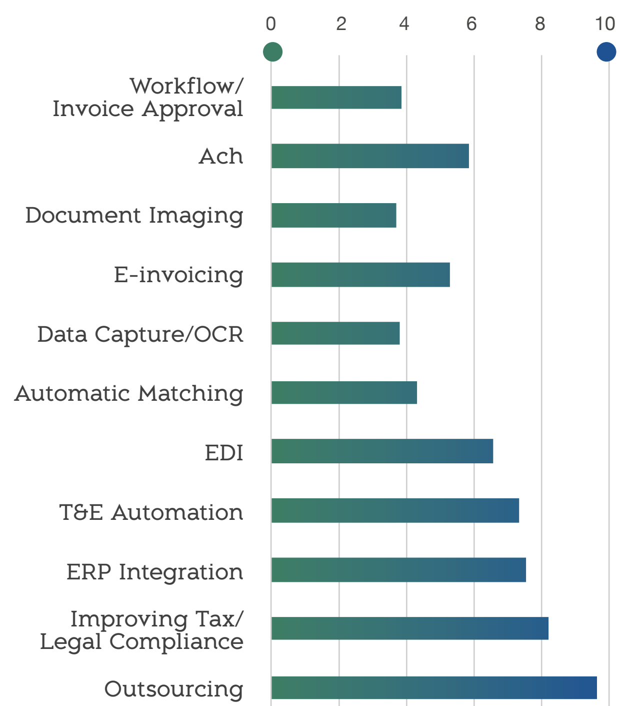
One crucial component to consider when pulling together a plan to take to executives is how any new system will merge with existing operations. For example, will the new software interface smoothly with the company's current enterprise resource planning (ERP) system? Some solutions are licensed and approved by specific ERP companies. Go beyond the brochure and ask each solution provider for references from existing customers. An automation solution that integrates with your ERP is a quantum leap in workflow efficiency, not just for AP but throughout an entire organization.

An integrated solution that creates an audit trail for every invoice and transaction makes monthly closings and subsequent audits much more efficient. This also facilitates documentation for regulatory compliance. Additionally, many solutions offer mobile applications to enable invoice review and approval when staff is on the road or at a remote location.

Operational Priorities[6]

Highest Priority   Lowest Priority

Respondents ranked these on a scale of 1 to 11 in order of importance, with 1 being the most important.



6. Source: The Institute of Financial Operations; 2014 AP Automation Study

Conclusion

Making the case for AP automation requires a persuasive argument that takes into account tight budgets, constantly shifting priorities, misconceptions about the technology, and a sometimes fixed mindset against change. Careful research and analysis can show how automation can create workflow efficiencies, save money, reduce fraud, and move AP from a cost center to profit center.

It is possible to prove a positive return on investment through:

- Reduced transaction processing costs
- Improved accuracy
- Increased visibility
- Quicker turnaround times and accelerated approval cycles
- Improved metrics to understand and reduce exceptions
- More efficient use of AP staff
- Improved data capture for better control over spend
- Optimized discounting for early payments.

For most companies, the number of invoices being processed each year is only increasing. If your company follows this trend, the pain of paper-based AP will increase, too. The right solution will reduce or eliminate the need to wade through piles of paper invoices and bring a significant boost to a company's bottom line. But finding a C-suite champion for automation will require identifying and documenting issues with existing practices and quantifying the benefits of change.

About Transform® AP

Bottomline's Transform AP provides end-to-end accounts payable invoice processing including capture, matching, approval workflow and exception management, as well as auditing and reporting to drive efficiencies and save time and money.

Organizations can also realize improved invoice visibility and accelerated processing cycles, as well as greater enforcement of financial and legal compliance regulations with a fully auditable record of each invoice, including the ability to view related documents both inside and outside the ERP.

For additional information, please visit www.bottomline.com/dpa.

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