WHITE PAPER

Automated accounts payable processing

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Four Quarters to Accounts Payable Efficiency

THIS WHITE PAPER PRESENTS A FRAMEWORK FOR THE SUCCESSFUL REALIZATION OF THE BENEFITS PROMISED BY ACCOUNTS PAYABLE AUTOMATION

Introduction

So the Accounts Payable (AP) department has just installed the latest in technology, along with a best practice process for managing supplier invoices. Expectations to exceed the business case are high; executive support is ready to go; behaviours need to change, and AP needs to make it work. But the question remains: Where do we start and how do we meet the business objectives?

Most organisations start with the project initiation process by working out a return on investment (ROI) for the automation system installation. Unfortunately, this business case falls short of detailing the changes required to generate the return: the behavioural changes, change management activities, new KPIs and revised accountabilities. Having this foresight is rare for many organisations.

This paper has been written to provide AP leaders with a framework for using their new systems to achieve greater AP efficiency and offers a suggested program of activities to be carried out over a year to reach success. While the time period is arbitrary and some may achieve outcomes faster or slower depending on their challenges, the flow of activities is important for success.

The approach is based on discussions with many of Australia's leading organisations that have automated and streamlined their AP processes. Their generous feedback has been consolidated into a framework to provide others with the benefit of their learning with the goal of enabling new teams to realise their business objectives even faster.

The underlying and rather obvious notion, of which many organisations lose sight, is that the implementation of the new system is only an enabler to assist the team in exceeding current performance levels; it isn't the solution. When project sponsors, owners and stakeholders change during the course of selection and implementation, which is usually a 12-15 month period, many projects tend to lose focus before the realisation of benefits. In this way, AP automation is no different to other enterprise IT projects.

This paper assumes the reader has purchased and implemented an AP automation system and strives to offer its organisation a program for using it. Historically, vendors have failed to teach customers how to make the best use of automation systems. This paper attempts to fill that gap and provides guidance in how to maximise the benefits of the AP automation solution.

A note for the reader:
Change Management, a topic in its own right, is addressed in a separate white paper, "Making Change Happen". This white paper was published in 2011and is available on the ReadSoft website. It is recommended reading as a precursor to this paper.

An Overview of the Journey to Success

On the face of it, using a new, automated AP system looks like a relatively simple exercise; centralise processing, digitise invoice content, apply business rules, automatically workflow exceptions, save digital paper trails and evaluate performance against target metrics to identify opportunities for further improvement.

Most organisations do well selecting and implementing software but then struggle with using it effectively. Some of the most common problems include leading the changes from old business practices to new processes, particularly for first-time AP automation practitioners asking trained AP staff and business personnel to adapt. It's hard to encourage stakeholders to adapt when they are content with current practices, don't understand the reason for change, and don't see the change as strategic.

Finance and AP Managers need instruction on how to use the system to maximise organisational efficiency and to drive the changes through the business. Achieving a respectable ROI for investing in an automated AP solution, like any IT solution, takes a combination of leadership, influence, measurement, process improvement focus, coaching and drive.

The framework outlined in this paper may be executed in four quarters or could be done over 8-12 quarters. It all depends on the organisation's appetite for change, starting point, leadership and culture. While technology is important, it is rarely the key determinant of success.

This framework is based on working with 10-20 leading organisations in Australia and New Zealand, each of which have achieved their goals at different rates, and have consistently said they underestimated the amount of change required in meeting those goals. They also suggested that vendors provide users with greater instruction on how to implement the changes required to achieve their ROI targets faster. This paper has been written from their learning and with the interests of the future AP automation practitioner in mind.

Achieving 50%+ straight-through-processing (STP), is the outcome most finance managers are looking for by implementing invoice automation solutions. Some complicated organisations and shared service centres, unfortunately, sacrifice STP for buyer determination business rules.

Maximising STP requires a combination of factors: a high percentage of purchase orders to invoices, a culture of continuous process improvement within the finance department, optimising optical character recognition (OCR), pushing suppliers to submit invoices directly to AP by email and adherence to

process rules. The automation solution is simply a stepping stone - a platform that enables effective AP users to achieve STP - and should be treated as such. The journey to STP only starts once the proper tools are in place and the focus must be on learning to use those tools to maximum advantage. OCR and workflow integrated into the company's ERP are the right tools. Teaching people how to use them effectively is the challenge.

> **"Once you adopt these automated AP processes, you are unlikely to go back to manual."**
>
> *Constancio Fernandes*
> *Manager - Group Projects*
> *Finance & Business Process*
> *Village Roadshow Limited*

The journey generally follows four stages:

1. **"Building Accounts Payable Capability"** by structuring AP team roles, metrics and skills to use the new system and focus on continuous process improvement. Acquiring these new skills requires a different team culture and the assumption that the current AP team members are able to adapt has been the cause of stress and pain for many Finance Managers. The hard decisions to move the business forward need to be made to allow change to happen.
2. **"Living by the rules"** happens once the AP department has confidence in the new system and is comfortable with the process changes. It's now time to leverage suppliers to drive change within the business by starting to impose the new rules.
3. **"STP automation"** is the process of continuing to tighten the rules, optimise AP processes and modify workflows based on feedback, and from the business and learning. It also marks a shift by the AP team from "in the process" to "on the process" as they start to drive continuous improvement.
4. **"Fine tune"** the process by consolidating changes with all stakeholders, sharing successes and setting new targets for improving AP performance.

Four Quarters Framework to AP Efficiency

Assuming you have your new invoice processing system ready to go, have trained and staffed your AP team to make a difference, you are now ready to make it work. The table below provides an overview of the framework followed by more detailed quarterly guidelines.

STAKE-HOLDERS	Q1 Building AP Capability	Q2 Living by the Rules	Q3 STP Automation	Q4 Fine Tune	NEXT STEPS
ACCOUNTS PAYABLE	• Redefine and allocate roles for efficiency • Define AP rules for invoice handling and daily operation • Centralize email and phone communications • Track processing of KPIs daily (invoices verified, aging, cycle times, etc.) • Optimise top 50 suppliers for auto-verify • Benchmark staff productivity • Designate an AP Super Coach for training	• Reassess staff capabilities and make changes as required • Implement program to reduce processing errors • Continue to optimize suppliers; set daily target for staff each day; target the Top 500 • Raise the bar with staff, empower with rules for AP, suppliers and business • Analyse processing errors for POs, master data, GR, purchaser determination • Redistribute non-core activities to the business such as reconciliations and blocked invoices	• Reassess staff capabilities and make changes as required • Enhance automation of workflows, validations and reminders to streamline processes • Optimise top 500 suppliers for auto verify • Communicate to suppliers to follow up with purchasers to approve invoices. Use scripts in workflow and template emails. • Workshop with AP and Purchasing, listen to business needs or issues and amend rules if required	• Reassess staff capabilities and make changes as required • Reallocate resources in AP to match efficiencies and needs • Benchmark staff productivity to assess 1st year improvements • Agree new AP KPIs & SLAs for the business based on performance • Assess AP satisfaction & address issues related to processes	• Evaluate self-help supplier portals to improve efficiency • Evaluate use of purchasing cards to reduce invoice volumes • Evaluate master data process control options • Focus on business activities that directly affect invoice arrival in AP or AP efficiencies
SUPPLIERS	• Communicate process changes and faster payment benefits • Ask suppliers to email invoices to a dedicated AP "processing only" inbox • Monitor invoice raised to invoice scanned vs. due dates	• Leverage suppliers to support process changes by advising that invoices without a PO will be returned to vendor • Monitor duplicate volumes in ERP	• Reject invoices without PO unless from utilities • Suppliers to follow up with purchasers for late payments	• Thank suppliers and profile faster payment benefits • Promote invoice to be sent to email address • Eliminate inactive suppliers (No activity > 14 months)	• Direct to supplier portal for payment status updates

BUSINESS	• CFO to communicate process changes, benefits and new expectations (100% PO) • Provide links to easy-to-follow, targeted training materials • Assign Purchasing Super Coach to develop and adopt rules to work with AP (Goods Receipt Process)	• Benchmark performance of business units with executives • Communicate new invoice rejection rules • Roll-out defined, generic training (video best practises) • Engage power users for improvements	• Communicate new reminder rules and payment performance improvements • Refine workflow descriptions to identify common workflows for targeted reporting	• Thank managers for support and profile champions • Communicate AP productivity improvements using KPIs	• Purchasing to negotiate discounts and/or improved pricing, based on ability to offer better payment terms • Simplify approval and PO requisition solutions

Quarter 1

Focus on building AP capability in using the new system, driving process changes and adapting to a culture of continuous improvement once the menial tasks are automated.

The key activity is redefining AP roles for efficiency. Roles need to be allocated according to skills and attitude, with metrics adapted to suit. Most teams benchmark weekly performance against invoices processed, invoices in backlog, suppliers optimised, OCR capture rate, invoice cycle time, approval cycle time and purchase orders completed in advance.

> **"I was surprised how difficult it was for some AP staff to adapt to a new process and, likewise, what a difference having the right people in the new roles made"**
>
> *Rita Van Ierland, Treasury Manager*
> *Fujitsu Australia*

Emphasis on particular metrics will change as the team improves and the bottleneck shifts, and they may also differ according to business issues. The bottom line is metrics need to be tracked weekly and the team should be encouraged to implement new approaches to improve results. This may result in changes to roles and the organisational structure so reasonable flexibility is required.

Performance in the first month may be inconsistent due to individual learning curves. Visibility of new issues (changes to system and process often shed light on previously unseen issues) and extra work, as existing invoices mix with new invoices to increase the workload. Quite often the first month is the most challenging one for AP. While they are just getting up to speed on a new system, they are also optimising suppliers for capture, getting extra calls from suppliers and the business due to process changes, receiving extra invoice volumes due to centralisation and struggling with personal change. Managers need to monitor bottlenecks to ensure roles are resourced appropriately, process design assumptions are valid and personnel issues are addressed. Active management and leadership, based on benchmarking facts, are key to making the transformation.

This is not the time to ask if the system came with reporting functionality. That should have been addressed upfront, as the benchmarks are your navigation points. Just as one shouldn't drive without headlights, one shouldn't try to improve this process without benchmarking metrics and reports.

Improve performance by assigning super users and asking them to benchmark performance and coach underperformers. Experiment with team structure to identify the most efficient way for your team to operate. We see a great mix of roles across the OCR capture, approval management, supplier/business communications and optimisation areas, with some teams specialising and others splitting end-to-end activities by supplier types or business divisions. Some even run 2 and 3 day splits, with people taking on different roles for portions of the week. All of these approaches are encouraged. Finding the best approach for your champions, team, and business, is what matters most.

With change comes the need to over-communicate. Suppliers and business managers will have questions and concerns that need to be addressed and they should be centralised and resourced by AP. Inquiries should be tracked by reason and the opportunity used to communicate the benefits of the change. Communicate process changes and benefits to suppliers and the business, along with providing easy-to-follow instructions and training material, as required. Many organisations find following up by phone with the top 50-100 suppliers to explain the new process is very impactful. Business managers appreciate 1-3 minute video/reminders/instructional links added to approval emails to help them along. Simple, yet effective.

Quarter 2

In the second quarter, the primary focus shifts to working with suppliers and to assist the business in living by the rules.

Trying to drive the change to a strong PO culture is difficult through internal influence. It is accomplished much more easily by offering suppliers consistent payment performance in exchange for submitting invoices with purchase order numbers, in a suitable OCR format, and by email. Let your suppliers request purchase order information from your business managers, rather than trying to force the change top down; it's far easier.

Assuming suppliers have already been advised invoice processing performance is being improved, it is now time to formally communicate the following:

- Invoices received without purchase orders, or containing incorrect information, will be returned to the vendor
- Invoices received by email are received and thus processed faster than those received by post
- All invoices should be emailed or posted to Accounts Payable addresses, not to business managers, for prompt processing
- By speaking to Procurement, some suppliers may have an opportunity to improve terms in exchange for mutual benefits

> **"Working with top suppliers to improve the way invoices are submitted has dramatically improved our invoice processing productivity"**
>
> *Scott Harding*
> *Shared Service Centre Manager*
> *Goodman Fielder*

Several government shared service centres have struggled with encouraging a PO culture within their client agencies and thus delayed using suppliers to help drive the change. They are now reconsidering their approaches and see suppliers as being key to helping drive positive change in procurement habits, and ultimately lowering AP operating costs.

The AP department continues to optimise operations by benchmarking performance, optimising suppliers and tracking processing exceptions. Exceptions including purchase order matches, goods receipt matches, vendor data errors, duplicate invoices and other types should be evaluated and improvements recommended. It is always interesting and revealing to learn why some suppliers or business divisions have more exceptions than others. Usually a simple change or conversation remedies the situation and improves overall productivity.

Naturally, a supportive dialogue with business managers while these changes are being made, needs to be maintained and is necessary for identifying and evaluating potential improvements to further increase productivity.

Quarter 3

All stakeholders should now be abiding by the new process and systems. The AP team is ready to enable and/or improve levels of straight through processing of invoices.

The key drivers of STP – PO/GR matching, correct master vendor data and OCR optimisation for 70% of suppliers – are in place. If comfortable, the team should now have the system only show capture and matching exceptions or errors to AP operators. Invoices from suppliers that are consistently captured correctly and matched should be posted automatically to free up AP talent to focus on improvements and exceptions.

Invoice rejection practices introduced to suppliers and business managers earlier in the process should now be enforced. Some teams may streamline AP even further by asking suppliers to follow-up directly with delinquent approvers if reminders aren't effective. Eventually this encourages even the laggards of the organisation to adapt to the new process.

The AP team now has the benefit of 9 months of operating experience. In addition, they have detailed information about exceptions (improvement options) to further refine or augment workflows to suit specialised needs. With this knowledge and information, the AP team should now revisit the process map for invoicing. Every business has a few invoices or transactions that don't fit the normal process – services, utility invoices and charity donations – and may benefit from a specialised approach.

"Our AP team can achieve 40-65% STP on any given day and is now working to reduce the percentage of invoices that still require goods receipting.

If you are not prepared to change your AP Team structure and operations to utilize the new technology you cannot improve performance"

Ciaran Mara
Business Solutions & Projects Manager
Orica

Quarter 4

The last quarter of the transformation is dedicated to consolidating all the process and behavioural changes by communicating and sharing benefits with stakeholders.

The AP team deserves special recognition for delivering business outcomes by completely transforming their culture from a reactive business component, to a proactive, process-improvement-driven management team. Procurement needs to start working confidently with top suppliers to negotiate early payment discounts in exchange for better payment terms, in the knowledge that the AP team is now able to deliver against the service level agreements. The business needs to be thanked for its support in adopting the new process changes and assisting AP with the transformation. Sharing improved business performance and productivity metrics, along with quotes of appreciation from suppliers, helps everyone to understand the value of the exercise.

The AP team may continue to align resources to better suit the business and start looking further afield for additional improvement opportunities and setting new targets.

Next Steps

AP team performance and productivity is greatly impacted by other processes and parts of the business. The next step is to look at these interfaces and improve the adjacent processes. The following options should be considered:

- Using a supplier portal to provide a self-help tool for suppliers inquiring about invoice status and payment date. The portal may also be used to promote purchase order flipping into invoices for an exact match in the ERP and for providing suppliers with dynamic discounting options.
- Promote the use of purchasing cards (P-cards) for expenditures under $3000 to $5000, depending on your business. This would make the approval of these expenses more efficient (expense approval by direct managers) and greatly reduce the number of non-PO invoices.
- Reduce supplier numbers and improve the vendor master data management process to ensure all vendor data is correct. This will also reduce duplicate or error payments. Good governance around this process is important for many reasons.
- Once the process is running efficiently and supplier relationships are well catered for, the Finance team may start evaluating moving operations to lower cost locations, or considering outsourcing options.

Summary

Achieving Accounts Payable efficiency is a journey that delivers valuable financial, governance and productivity benefits to organisations. A successful journey requires business process automation, change management and process improvement skills and focus.

While following a framework provides a structured approach to maximizing business returns, more importantly, it instils a culture of continuous process improvement in your Finance department.

AP efficiency (i.e. its ability to reliably process invoices in a matter of days, in a productive way, by automating manual tasks and having AP staff focusing on exceptions) and AP transformation is the aim of many finance teams and shared service centres. AP transformation addresses interfacing processes, such as vendor data, purchase orders, call management and financial corrections – to further streamline the process and achieve greater rates of STP. With a culture of process improvement, organisations that achieve AP efficiency will naturally start evaluating these adjacent processes and transform AP and other back office processes entirely.

AP Efficiency Checklist

Stage	Checklist	AP Efficiency Activity Summary
Implementation	☐	Purchase your AP automation system from a well established vendor capable of supporting your organisation, locally and globally, with process design, implementation, change management and process improvement coaching for your users. Check several references to ensure the right partner is selected.
	☐	Develop a detailed change management plan to bring your suppliers and business managers on board, but firstly, make sure you have the right people in AP to make the journey. Having the right people on board makes a considerable difference, as the AP roles change completely.
Building AP Capability	☐	Use the first quarter to build AP team capability and competence in the new system and start communicating upcoming changes in process to suppliers and business managers.
Living by the Rules	☐	Leverage suppliers to change the behaviours of business managers and to ensure invoices are received properly.
	☐	Shift invoices from post to email, continue to optimise suppliers, evaluate AP staff and make processing improvements.
STP Automation	☐	With a firm understanding of your new system, and confidence in its accuracy, start lifting automation levels to increase the percentage of invoices processed straight through.
	☐	Start enforcing the business rules with suppliers and business managers to get the laggards on board.
	☐	Once the majority of suppliers and business managers have adapted, the AP team has to force the laggards on board by taking hard line approaches to the rules.
Fine Tune	☐	Work with the business to identify process improvements by fine-tuning current workflows to better suit users, or creating additional workflows to suit specialised needs.
	☐	Consolidate all the changes by sharing benefits, recognising contributions and communicating results with stakeholders.
Next Steps - AP Transformation	☐	Encourage the ongoing focus on process improvement of back office processes by evaluating opportunities for further improvement in master vendor data, purchase order requisitions, purchase cards, goods receipting and supplier communications.
	☐	Make the journey fun by working with the right people and setting reasonable expectations along the way.

About the Author

Frank Volckmar is Managing Director of ReadSoft Pty Ltd (Australia). ReadSoft is a global organisation, headquartered in Sweden, which provides document automation software and services that enable Business Process Automation for manual or paper-driven processes within organisations. ReadSoft leverages OCR technology at the core of all its solutions to digitize documents and capture data to facilitate streamlining associated business processes.