



## Empowering Accounts Payable Through Automation

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## Introduction

During the past 10 years, organizations have adopted accounts payable (AP) automation technologies at an accelerating pace. Document imaging, data capture, and other solutions are radically transforming the way AP departments work with their traditionally most common medium, paper. At the same time, the promise of electronic transactions is quickly becoming more of a reality, with growth year after year in the number of transactions sent and received electronically.

For AP staff and management, a common reaction to all of this automation is fear. Fear of change. Fear that their skills or jobs will no longer be necessary. Fear that their career has hit a dead-end and there will not be a place for AP professionals in this new, highly automated reality.

However, with change comes opportunity. Instead of making AP a smaller and less-vital function, these automation technologies have made AP more important and more strategic to an organization than ever before.

This report explores how automation technologies have permanently changed the role of AP departments within corporations and have helped create a new reality — a new, modern AP operation. Accounts payable professionals cannot only survive in this new reality, but thrive, obtaining new skills and expanding their role to provide more services more effectively and efficiently. This report also addresses why AP and finance leaders should embrace the change and how to guide their organizations down the path toward transformation.



## The Evolution of Accounts Payable

Technology has radically changed the way AP departments participate in payment transactions. The level of change has accelerated in recent years as more and more companies have adopted and optimized automation solutions. As a result, the roles of AP workers have begun to transition away from data entry and toward newer, more value-added roles.

Traditionally, the focus of an AP department has been to receive paper invoices by mail and manually enter these transactions into the accounting or enterprise resource planning (ERP) system. The primary skills that made a team member valuable were speed and accuracy — or, more succinctly, the ability to enter in invoices as rapidly as possible without making data entry mistakes.

Globalization and expansion caused many companies to rapidly increase the volume of transactions processed. Shared service centers began to emerge to create efficiencies in processing. However, in a paper-intensive environment, more volume created the need to increase staff. Increasingly, companies began to turn to outsourcing or offshoring of accounts payable functions. According to the State of the Outsourcing Industry 2013 study by KPMG and HfS Research, 23 percent of companies use outsourcing as the predominant method of managing AP processes. The research showed finance and accounting processes as one of two most-targeted areas for outsourcing plans.

New electronic content management (ECM) technologies soon emerged to help AP departments better manage paper, allowing for scanned copies of invoices to be stored and later retrieved. Advanced data capture took this process one step further, allowing for key invoice data to be retrieved from scanned images and validated automatically by the software for seamless transfer into the accounting or ERP system. For many organizations, this technology dramatically improved throughput and accuracy, allowing invoices to be validated in seconds and, in some cases, to require no review by a staff member at all, processing through just as efficiently as an electronic transaction.

Additionally, ECM software added functionality to route invoices for approval based upon established business rules, such as escalation by dollar amount. This functionality not only streamlined the process but also provided an electronic signature and accurate audit trail of every step the invoice went through on its way to being approved. Today, workflow technology is not only used in AP departments for invoice approval, but can be a critical tool to resolve invoice discrepancies, streamlining communication between the AP and purchasing functions and creating clear accountability.

ECM solutions have also helped to reverse the trend toward offshoring, creating ways to process increased volumes of transactions with a smaller number of staff members, allowing knowledgeable workers to focus on more critical accounting and finance functions. The technologies have become a vital component of many AP departments, particularly those operating in a shared services environment, where the ability to process a large volume of transactions quickly and accurately with a minimal level of staff is necessary to achieve the anticipated ROI.

While many have feared that automation technology would mean the end of careers in AP, it has actually preserved and enhanced them. With these technologies, corporations find they can operate AP cost-effectively without outsourcing or offshoring this function. Fastenal Company, a \$3.3 billion distributor of industrial and construction supplies, utilized existing staff for their automated AP and AR operations, and eliminated the need to hire additional staff – an expected 200 to 400 people to keep up with anticipated growth.

Automation can simply allow organizations to reduce the number of full-time employees required to handle the AP workload. Skilled finance professionals are often reallocated to more critical business functions, or transition to professional levels in treasury, tax, auditing, and other areas. Additionally, replacements are not typically needed after natural attrition due to productivity increases as a result of automation.

## How Automation has Changed AP

Why does automation have a dramatic impact on AP operations? Automation has brought many distinct advantages to AP operations that have transformed the way they operate:

1) **Elimination of filing** — AP automation solutions now deliver on the promise of eliminating paper within organizations for resolution of common issues such as approving invoices and resolving discrepancies. While many organizations still receive the majority of their invoices via paper, front-end scanning solutions allow these physical documents to be scanned upon arrival. Additionally, invoices can be accepted via fax or electronic invoices. Images can even be emailed and automatically imported into the ECM software.

AP departments traditionally have kept invoices on-hand for one or two years and then shipped them for storage at another facility, in many cases using a costly third-party storage service. In a modern, automated AP department, invoice storage isn't needed because records are available electronically in the ECM software. These records can be automatically purged based upon document retention policies or kept indefinitely if desired. This eliminates not only the monthly storage cost of a third-party storage service, but also the costly fees related to retrieval and disposal of records.

Filing traditionally has been a time-consuming task, and not particularly popular in AP. File clerk positions are often high-turnover roles. When a dedicated position does not exist or is unfilled, this task is commonly rotated to AP clerks, distracting them from their primary roles. If filing is not embraced as part of someone's job, it can get put on the back burner, leading to an increased backlog.


Retrieving and then re-filing invoices during month-end procedures or an audit can also create a large burden on an AP operation. With a document management solution, these records can be retrieved without going to the physical files — preferably directly by the finance, auditing, or other department making the request. All invoices are located in this single repository, and related documents can be made available in the ECM software as well, such as purchase orders and packing slips, which greatly simplifies finding information when resolving invoice matching errors. Automation essentially eliminates a task that is both time-consuming and unpopular.

For South African retailer Clicks Group Limited, by scanning all invoices into their ECM system, their staff is able to access more than 99 percent of invoices electronically, with a simple mouse-click within their ERP of choice, SAP. This not only speeds up invoice processing, but also increases user acceptance.

2) **Elimination of data entry** — The traditional task of an AP staff member is to review invoices and type all relevant data into the ERP system — over and over again, working as fast as possible while not sacrificing accuracy. The ability to navigate this process rapidly and with minimal error has been a key skill for an AP team member, with many departments focused on the number of invoices entered per day as the primary metric of individual productivity.

Automated data capture eliminates manual keying by recognizing and lifting the data from the image, including invoice number, total due, terms, due date, and even line-item details. Because invoices vary from vendor to vendor, advanced solutions locate the data regardless of where it resides on the image by combining a variety of methodologies, including searching for defined data labels. Capture solutions can also remember where it found the data the next time that vendor's invoice appears, further speeding processing when the invoice format is seen again in the future.

Once the data fields have been located and captured, any data inaccuracies or mismatches can be corrected — for example, between an original purchase order and the invoice. Because keystroke errors are reduced and the data is validated against pre-defined business rules, accuracy is greatly increased. Exceptions can be handled at this stage or moved further down the workflow stream.



Leggett & Platt, Incorporated, an S&P 500 global manufacturer, automated invoice processing to eliminate manual entry, validate the data and transfer to the company's ERP, as well as their mainframe application for payment. By utilizing advanced capture techniques to locate and extract data without templates, the company realized increased speed and accuracy, saving them \$1.6 million annually in AP labor costs.

**3) Acceleration of cycle time** — Automation technologies allow invoices to move faster through the entire process, from invoice receipt to payment. Workflow allows for users to configure rules for evaluation of documents and automation of tasks that have traditionally required movement of paper within the organization, such as approval of invoices.

An effective workflow solution includes configuration of business rules using a simple interface, allowing AP professionals to maintain the workflow themselves using a point-and-click interface that does not require programming skills or involvement from the IT department. Standard approval rules are built to route the invoice to the proper approver and to automatically require further approvals based upon pre-established business rules — most commonly, dollar amount thresholds. Each approver has the option to view the invoice, choose the proper general ledger coding, and forward the invoice for additional approval as required. Some ECM solutions have advanced functionality that allows for “ad-hoc” approval when an approver wishes to forward an invoice for additional approvals outside of the pre-built rules, as well as “delegation” functionality, which allows the approver to designate another person to authorize payment of invoices when the approver is out of the office or otherwise unavailable.

A key feature of a workflow product is to automatically notify approvers when they have not taken the appropriate action after a set number of days. AP is removed from the role of babysitting the approval process. Many solutions even provide the option to escalate an invoice after a certain number of days, automatically forwarding the invoice to the employee's supervisor or the next approver in the hierarchy.

This technology replaces the time-consuming and manual process of sending invoices to approvers and ultimately back to AP through intercompany mail. This same technology facilitates invoice matching discrepancy resolution for purchase order invoices between AP and other departments such as purchasing and contracting. Advanced AP departments find numerous creative uses of workflow to streamline communication and invoice processing.

Lastly, workflow provides an extensive audit trail of every step an invoice takes in the approval process. This allows for reporting to be used to identify bottlenecks using clear, concise, and accurate information so management can take action against non-compliant staff.

The result is that there is a significant reduction in the invoice approval cycle time — meaning that invoices are approved faster and available for payment earlier. For example, Suncoast Credit Union, Florida's largest credit union, saw their invoice approval time decrease from three days to mere minutes.

The department can then choose to pay the invoice based on whatever is optimal for the organization, taking advantage of prompt payment discounts and rebates as well as allowing for more accurate and timely cash flow projections. In addition, staff time focused on invoice approval is almost completely eliminated as automation takes care of the majority of the work.

4) **Facilitation of process improvement** — Prior to implementing document imaging, it would not have been unusual for an AP department to measure its backlog by stacking up un-entered invoices against the wall and using a ruler to determine the number of backlog inches. Now, with document management solutions, AP staff use electronic work “queues” of invoices that were scanned and are awaiting entry, or automated data capture, allowing for easy reporting of the exact status of any backlog. Dividing queues by work task, or by individual, allows AP leadership to easily identify where the backlog is most critical and readjust priorities and staff to resolve the issue.

With automated data capture, backlogs are significantly reduced by the increased speed of processing. Many AP departments using data capture report their backlogs in terms of hours, rather than days, and a single figure hourly backlog is not uncommon. As an example, Northeast Utilities Service Company of Berlin, Conn. reduced its backlog by more than 90 percent after automating its capture process, down from three to four weeks previously.

Document management and workflow have also transformed the information available to an AP department. The lifecycle of an invoice through the receipt, scan, approval, coding, and resolution process is now fully visible. When combined with ERP data, it can create a complete picture of the cycle time from when an invoice is issued by the vendor until it is available for payment.

This information allows AP to identify where invoices are delayed in the process, perhaps by individual approvers or specific work teams. Armed with concrete information rather than perceptions and hunches, AP is able to counter suggestions that the department is not meeting its obligations and instead take action to correct behavior that is preventing AP from paying invoices in a timely manner.

These changes create a shift in the role and the focus of AP operations.

### **Modern AP: A New Focus**

As AP departments increasingly adopt automation, their role within the organization is evolving and a new AP department has emerged for early adopters of these solutions.

Data entry is no longer the cornerstone of AP. Electronic transactions, combined with the ability to convert paper invoices into electronic transactions through data capture, have begun to essentially eliminate this function, once the key part of the daily life of an AP staff member.

Modern AP departments have focused on providing more business-critical activities. The following are some examples of how an AP operation can leverage the resources created by automation to increase value:

1) **Identify and maximize financial opportunities** — AP departments increasingly use a direct position to influence the financial success of their organizations. The most commonly tracked financial opportunity is the ability to take discounts identified on invoices. This is with good reason; a 2 percent net 10 discount is equivalent to a 37 percent return on investment. Every such discount available should be taken and priority should be given to identifying and resolving any bottlenecks that prevent that from occurring.

AP's financial influence doesn't stop there, however. A professional in a modern AP department seeks out financial opportunities as good stewards of company funds. They should take steps to avoid late fees from vendors and also negotiate removal of these fees when they do occur. Additionally, AP staff can review contracts to ensure that vendors are set up properly in the vendor file to reflect negotiated discounts. Further, these negotiated discounts can be automatically checked during the data capture phase to ensure they are being given properly.



2) **Increase compliance** — AP departments increasingly use the additional time created by automation, as well as the automation tools themselves, to increase consistency and compliance with policies and procedures. For instance, data capture is used to extract information from invoices, but mature capture solutions can be leveraged to build business rules and procedures into the entry process, such as calling for certain information to trigger a manual review by AP or another department. As another example, workflow allows for electronic signatures and full audit trails of invoices at every step of the approval process.

AP departments are increasingly becoming the “police” of the organization, creating rules to ensure compliance and detecting and acting upon compliance violations by vendors or internal staff. With automated solutions, AP can build new rules into the technology to ensure audit checks and additional reviews that were too labor-intensive to be practical in manual routing environments.

3) **Focus on customer service** — AP departments are often judged by their organizations based on their response to a small number of incidents. Any single unpaid invoice can result in escalation to the highest levels of the organization, tarnishing the reputation of the AP team. Delivering high-quality, timely, and accurate customer service should be a key priority in a modern AP operation.

Quality customer service is achieved by having a dedicated team whose priority and focus is responding to and resolving customer service requests from vendors and internal staff via email and phone. Inquiries should be tracked using ticket tracking software to facilitate reporting and metrics related to volume of queries, response time, and open-issue tracking.

AP automation technologies make effective customer service possible because they speed up the approval process. For example, ERP software may be used to check invoice status. Document management may be used to retrieve invoice copies. Workflow may be used to facilitate invoice approvals and to resolve invoice matching discrepancies.

Customer service may also be proactive, catching and resolving issues before a vendor calls. A common example of this is reviewing vendor statements for past due invoices and researching those invoices to determine why they are not paid. Informing vendors proactively of any delayed payments and the steps they can take to help resolve the issue builds a strong relationship between AP and vendor AR departments, and can elevate the reputation of the AP organization.

The skills required to provide quality customer service are different from the traditional AP skillset. The focus of these positions should be on customer service experience and the drive and desire to resolve problems.



## Modern AP: New Roles

As automation allows AP departments to gain the confidence of their leadership and establish consistent control over the daily invoice flow, AP leaders will find that they have the opportunity to take on new responsibilities to expand the role of their teams. The following are just a few examples of increasing the strategic role of the AP operation:

1) **Managing cash** — The modern AP department will continue to have a more strategic role in managing the organization's cash flow. Working with treasury and finance departments, AP will play a part in determining the best way to leverage cash and determine whether vendors will be paid on a timely basis or delayed. If payments will be delayed because of cash flow concerns, AP leadership will be in a position to take a more strategic approach to payment delays, establishing creative strategies to delay payments without creating challenges for the organization in the forms of credit holds or damaged vendor relationships.

2) **Managing vendors** — Mature AP departments will take a more direct role in managing vendor relationships, working in conjunction with purchasing departments. Armed with new metrics and information, AP will challenge vendors with high rates of matching discrepancies to take a more active role in ensuring that invoices match issued purchase orders. AP will take a more active role in the contracting process, creating and maintaining a standard set of terms including factors such as billing procedures, acceptable terms, and responsibility for accurate billing that allows for the company to take discounts and avoid late fees when billing errors occur.

Armed with a better understanding of cycle times and bottlenecks, AP will also take a heavier hand with accounts receivable departments that use intimidating collection tactics such as repetitive calling and service denials.

3) **Optimizing payments** — AP leaders are now able to identify the financial opportunities available through rebates in their purchasing and payment card programs. In some cases, AP operations have been able to earn rebates that exceed their costs of operating their entire departments. However, as their counterparts in AR departments begin to better understand the costs and fees involved on their end, they could consider pushing back and refusing card payments.

AP has the opportunity to maximize the financial return for its organization by creating a multi-solution payment strategy that matches each vendor with the optimal method of payment to earn the best return. This strategy will require constant review and adjustment as market conditions change. No one solution fits all situations.

Automation technologies will enable invoices to be available for payment at the earliest possible point, creating maximum flexibility in using the optimal timing and method of payment.

4) **Auditing and compliance** — AP departments are increasingly taking new and more important roles in monitoring compliance to company policies and procedures including those developed and implemented by other departments. A common example is for AP teams to create processes which ensure their departments do not process invoices for purchases that fail to follow proper protocol. These processes commonly require that invoices are returned to the requestor or vendor to obtain the right documentation such as a purchase order number. Another example is to monitor purchasing-card purchases to detect potentially fraudulent or out-of-policy purchases.

AP departments also leverage automation and reporting to conduct self-audits, finding their own errors before internal or external auditors find them. Common examples of this include doing duplicate payment reviews on a weekly or monthly basis as well as performing regular audits of the vendor file for duplicates and completeness of information.





## **New Skills for AP Leaders and Staff**

Leaders and team members of a modern AP department will need to develop new skills in order to thrive in this new environment. The good news is that most of the skills and experience they've already developed will continue to be valuable.

Quality customer service will be a cornerstone of a modern AP operation. Obtaining training on basic customer service skills and techniques will help AP team members to succeed in this critical function. Adding team members with prior customer service experience, even if not in accounts payable, will provide new perspectives and complement an experienced accounts payable team.

Leveraging metrics and ad-hoc reporting is crucial to facilitate continuous improvement through the identification of bottlenecks. As an example, proactive identification of unapproved invoices will help to ensure these invoices are approved in a timely manner. Data can also be used to identify trends in invoice matching discrepancies such as common items producing errors or problematic vendors. Modern AP team members should be provided with the access and training to extract data and develop custom reporting without the need to involve IT departments. Many AP automation tools have made this possible through intuitive reporting tools and better out-of-the-box dashboards and reporting.

## **Leading the Way**

AP leadership should drive the selection, implementation, and maintenance of AP automation solutions, starting with three applications that are core to an accounts payable operation: ERP, workflow, and document management. AP should take ownership of the configuration, design, and testing of these solutions, working in conjunction with their colleagues in IT, rather than relying on them to handle these projects. Taking this active role will ensure that AP processes and needs are factored into decisions and that the AP team is in a position to support itself on the applications in the future.

While AP is often only an influencer and not a primary decision maker on those key solutions, there are many other automation solutions that are more specific to AP, and in some cases can be fully owned and driven by that department. Those include another core application, data capture, as well as payment cards, payment gateways, vendor portals, and time and expense solutions. Increasingly, these options are cloud-based, reducing the requirement for IT involvement and allowing AP to take a more proactive role in their maintenance.

Rather than wait for problems to come to them, modern AP leaders are taking information to their corporate executives in the form of metrics, department updates, status reports, and financial projections. These leaders are providing monthly updates in a consistent, professional, easy-to-read format that combines metrics and status information with personal insight.

Research consistently shows that AP leaders struggle to obtain funding within their organizations for automation solutions and for additional staff, equipment, and other needs. In the 2014 AP Automation Study by IFO, respondents were asked to identify the largest obstacles to getting AP technology projects approved. Their top two answers: Too many competing projects and a lack of support and advocacy from senior leadership.

Today's AP leaders are elevating the level and sophistication of communication, demonstrating ROI and clear information about their teams taking responsibility to deliver on it.

AP is a constantly changing profession, with new regulations and technologies emerging every year. Modern AP leaders strive to remain educated about these changes through regular participation in webinars, conferences, and other learning events. Connecting with other AP professionals in user groups and interactive educational outlets allows them to quickly learn from the experiences of others.

AP leaders should challenge themselves to add value to their organizations every day, not only by making sure their team members perform without complaints, but by proactively looking for ways to save money, create efficiency, and simplify the jobs of others within the organization.

AP leaders can create significant value within an organization by collaborating with other departments to help them accomplish their objectives and to align goals. For example, an AP leader can collaborate with:

- Other department leaders to determine how AP can help their teams.
- Procurement to resolve invoice matching issues and facilitate more accurate purchase orders.
- Contracting to ensure that contracts reflect the best terms and billing procedures available.
- Treasury to develop a payment strategy that meets the organization's cash flow objectives.
- Finance to facilitate more accurate accruals and financial reporting.

Those who choose to do so will find that their opportunity for growth outside of the AP department will constantly improve, but may also find that the AP role is achieving increased importance within their organization. Perhaps the day may come when a Chief Payments Officer is a common role in the C-suite.



The Institute of Financial Operations is a membership-based professional association serving the entire financial operations ecosystem, with a particular focus on the accounts payable and accounts receivable disciplines and the related fields of information management and data capture. The Institute grew out of the merger of four associations: International Accounts Payable Professionals (IAPP), International Accounts Receivable Professionals (IARP), the National Association of Purchasing and Payables (NAPP), and The Association for Work Process Improvement (TAWPI). Based in Orlando, Fla., with affiliates in the U.S., Canada, and the UK, The Institute serves as a global voice, chief advocate, recognized authority, acknowledged leader, and principal educator for people in financial operations. The Institute's members have access to benefits and leading-edge resources such as the award-winning Financial Ops magazine, a dynamic content-rich website, educational and networking events, online educational offerings, certification and certificate programs, career resources, and volunteer opportunities. For more information, visit [www.financialops.org](http://www.financialops.org).



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