10 Proven Steps to Accounts Payable Automation Success

White Paper

The 10 steps described in this white paper provide a blueprint for maximizing automation investments through a successful system implementation.

The business case for accounts payable automation is proven and compelling.

Highly automated accounts payable departments stand apart from their peers in five ways:

1. High productivity: highly automated accounts payable departments process more than **11** times as many invoices annually per full-time equivalent compared to their peers.

2. Low processing costs: highly automated accounts payable departments spend less than one-fourth as much to process a single invoice compared to their peers.

3. On-time payments: nearly **20%** more highly automated accounts payable departments pay more than **90%** of their invoices on-time compared to their peers.

4. Fewer duplicate payments: nearly **10%** more highly automated accounts payable departments report fewer than 1 percent duplicate payments compared to their peers.

5. More early payment discounts: highly automated accounts payable departments capture approximately **20%** more early payment discounts than their peers.

These metrics are according to the Institute of Finance and Management (IOFM).

But none of these benefits are assured without a solid automation plan.

What's more, without a strong plan for accounts payable automation, departments also risk:

- Wrongly sequenced digitization of processes;
- Strained stakeholder relationships and less cross-functional harmony;
- Wasted internal resources correcting sub-optimal automation.

This whitepaper provides a step-by-step guide for preparing for accounts payable automation.

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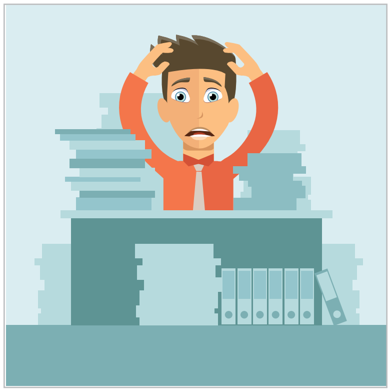
The 10 Steps

STEP #1 - Diagnose Your Pain Points



The first step in preparing for automation is to identify where your current processes fall short. Diagnosing these pain points will keep your project team focused on what's most important and will help ensure that your business case presents a compelling problem- and solution-based premise.

Ardent Partners finds that the top pain points of accounts payable departments are:

- The need for real-time availability of data
- High invoice processing costs
- Too many exceptions
- Invoices that become lost or too hard to find
- Missed early payment discounts offered by suppliers

Solicit feedback from frontline users as well as stakeholders to uncover your pain points.

Part of diagnosing your pain points is to understand your current costs.

Determine your average cost per invoice by multiplying your total number of FTEs by the average compensation and benefits per FTE and dividing that figure by your total number of invoices.

Be sure your project team keeps these pain points in mind as it evaluates prospective technology providers, so it can more easily determine those that can best meet your department's needs.

Manual accounts payable processes typically cost too much, take too long, create too many errors, provide inadequate visibility, and frustrate internal stakeholders and suppliers.

STEP #2 - Understand Your Current Workflow

Streamlining workflows is a top objective of accounts payable departments that decide to automate.

This is no surprise when you consider that inefficient accounts payable workflows result in::

- Higher processing costs
- A backlog of past-due invoices
- Strained vendor relationships
- Weak cash management
- Late payment penalties
- Missed early payment discounts
- Lots of supplier inquiries

Automated workflows address these issues to deliver reduced costs and greater staffing efficiencies, faster approval and exceptions resolution cycle times, more flexibility to handle different invoice types (PO-based/non-PO-based), and the ability to extend workflows into other departments.

The first step in understanding your workflows is to create flow charts for all invoice processes:

- Invoice receipt and data capture
- Invoice matching
- Invoice approvals
- Exceptions resolution
- ERP upload of invoice information
- Payment and remittance management

Be sure your automation project team learns your current invoice workflows including the number of business units or departments that make purchases, how each business unit or department currently manages its invoices, the number of unique types of invoices your organization receives, challenges with your current approval and exceptions workflows, and average approval invoice cycle times. By documenting your current workflows, you will be able to uncover inefficiencies and hidden costs.

With your current workflows in-hand, evaluate automated solutions with an eye towards:

1. Routing: routing invoices for distribution, exceptions resolution and payment authorization
2. Matching: matching invoices with purchase orders and proof-of-delivery documents/data
3. ERP integration: posting approved invoices directly to an ERP application

STEP #3 - Establish an Automation Project Team

Establishing a project team is the next step in preparing for accounts payable automation.

A project team helps manage the investment in automation by uncovering requirements and laying out objectives, monitoring the progress of the project, developing business rules that are used to configure the system, and making decisions regarding process, work-flow and architecture changes.

Be sure the project team includes representatives from key departments such as:

- Procurement
- Finance and accounting
- Treasury
- Information technology
- Senior management

Front-line users who understand your current processes also should be represented on the team.

Representatives of your information technology group can:

- Validate the feasibility of system requirements
- Help identify technology issues with prospective solutions
- Ensure the seamless integration of systems
- Identify any system architecture challenges

Be sure to ask your information technology group the level of involvement that they expect to have with the administration of your new accounts payable system on an ongoing basis.

But keep in mind that "bigger is not better" when it comes to establishing an automation project team. Having too many people involved can make meetings unwieldly, delay decision-making, obscure objectives and complicate communi-cations internally and with your technology provider. Limit the project team to essential representatives from each of the stakeholders in the project.

The project team should try to understand the needs of users at all levels (front-line staff, approvers, managers, senior executives) across all depart-ments impacted by accounts payable automation.

All the team members should be aligned with the common goal of project success.

Additionally, the project team should be prepared to address any objections raised during the approval process, and to communicate the steps taken to mitigate risk. Objections may include:

- Budget
- Time and money
- Staff skills
- Supplier adoption

And a member of the project team should be designated to "champion" the project with constituents, give regular updates to stakeholders and keep senior management apprised of any issues.

Don't overlook human resources as a potential representative on your project team.

STEP #4 - Define Your Objectives

Establishing objectives is one of the most important steps in preparing for automation. After all, it will be hard to gain support and approval without an understanding of why automation is needed.

Start by building consensus among your project team and key stakeholders around:

- The pain points that will be addressed
- The processes that will be automated
- Stakeholder needs that will be addressed
- The desired metrics after automation

Formulate simple, clear and measurable objectives for the project.

Senior management – whose approval will be necessary – will want to see that the project team has done its homework and that there are far-reaching enterprise benefits to the automation project.

Ardent Partners finds that the top priorities of accounts payable departments are:

- Reducing invoice processing costs- 63%
- Better aligning procure-to-pay processes and systems- 51%
- Improving reporting and analytics- 35%
- Improving collaboration with procurement- 32%
- Extending payment terms/improving DPO- 31%

Objectives should be laid out in terms that can be easily understood by senior management.

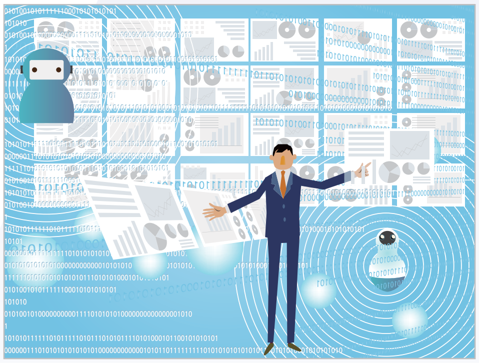
Also, be sure to address the objectives of senior management, whose approval you will need for the project. PayStream Advisors finds that the top payables automation priorities of CFOs are:

- Increased supplier adoption in automation- 25%
- Completely paperless accounts payable- 23%
- Same-day invoice approvals- 22%
- Early payment discount capture- 15%
- Increased use of mobile applications- 15%

Finally, don't forget to give front-line users a voice in the technology evaluation process. Their participation in project planning and vendor evaluation will help eliminate adoption issues later.

STEP #5 - Choose the Right Technology

Choosing the right technology for your accounts payable automation project can seem intimidating. Not only are there many types of technologies to choose from, new technologies are becoming available. And making the wrong decision can waste resources and cause operational problems. But choosing the right technology does not have to be so hard.



The Institute of Financial Operations (IFO) describes four levels of accounts payable automation:

1. Entirely paper-based with manual processes
2. Paper-based with front-end or back-end imaging
3. Workflow-driven with data capture
4. Fully electronic, touch-free processing

Seventy-nine percent of best-in-class accounts payable departments use document scanning, according to Ardent Partners. Sixty-one percent of best-in-class accounts payable departments use automated workflow or data capture technology such as optical character recognition (OCR). Self-service supplier portals are used by half of best-in-class accounts payable departments.

10% of accounts payable departments admit that confusion about technology is the primary reason that they have not automated.

- IOFM

To choose the right technology, start by surveying the technology landscape. Leverage third-party resources such as trade publications, industry associations and analyst reports to understand the technologies your peers are deploying. Then determine how each technology addresses your current and future needs, its relative costs, and the level of customization and administration required.

STEP #6 - Focus on Key Features

The next step to preparing for accounts payable automation is to ensure that prospective solutions have the features to address your department's current and future business requirements.

According to IOFM, accounts payable departments identify several "must have" features:

- Standardized accounts payable processes across the enterprise
- Two-way or three-way invoice matching capabilities
- Posting invoices to an ERP straight-through, without human operator intervention
- Digital routing of invoices for approval
- Matching invoices to contracts or payment plans
- Measuring key accounts payable metrics

Do a comparative analysis of features in each prospective solution. Map the available features to your lists of objectives and requirements. Ask prospective technology providers to demonstrate how their available features will address your unique processing requirements and points of pain.

STEP #7 - Look Beyond Vendor Brochures

It's easy to get swept up in the excitement of vendor brochures and presentations. But it's imperative that you look beyond the marketing hyperbole to choose a partner that will be the right fit.

Start by creating a short list of potential vendors based on unbiased third-parties.

Find a vendor that meets your needs for features, price, support and ease of use.

Then consider the level of integration with your existing ERP system. Tight integration with your ERP enhances an accounts payable system's usability and performance and improves payback of both systems. Look for a payables system that can be integrated with as little programming as possible.

Next, be sure the solution allows users to configure workflow rules to eliminate manual paper handling, help eliminate bottlenecks and ensure the control and tracking of documents.

You also must consider the resources required to configure, implement and support each technology provider's system, and the initial and long-term licensing, labor and infrastructure costs.

The last thing you want is to choose a vendor that will "sell and run."

And ensure that prospective accounts payables systems are configurable without the need for a programmer (or vendor fees). Asking vendors how they address unique requirements may uncover areas that require customization. Create a vendor pricing matrix that includes standard functionality, add-on features, capabilities that require customization fees and maintenance and support expenses.

Vendors also should show that their solution meets your corporate standards for audit, compliance, reporting and security. Engage your information technology group to validate vendor claims.

Consider requiring finalists to demonstrate their software using your accounts payable documents. Slick generic product demonstrations may not look so hot under the light of real-world conditions.

Next, validate vendor claims with end-users whose processing requirements are like your own. Ask references about their experience during deployment, the ease of use of the system, the vendor's level of support and compliance with service level agreements and their satisfaction with enhancements to the solution. Don't hesitate to ask vendor references whether they are meeting their business case.

Also dig into the company's history and the tenure of the executive team, review the company's financial statements, assess the company's stability, learn the company's recent growth trends and determine the number of customers the company has in your industry and its customer retention rate.

Finally, understand the vendor's user support options, including hours of support and whether the service is inter-company or outsourced. In addition, it's important to get a clear picture of the vendor's product development plans. Make sure the vendor has periodic software enhancements.

STEP #8 - Build on a Solid Business Case

Building a business case that will win approval is vital to preparing for automation.

It is nearly impossible to win approval for a project that won't deliver a return on investment.

A business case for accounts payable automation should include three key elements:

1. Hard savings: labor costs, physical document storage and retrieval, software licenses
2. Soft savings: faster cycle times, efficiency improvements, enhanced supplier relations
3. Risk mitigation: better document tracking and control and streamlined business continuity.

Include conservative, moderate and aggressive estimates for the hard and soft savings so senior managers know you did your homework and they can determine the best- and worst-case scenarios. Try using publicly available data and published case studies to justify your automation investment.

Use benchmarking data from The Hackett Group to illustrate best-in-class results of automation. Be sure the business case details your current and projected cost to process an invoice.

The business case should include a summary page highlighting the savings and risk mitigation the automation will provide, and the assumptions used to create them. Spell out the return on investment and the total cost of ownership. And make sure the business case speaks to the measurements your management looks for in an automation proposal (such as return on investment within 24 months).

Spelling out these elements in a business case is sure to win senior management approval.

> **Proving that automation will enable cost savings and mitigate risk is a critical step in migrating from paper-based accounts payable processes.**

> **80% of accounts payable departments achieved payback on their automation initiatives within 18 months, according to the Association of Intelligent Information Management.**

STEP #9 - Set Realistic Timelines

It's tempting to try and use a Big Bang approach to system deployment to achieve payback on your technology investment as quickly as possible.

But a Big Bang approach can overwhelm staff, increase the risk of system failure, and create issues that will impact stakeholders and suppliers.

That's why it's important to set realistic project timelines.

Your automation timeline should include:

- Distinct project milestones
- Tasks and personnel required to complete each milestone
- Assigned responsibilities
- Dependencies between work streams

To keep the project on track, prioritize needs over 'wants.'

A measured approach to implementation mitigates potential risks.

When developing an implementation timeline, consider all the internal staff who will be required to play a role. Underestimating the time required of staff can create implementation bottlenecks. And the staff in most accounts payable departments are already stretched thin managing day-to-day transaction processing tasks; they have little time to learn or manage new systems and processes.

Look for easy wins during deployment. Many projects get bogged down trying to automate the most time-consuming and complex transactions – typically, those transactions that occur infrequently. A better approach is to focus your efforts early on during system deployment on the high percentage of frequently occurring transactions that can easily be automated. This will accelerate payback, build the confidence of your project team and users, and free up staff later for tricky transactions.

Review all the invoices you receive and prioritize the order in which they should be automated. Similarly, segment your suppliers to identify those that would be most likely to embrace automation.

Also, be flexible in how you train staff. "Lunch and learn" sessions, posting a "training tip of the day" on your corporate intranet, vendor-produced webinars that staff can view at their leisure, and PDF documents describing the operation of key features are effective strategies for training busy finance staff. As you approach the system go-live date, consider employing temporary workers to free staff for training. Develop a plan for reaching far-flung personnel. Additionally, remember that staff can only absorb so much information at a time; three one-hour training classes may be more effective than one three-hour class. Give staff time after each class to try what they have learned on the new system with dummy documents.

Testing should be a critical part of your project timeline. Plan to measure the performance of the new system at pre-set milestones during the project to avoid big problems later. Make sure all the features work as expected and that the system is integrated properly with your ERP application.

Also perform user-acceptance testing to identify issues identified by frontline staff.

The project timeline will help you measure progress and generate status reports for stakeholders

STEP #10 - Win Over Frontline Staff

The final step in preparing for automation is to win over frontline staff.

Change is hard, to some degree, for everyone. But accounts payable professionals have a well-earned reputation as being resistant to change. Win them over by spelling out early in the project how the system works and how it will positively impact their jobs and possibly their careers.

Involve influential frontline staff in the planning for automation and selection of the vendor.

Also, identify staff with a positive attitude who can advocate for the system during training. You also want to ensure that frontline staff have plenty of hands-on opportunities to test the new system before go-live. Be sure to call out features during training that will directly benefit individuals.

Finally, don't let staff fall into the trap of trying to recreate tired, old processes with the new system.

Conclusion

Automation is a top priority in accounts payable. From intelligent data capture and business analytics to artificial intelligence and robotic process automation, organizations of all sizes and across all industries recognize the big impact that automation can have on accounts payable.

But you cannot achieve the full benefits of accounts payable automation without a successful system implementation. A poor system implementation also can result in a loss of trust, strained stakeholder relationships, and wasted time and resources. The 10 steps described in this white paper provide a blueprint for maximizing automation investments through a successful system implementation.

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