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Invoice
Automation

AN ESSENTIAL GUIDE TO ACCOUNTS PAYABLE EFFICIENCY

CHANGE ISN'T ALWAYS POPULAR - ESPECIALLY WHEN IT MEANS ALTERING THE WAY PEOPLE HAVE WORKED FOR MANY YEARS. HOWEVER, AN UNVARYING WAY OF WORKING CAN LEAD TO COMPLACENCY, AND WHEN THAT STAGNATION LEAKS MONEY AND CREATES INEFFICIENCIES, IT IS TIME TO CONSIDER NEW OPTIONS..

Accounts Payable (AP) is a case in point as it is often beset with manual processes – meaning it is usually plagued with errors, and a lack of productivity and transparency. With the continued spotlight on cost reduction, there should be a sharp focus on the true price any organisation will pay if it retains such systems.

AP can reduce spend in two main ways – lowering cost by increasing operational efficiency, and collaborating with trading partners to capture discount-based savings due to timely payments.

There are notable differences between the organisations using best practice in their AP function, and those who have been left behind. The Aberdeen Group has stated that Best-In-Class companies can process their invoices at a fifth of the cost of industry Laggards. This cost difference, when applied to thousands of invoices, shows the huge savings available for many AP departments.

This Guide will highlight the pitfalls and burdens of manual invoicing, and weigh up the opportunities and benefits that Invoice Automation can offer the progressive AP function.

Why is paper a problem?

The use of paper invoices places a great burden on finance departments – particularly those with multiple office locations. These manual processes are laborious, prone to error and

expensive. AP teams are inundated with documents, and their time is taken up with sorting and routing the invoices, data entry, photocopying, resolving queries and locating associated paperwork. Add to this seeking approvals, posting cheques and fending off onerous calls from suppliers about the status of their payments, and the majority of the AP working day is pretty much eaten up.

Data entry is arguably the most problematic of these processes as it is so time consuming and frequently results in errors entering the system. Documents lying around on desks can get lost, or result in multiple copies, and they take longer to appear in AP systems. There is a lack of visibility into the status of in-process invoices, and gathering the associated documentation is difficult.

Suppliers are often frustrated by this lack of transparency, which can impact early payment discounts. Suppliers may submit a number of invoices in a month, but only receive a single cheque payment from the buyer in order to reduce banking fees. If there are deductions made against an invoice, or if there are any other queries, it often results in confusion and a number of phone calls to the AP department. The answers they receive to their queries are rarely delivered in a timely manner, and so are often out-of-date and incorrect.

There is an increase in the Days Sales Outstanding (DSO) as the invoice transits from the supplier, through the mail or email system, until it is received, input, approved and paid by the AP team. This lack of control often results in late payments and the associated penalties, damaging the supplier/ buyer relationship further.

Managers are also adversely affected by the manual processes. Without the required level of visibility, there is an increased risk of errors, delays and duplicate payments, and they don't have the real-time data they need for accurate forecasting. A large invoice, highlighted just prior to payment, can result in a significant cash deficit against forecast. The business may then need to borrow funds at a premium rate. Reliance on spreadsheets and outdated software increases the errors in data capture, and results in multiple copies of data in different sites. On top of this, AP staff caught up in the paper processes have no time to add value, they cannot help the business gain valuable insight from the data that would give the organisation competitive advantage.

Manually processing invoices is hugely expensive. As well as labour costs, there is the cost of paper, postage, photocopying, printer cartridges and storing paper invoices onsite or at an expensive offsite storage facility. These inefficiencies make their way to the bottom line, increasing costs and spurring management to react with top-down cost reduction mandates.

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By investing in AP Automation, your organisation is taking a simple step towards improved productivity and efficiency. **"**

Aberdeen Group

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More than 1/3 of businesses consider difficulty finding or managing paper-based documents to be a leading obstacle to achieving their business goals. **"**

Aberdeen Group

So, is change happening?

Invoice Automation is gaining momentum. In its June 2015 survey, the European E-invoicing Service Providers Association (EESPA) reported that there was a 17% increase in the number of electronic invoices processed by its members in 2014 compared to 2013.

The digital era is providing us with an opportunity to reimagine the world in which we live and work. The Government has started to transform operations with the Government Digital Service focusing on building platforms, standards, digital services, and the creation of the Gov.uk web site. The Government initiative to create a paperless public sector will drive even greater uptake in automated invoice processing. The announcement that the UK Government has set aside £4 billion to create a paperless NHS is likely to act as a conduit for change.

However, the majority of organisations continue to process invoices manually. In the Billentis June 2015 report on eInvoicing, it was estimated that 500 billion invoices are sent globally each year with just 42 billion of these being delivered electronically. If a large majority of these paper invoices were replaced by electronic ones, the saving potential in Europe's public sector could be up to 40 billion Euros. With less than 10 per cent of this being exploited, some organisations are failing to see the advantages of utilising Invoice Automation.

Presssures driving interest in AP improvement

| Category	Percentage
Lack of visibility into invoices and AP documents	45%
Corporate directives to lower costs	44%
Difficulty finding or managing paper-based documents	39%
Inability to effectively manage cash according to business needs	19%
Risk of payment related fraud	13%
Difficulty handling high amounts of supplier enquiries	12%

What is Invoice Automation?

Invoice Automation allows an invoice to be processed electronically, and sometimes automatically. It may be received electronically, or it may need to be imaged so it can then be indexed and stored electronically in the system. Data will be captured from the invoice, verified and validated without manual intervention. This includes making sure the supplier is known, prices and terms are checked against a master contract, and line item quantities and descriptions are checked against the PO.

Matching is one of the more complex validations, but can generally be done automatically involving tolerances expressed as a percentage and agreed by the organisation. Anything that falls outside of the tolerance level, or fails validations, can be sent to a knowledge worker for corrective action. Once the invoice has been validated, it can then be sent electronically around the organisation for approvals.

Perhaps the most expensive aspect of invoice processing is the personnel required to help with supplier enquiries. This may be to initially confirm receipt, and then afterwards to discuss payment. There might also be conversations about errors or unexpected items that can take some time to resolve. eInvoicing allows for online portals to be used, enabling suppliers to have transparency of the process and status of approvals, payments or issues.

Two key technical capabilities of Invoice Automation are the automation of specific tasks, and the integration of disparate systems. Automation includes reminders for steps required and not yet taken, and notification to exceptions that have occurred. System integration focuses on data accessibility which involves integrating and assembling all necessary and related information.
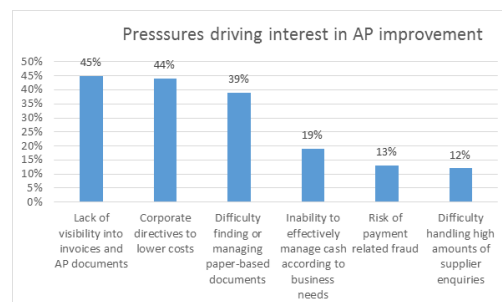
The 3 key elements of Invoice Automation:

▶ Digitising invoices and capturing the data - The first step is transforming the paper invoice into a digital document. This can be achieved by using either barcode technology or Optical Character Recognition (OCR), both of which reduce error-prone manual data entry. Relevant data is extracted, and the document is electronically indexed for easy retrieval. Barcode scanning uses a specialised printer to create a self-adhesive barcode which is attached to each invoice, then scanned. This barcode makes sure the invoice is linked to the relevant transaction in the system. Intelligent OCR technology recognises the supplier based on key information such as a VAT number. It will then extract data from the invoice and verify it before it is uploaded into the system. Any exceptions are brought to the attention of knowledge workers. Digitisation reduces manual data entry by up to 80%.

▶ Invoice authorisation – After the invoice has been digitised and the data has been captured, it can be electronically sent for approval. The invoice is automatically routed to the correct approver based on pre-determined rules. The invoice can be approved, rejected or queried, and approvers can always see an image of the original invoice attached in the system.

▶ Making payment and issuing remittances - AP staff will be notified once an invoice has been approved so payment can be made by BACS.

Electronic remittance advices are automatically created with full information about the payment. This further decreases the need for manual intervention, and reduces the number of queries from suppliers.

The benefits of Invoice Automation:

In its June 2015 report on eInvoicing, Billentis stated that those companies that embrace eInvoicing will be stronger and more profitable than their competitors. This is due to a number of reasons:

▶ Cost savings – these can be staggering. Billentis calculates savings of 60-80%, and there is a typical payback period of 6-18 months.

▶ Fight against internal fraud – electronic invoices leave a more watertight audit trail. This helps the organisation with compliance issues, verification of bank details and VAT numbers, as well as good standing against possible fraud.

▶ Value added activities – staff are freed up from mundane tasks and so can focus on more strategic work and management reporting.

▶ Better efficiency – invoices are swiftly captured, routed, approved and processed electronically with automatic notifications. Staff need only manage "exceptions". This increases accuracy and reduces manual tasks and errors, all of which reduce staff costs.

▶ Duplication checks – automatic checks on multiple databases monitor the consistency of invoice numbers, and eliminates the risk of duplicate payments.

> Best-In-Class companies are 71% more likely than Laggards to have fully integrated AP systems with Enterprise Resource Planning (ERP) ot financials solutions.

Aberdeen Group

- ► Integration – solutions are integrated into an organisation's accounting and ERP systems, ensuring the whole Invoice Automation process is streamlined and data is shared.

- ► Enhanced cash management – the organisation gains a holistic view of AP, and this increased visibility gives a better understanding of cash flow and improved forecast accuracy. Payments can be scheduled to match cash flow, and budgeting is more accurate.

- ► Improved spend management – sources of waste and abuse can be identified by taking data from purchasing, contracts and AP systems and putting it in a data warehouse to be analysed. Organisations can pinpoint cost saving opportunities, such as consolidating spend with fewer suppliers, removing off-contract buying etc.

- ► Stronger supplier relationships and better discounts – suppliers often offer discounts of 1-2% for early settlement of invoices. Greater control of payments and dispute handling will also result in avoidance of late payment penalties.

- ► Supplier portal – gives suppliers the ability to check the status of payments, vastly reducing the number of calls and enquiries to AP staff.

- ► Staff self-service – allocated internal users can be provided with secure self-service access to documents that they can filter in a number of ways, saving AP staff from requests for documentation.

- ► Lower carbon footprint – in theory no paper is consumed, nor is there any transportation of paper from supplier to buyer. The environmental impact of removing thousands of paper invoices from the financial supply chain is something that an organisation can promote as part of its PR strategy around "green" issues.

- ► Increased compliance – An automated system ensures invoices match POs, spend is within budget and supplier terms are met.

V1 Customer Feedback:

"Our new systems have significantly reduced paper use, as well as administration, including cutting manual data entry by 80%, saving us at least £60,000 each year. We are no longer wasting time filing and retrieving invoices in boxes. Instead, we can automatically access invoice images from the desktop with just a few mouse clicks, significantly improving efficiency. As we always have a digital copy of every document, invoices going missing is also a thing of the past."

- Anthony Adewumi, Systems Accountant, Bonhams

"We have freed up staff in the AP team, and received cost savings of approximately £25,000 each year. We are also reducing the number of days it takes us to pay a supplier by 15%, improving our payment performance whilst strengthening relationships with our suppliers."

 - Robert Coles, Purchasing & Credit Control Accountant, The University of Bath

"The new software will deliver considerable cost savings as we no longer have to post and photocopy invoices, and will not be paying a third party document archiving facility. We have also reduced the time it takes to approve an invoice, so as to save late payment penalties, staff no longer have to print out and photocopy invoices several times over, which has dramatically reduced our impact on the environment."

 - Ray Benn, Financial Account Manager, Newham College

Reviewing Performance

Best-In-Class organisations measure performance at least once a month. Real-time updates with metrics and costs allow companies to make iterative refinements to the AP process to ensure maximum efficiency.

A well-designed dashboard can simplify the process, focusing on the key metrics and allowing lower information intensity to drive more frequent updates.

Summary

With the technology available today, there is no reason for businesses to continue relying on manual, paper-based processes with all the associated inefficiencies and frustrations. The introduction of Invoice Automation means the AP team are freed from routine manual tasks, and can focus on work that is more meaningful and value added for the organisation.

Introducing emerging mobile capabilities can further streamline AP processes and enhance productivity, particularly when budget holders are spread across different sites or frequently working 'on the go'. The way that we work is changing, and mobile access really is a must-have in today's digital age.

The case for Invoice Automation is very clear – the significant cost and efficiency savings, combined with greater visibility of the whole AP process and improved supplier relations, means that those organisations that invest in Invoice Automation will firmly differentiate themselves from their competitors. Those that embrace change, with all the potential benefits, will reap the rewards and truly become Best-In Class.