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BREAKING THROUGH OBSTACLES IN AP AUTOMATION

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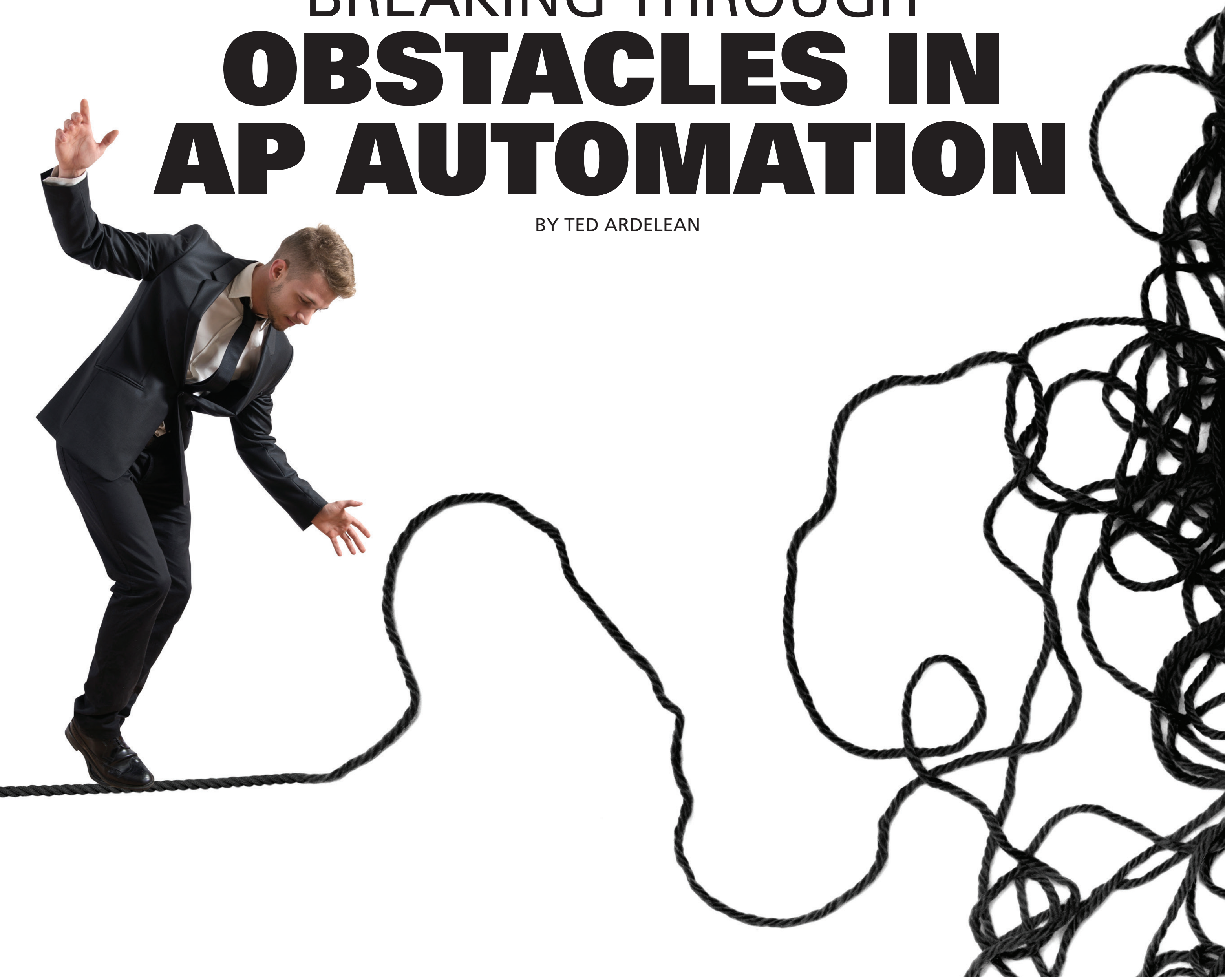

Undoubtedly, technology has improved business processes. The playing field has been leveled. Modern technology has allowed the entrance of new players and products into the game; broken down borders to create new revenue opportunities; and perhaps most importantly, increased speed and effectiveness to historic levels.

But there is always a cloud for each silver lining. In this case, companies are still grappling with how and when to integrate the benefits of technology into various parts of their business. Constrained budgets, limited resources, and a misunderstanding of what is "good enough" mean that many aspects of business aren't realizing their full potential—particularly those on the inside. Most organizations realize how shaving seconds off of "cash-in" order fulfillment can equate to significant additional revenue but have not spent as much time investigating how driving those same efficiencies for "cash-out" processes can also impact the bottom line.

One excellent example of this is the accounts payable department. Long a model of inefficiency—relying on processes like snail mail and manual data entry—AP groups are finally beginning to realize how technology and automation can help them battle the perpetual invoice backlogs and data entry errors. But there is much room for improvement, and even more to be gained: a highly efficient AP department can directly impact a company's financial operations.

Based on our extensive experience helping companies implement efficient AP processes—coupled with some in-depth research Canon Business Process Services conducted on what comprises a Best-in-Class accounts payable department—I have outlined some of the key obstacles companies face when looking to automate their AP departments, and some recommendations for overcoming them.

Challenge #1

Companies don't believe AP automation will help them achieve their most crucial business goals.

AP has historically played the role of a supporting function to the business at large: keeping the backend humming along, so sales and product development can drive growth. However, a faster-paced economy means efficiency is more important than ever—and streamlining these functions has the potential to transform a company's entire finance department and help CFOs meet their business goals. Because AP works in tandem with procurement, receiving, and business units, improving this function has the ability to affect a company's entire procure-to-pay process.

A recent survey of CFOs on their top priorities for 2014, conducted by the global business consulting and internal audit firm Protiviti, found that cash forecasting is CFOs' top priority when it comes to financial transactions, and that there is a strong desire to perform transactional activities as quickly and efficiently as possible. AP automation is a perfect solution to address this priority.

Challenge #2

Companies believe their AP departments are operating just fine.

The squeaky wheel most often gets the grease, so when companies are prioritizing upgrades and technology investments, it's easy to overlook processes that are running without issue. In fact, many companies may not even realize that there are areas to be improved, assuming that the tried-and-true approach is good enough. Unfortunately, the AP department often falls prey to this line of thinking.

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According to a study conducted by Canon Business Process Services in 2013 ("High-Performance Accounts Payable: Three Key Drivers to Success"), the differences between average and high-performing AP departments can be staggering, as the table on the next page demonstrates:

Clearly, there is ample room for even well-functioning AP departments to realize efficiencies, driving down cost and optimizing time resources with automation.

Challenge #3

Companies don't think the cost and time associated with implementing AP automation will justify the benefits.

As outlined in the table, the cost and time savings associated with a best-in-class AP department translate to a significant amount of resources and energy that can be deployed elsewhere—demonstrating that all companies can realize significant benefits from automation. Perhaps most notably, organizations that have achieved best-in-class status are able to process invoices at a cost of $2.20 per invoice, 88% lower than the average AP department, which averages $19.10 per invoice.

However, the greater issue is often that companies don't have sufficient budget to completely overhaul their AP operations, so they ignore it as an option. What organizations need to realize is that implementing AP automation doesn't need to be an incredible reworking of existing processes; incremental improvements can be made.

When it comes to companies for whom a complete overhaul is unrealistic or overwhelming, incremental success can be found by focusing on one aspect of the AP department that will yield the greatest positive impact. In the same study referenced above, Canon Business Process Services identified three drivers of high-performance AP departments:

- ***Centralized Invoice Receipt With Automated Data Extraction:*** A centralized structure with automated OCR (optical character recognition), data extraction, and validation processes can yield significant benefits. These include lower invoice processing costs, fewer errors, shorter cycle times, and the elimination of handoffs.
- ***Process Automation:*** While it requires an investment in technologies, such as an invoice workflow system, supplier portal, mobile approval capabilities, dynamic discounting, and analytics, workflow automation can help companies realize successes. These can range from an average $5 decrease in cost per invoice to a 3.5-day shorter cycle time for invoices and a 117% increase in invoices processed per month.

- ***Outsourced or Managed Services:*** One of the most popular approaches is outsourcing the front-end invoice imaging and data conversion. Canon has found that just the act of outsourcing an AP activity has a synergistic effect on higher AP performance—including cycle time, cost, and labor performance.

By putting time and resources behind one of these three drivers, companies can still realize the benefits of AP automation without feeling like they're biting off more than they can chew.

Performance Metrics		Average [1]	Best-in-Class[1]	Best-in-Class Advantage
1	Cost Per Invoice	$19.10	$2.20	88.48%
2	Invoice Cycle Time (receipt to ready-to-pay)	13.5 Days	3.3 Days	75.56%
3	Invoices Processed Per FTE/Month	1,335	3,559	166.59%
4	Invoices Processed Straight Through	18.4%	44.20%	140.22%
5	Suppliers Converted to eInvoicing	14.50%	41.80%	188.28%
6	Exception Rate	16.10%	7.70%	52.17%

Challenge #4

Companies don't have the existing resources to implement AP automation.

If companies have worked through the first three challenges and have decided to move forward with AP automation, the biggest barrier is often the most practical: how to actually take steps to adopt these practices. Often, companies don't have the in-house expertise required to implement these solutions. Their AP departments don't have the bandwidth to evaluate, recommend, buy, install, test, and refine solutions.

In these instances, companies should think strategically about an in-house versus outsourced AP operation. For many companies, outsourcing aspects of the AP function can be a solid investment—and, as already noted, the practice is a driver of a best-in-class AP department. Canon's research indicates that companies that at least partially outsource their AP operations reap numerous benefits: namely 25% lower cost per invoice and 27% shorter cycle time.

Challenge #5

Companies don't secure the inter-departmental support—IT or otherwise—necessary to implement these solutions.

If a company decides to handle the majority of its AP automation in house, this can lead to issues with the IT department and funding, as some organizations lack the infrastructure necessary to bring these solutions online. But the larger issue isn't just about securing funds to purchase AP automation capabilities; it's about communicating the benefits of an improved AP department to the organization at large in order to win support for the overhaul.

AP departments need to closely communicate with CIOs and other decision-makers to emphasize the positive benefits that improving the AP department will have on the entire organization. From an IT perspective, advancements in workflow technologies mean that implementation efforts with ERP and content management systems are easier than ever.

AP automation also presents an opportunity to drive coordination between the finance and technology silos. Increased opportunities and risks brought on by the use of technology in the workplace have caused CFOs and CIOs to work more closely together than ever. According to a 2012 Deloitte report, 45% of CFOs say that IT is a direct report, while 25% have a "dotted-line relationship." Deloitte recommends that the working relationship between CFOs and CIOs can be improved through business alignment, shared language, and business rotations. The overhaul of the AP department represents such an opportunity.

Transforming an AP department from a paper-based organization to a highly efficient, automated business function can be a daunting process. Its clear impact on the company's overall business objectives, however, makes it an effort worth undertaking. The key thing for AP departments considering this change to remember is that it doesn't have to be an all-or-nothing process. There is much to be gained from incremental improvements in automation.

The best approach will change from company to company. What matters most is that organizations are realizing the benefits that come from automation and are taking steps to achieve them. ■