# Drowning in Paper Invoices?

Maximize cash, savings and your bottom line
with accounts payable automation

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# Introduction

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Chances are, you have been hearing about the advantages of moving toward an all-electronic accounts payable (AP) workflow for years. The reasons to eliminate as much paper and as many manual processes as possible are clear and familiar. Electronic transactions cost less, proceed faster and have fewer errors than paper-based POs, invoices and payments. You can securely monitor the status of electronic invoices in real time. Automated AP can enable business intelligence systems to capture and analyze purchasing data that can improve a company's competitiveness. Additionally, all the time savings from automated AP can allow businesses to redeploy human resources to more valuable areas of the organization.

Solutions for spend analysis, contract lifecycle management and supplier management have proven to yield strong results for these  companies—helping them respond favorably to key industry dynamics. JAGGAER presents this paper to review these challenges, opportunities and available solutions and highlight customer success stories.

Although large companies have developed automated AP systems and leveraged them to the point where some even claim to have transformed their AP departments from cost centers to profit centers, many companies in the $200 million to $3 billion range have yet to adopt pervasive automated AP and realize its advantages.

More than 90 percent of medium-sized companies still use paper invoices to some extent and about 80 percent use paper for more than half of the invoices they process, according to a 2012 survey by the Institute of Financial Operations (IFO).

There are a number of reasons why medium-sized businesses have lagged in deploying and leveraging automated AP technology. Large companies led the way because the volume of invoices they process made the business case to invest in automated AP a compelling one.

Medium-sized companies, however, typically process fewer than 10,000 invoices per month. Many mid-sized companies also have other IT related projects that they have prioritized higher than automated AP deployment or believe that they lack the IT resources necessary to develop automated AP capability. Others believe they lack the capital to invest in automated AP, while some don't have the executive sponsorship an automated AP initiative needs or have yet to formulate a convincing business case for it. Finally, there are some organizations that simply don't believe that the available solutions are compelling enough.

Whatever the reasons your company has for not pursuing automated AP any further than it has, the advantages of AP automation are so clear and affordable that they overwhelm all of the common arguments for delaying development. Nearly every company has opportunities to move some AP processes or information into the digital realm. The key is to discover where those opportunities are and to understand the range of solutions available for your opportunities.

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# A Portfolio of Invoicing Methods

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One of the issues related to automated AP development that can appear daunting is the sheer variety of invoicing formats most companies must manage. Many businesses process a mix of PO and non-PO invoices, which may be received as paper, email, or faxes. Invoice formats can include Excel files, PDFs, XML, EDI and entries from web-forms. None of the paper-based methods, or email submissions and attachments, allow the businesses that use them to leverage the benefits of electronic invoicing unless they use some sort of technological processing, such as scanning invoices and using optical character recognition technology. This is all complicated by the fact that in most countries, due to Value Added Tax (VAT) legislation, the invoice is considered a legal document for tax purposes and must be handled according to specific regulations.

While most medium-sized companies process fewer than 10,000 invoices per month, the number of invoices processed by about 80 percent of those companies has been rising or holding steady over the past few years. At least 65 percent of the invoices processed by most of the companies are paper-based and more than half of the companies have seen the volume of their paper-based invoices rise or remain the same over the past year.

Many suppliers are perfectly satisfied with paper-based invoicing, as it is the traditional method and requires no technological or training investment on their part. They issue the invoice, eventually they get paid and everything is fine.

Except when everything is not fine.

Invoices do not always match POs the way buyers expect. Non-PO invoices can be for improperly authorized purchases and the manual matching of invoices to POs, receipt documents and contracts eats up time and delays suppliers' payments. Taking as much time as it does, all that manual workflow is expensive and can erode a company's competitiveness. Even when companies use email to process invoices, the overall cost to route them individually to division offices, manual entry, coding and approval centers and then central AP for payment and archiving can easily exceed $15 per invoice[1]. Most companies have seen increases or no change in the cost of processing an average invoice — at least that is the case among companies that can actually calculate those costs. an average invoice.

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# Saving Time & Increasing Visibility

Surveys show that less than two-fifths of medium-sized companies can process an average invoice in less than three days and about three-fifths of the companies are seeing their processing times increase or not change. It can easily take longer than two weeks for many companies to process an average invoice. One way to hasten invoice processing is to migrate to electronic invoicing. It saves time, so suppliers receive payment sooner, which they like. For their part, buyers can then leverage that benefit to suppliers and negotiate discounts for early payment.

Regardless of which paper-based invoicing methods you use, clinging to paper deprives your company of real-time invoice visibility. Paper invoices can be lost or stranded on someone's desk. The same risks apply even to emailed invoices if all the authorized people in the processing workflow do not have immediate access to the invoices for which they are responsible.

[1] Scott Pezza and William Jan, Aberdeen Group,
AP Invoice Management in a Networked Economy, May 2012, p. 6

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## Look for Win-Win Solutions

Despite the leakage of operating capital that paper-based invoicing represents, most mid-sized companies spend less than 2.5 percent of their AP budgets on automating AP processes, more than three-quarters spend less than 7 percent and most do not plan to spend more this year on AP automation than they did last year. This represents a competitive opportunity for companies that are motivated to deploy automated AP solutions.

Many companies that have successfully deployed automated AP programs have done so because they understood how the process could benefit their suppliers as well. Going all-electronic will require some investment on the part of suppliers, so they need to see an adequate ROI.

The path your company takes to 100 percent automated AP depends on the available technologies and opportunities that they represent for you and your suppliers. The ultimate pay-off for suppliers is loyalty and faster payment, which can be the result of automatic matching, electronic workflow and fewer errors. For buyers, the pay-off will come in the form of dynamic discounting for early

payments, streamlined workflow and better data for business intelligence.

You should begin creating business intelligence processes and analytics around your automated AP effort as soon as you begin creating a business case for it in your organization. The oft-repeated BI mantra—assess, invest and evaluate— applies from the very start. Assess where automated AP can make the most immediate difference to your company, invest in it accordingly and evaluate the difference the implementation made.

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## Deploying Different Solutions For Different Suppliers

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Not surprisingly, the first steps that most companies take in their move toward automated AP do not involve suppliers and typically relate to automating AP workflow and invoice approval to the extent possible. One path of entry is to digitize paper, email and fax invoices, converting them to an electronic image using either an in-house facility or a third-party service. This process can reduce errors, increase invoice visibility and facilitate automated workflow. Although the initial scanning does add time to processing at the front end, the total time required to process an average invoice can usually be reduced overall.

Companies can take the digitization of paper-based invoices to a further degree by deploying data capture and optical-character recognition (OCR) technology. Where mere scanning of paper invoices produces an electronic image of the document for manual entry, OCR technology captures the data within the image. Companies that use OCR can automatically track and analyze invoices at a finer level than image scanning alone allows. All the data in an invoice — its number, its referring PO and/or contract, dates, types and amounts of goods and/or services delivered, etc. — become available in real time. Invoice data can resolve issues such as mismatches and can populate financial databases. Yet only a few companies — about one in five in the IFO survey — use OCR to capture invoice data.
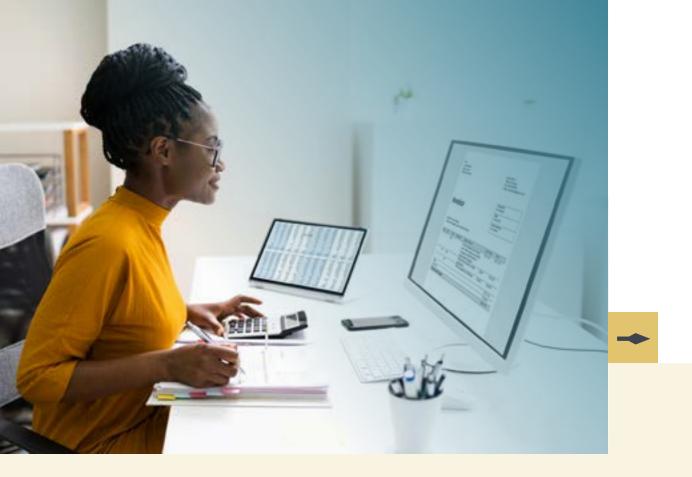
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# Pushing The Envelope

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If a company is already capturing all the data from its invoices via OCR, has automated all the internal workflows and has integrated the captured purchasing data into its enterprise resource planning (ERP) system, the only way it can move automated AP further along is to push suppliers toward adopting the electronic data exchange that makes the most sense for both parties.

Beginning with low-volume suppliers, some companies encourage migration to an AP portal. At the very least, portals allow suppliers to submit invoices in electronic document or PDF form, which can hasten the capture of all the data relating to each transaction. Portal developers and vendors can configure the interfaces to suit the needs of buyers and suppliers, allowing such exchanges as:

- Invoice submittal by web form
- Self-service inquiries regarding a supplier's account and specific invoices
- Account maintenance
- PO-flip invoice submittals
- Payments

Despite the advantages of portals, particularly those which capture all the data pertaining to each invoice, more than three-fourths of the companies responding to the IFO survey are not using supplier portals. Among those that do, chances are about even that either procurement or AP owns portal management. About half of the companies with supplier portals have them hosted on-premise as opposed to the cloud.

For high-volume suppliers, some companies will find further advantages in electronic invoicing solutions. Typically, electronic invoicing requires buyers and suppliers alike to have their AP/AR systems integrated with their ERP or accounting systems. Because of the integration, invoice generation, sending, receiving and processing are all automated and can be executed very quickly. This type of solution reduces the possibility of human error further than any of the other automated AP technologies, enables the greatest degree of invoice visibility and can offer tighter security than any of the other technologies.

The tight integration of electronic invoicing can reduce the costs of processing invoices down to 30 percent of the costs paid by companies still processing paper-based invoices. Companies that use electronic invoicing often communicate with their suppliers over secure networks, which can guarantee accurate submittal and receipt and utilize

technologies such as digital signature. Communications that bear digital signatures adhere to extremely high standards regarding their authenticity, origin and integrity which is a legal requirement in most countries that accept compliant electronic invoices for tax audit purposes.

Companies can also use non-technological means to advance their automated AP efforts. After assessing what information would be most valuable to include on invoices you receive, you can negotiate contracts with your suppliers to provide that information. After you demonstrate that your automated AP efforts are resulting in shorter payment cycles, you can leverage that improvement to receive more and better early-payment discounts from your suppliers. Once your AP (and AR) bookkeeping is more completely integrated with your overall financials, it will be easier to manage your cash reserves and respond with more agility to business opportunities.

A key part of that integration would be centralizing your invoice management processes and standardizing them across business locations and units. To ensure that your automated AP efforts pay off continuously, you want to always assess your processes for further opportunities to become more competitive, invest in those opportunities and evaluate the  results of those investments. On-demand reporting capabilities and dashboards in an automated AP system can greatly facilitate improved decision-making and spend management.

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# A Checklist For Success

Developing automated AP capabilities involves a commitment to continuously leverage the technological tools that are appropriate for your company's business needs. The companies that realize the greatest benefit from automated AP are those that integrate their AP data into their wider business intelligence activities. What are those benefits?

- The elimination of paper and all of its shortcomings, from AP. You will be capturing and taking advantage of all the data that moves through your AP processes.

- Your invoice cycle times will shrink. A good effort can reduce cycle times from 20 days or more to fewer than five.

- You will have negotiated more early-payment discounts and be capturing a greater percentage of them than ever before.

- You can develop tighter relationships with your suppliers and coordinate your efforts to achieve common strategic goals.

- Your tighter integration of AP into overall financials will allow you to formulate more win-win contracts and enhance your ability to gain competitive insights into your business.

- Your customer service will improve as you provide more opportunities for suppliers to make inquiries and resolve issues via self-service portals.

- Your tax team can ensure compliance with relevant electronic invoicing legislation and reduce audit time in Value Added Tax (VAT) regimes.

The typical mid-sized company does business with a wide range of suppliers. Those suppliers developed their invoicing systems for their optimal benefit, leaving you to manage a portfolio of invoicing methods. Realizing the competitive edge that automated AP can create involves working with your suppliers and your AP-automation vendor. Work together to take the steps that will make automated AP's advantages most evident. Dynamic discounts and better business decisions await you.

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