Annie, Get Your… *Automation!*

Why automating Invoice-to-Pay workflow is the last line of defense in the battles against Data Entry Errors, Missed Vendor Discounts, & Accounting Inaccuracy

One of the most memorable and enduring images of Annie Oakley, The Little Sure Shot of the Wild West, is of her shooting a rifle perched on her shoulder, aiming at the target behind her with only a circular mirror. In today's Accounts Payables environment, the last thing you want to do is leave your success to chance – no matter how skilled you think you or your AP shop might be.

The best way to ensure you are properly engaged in the battles against data entry errors, missed or expired vendor discounts, and accounting inaccuracy is the committed application of the concepts and proven techniques of invoice workflow automation. In this white paper, we will take a look at some of the most compelling reasons to automate, where automation is taking hold along the AP timeline, and what specific pieces of automation are doing to help those who have embraced automation, turning historically manual processes on their ear.

Taking Stock – Evaluating Where You Are Today

Having an idea of where you want to go, where you want to be successful in your business practices and setting of goals, is moot without first understanding where you are today. For example, what methods are in place today, why do they impact your bottom line, and how you can reduce or (hopefully) eliminate pain points in your process as you work toward realizing your 'end game'?

According to an industry leader, "Accounts Payable (AP) is arguably one of the most critical departments of any company, regardless of industry. Accounts Payable processes often involve paper-intensive tasks including invoice processing, three-way matching and the overall management of payment records. Working with paper-based files and invoices can cause AP employees to capture data inefficiently and incorrectly. Paper records can also build up quickly, causing data entry processes to become very cumbersome, especially if your company has a large number of invoices."[1]

Reading that, you were most likely nodding in agreement, remembering examples of that same inefficiency, reliving the smallest of data entry errors which contributed to much larger problems, ultimately water-falling into a scenario you were responsible for, but were not able to directly prevent. The age-old conference question asked of keynote speakers, "What Keeps You Up At Night?" is certainly applicable here. And it is likely your first challenge: identifying the nightmare scenario.

For a moment, visualize the steps in your AP process. Ask yourself some simple questions to ensure you don't miss anything. Do you receive invoices from vendors? How do you receive those invoices? Where do they come from? Once received, where do they go? Who is responsible for processing invoices and in what manner, using what methods? What kind of manual data entry or data manipulation is involved? How are invoices approved? How are the payments applied to pay those invoices? How are the invoices paid (card, ACH, check)? How are the payments of those invoices captured in your accounting system? Who is in charge of ensuring the payments are captured correctly and posted correctly? And so on. The complexities and nuances can be endless.

> Manual AP causes high processing costs, slow invoice approval times, frequent missed payments, weakened supplier relationships, and overall inefficient use of company resources.
>
> On the other hand, automated AP reduces processing costs, lowers the number of missed payments, raises a company's internal and external efficiency, and improves its bottom line.[2]

Now ask yourself at what point – any point – in that litany of steps can something go wrong? Where is the nightmare scenario that keeps you awake at night?

Best Laid Plans & Errant Keystrokes

Concentrating at a target behind your back with a tiny mirror, hoping you hit what you are aiming for, makes as much sense as leaving your discounts to chance, or not fully understanding the true 'costs' of manually processing invoices. Consider that it costs upwards of $22 USD to process an invoice[3] and consider how many invoices come through your AP shop each week and month and year. That $22 number looks different across industries and could be higher or lower for you, but it is important to understand that no matter your number, it is currently higher than it needs to be. Approximately 22 percent of vendors offer some kind of early pay discounts, but many organizations are not organized enough to take advantage of them[4] – leaving money on the table in terms of potential rebate.

Included in that number to process an invoice, naturally, is the FTE impact; the true qualification of which isn't always easy to calculate, but oddly enough, it is always easy to lessen. Think about that in terms of the number of people required to process an invoice, what their hourly costs break down into, and the cost of their time over the totality of the steps to go from inbound invoice all the way to an initiated payment to a processed and reconciled payment. Let's say you're paying 1,000 invoices a month. No, let's even cut that number in half and say you're paying just 500 invoices a month. At $22 each, you have paid $11,000 simply to have those invoices processed manually. Where else could you be applying the $132,000 spent each year just to process your invoices by hand? What portion of that could have been reinvested in the company? Where else could those FTEs be redeployed, potentially further impacting savings by redistributing talents and strengthening the company, overall?
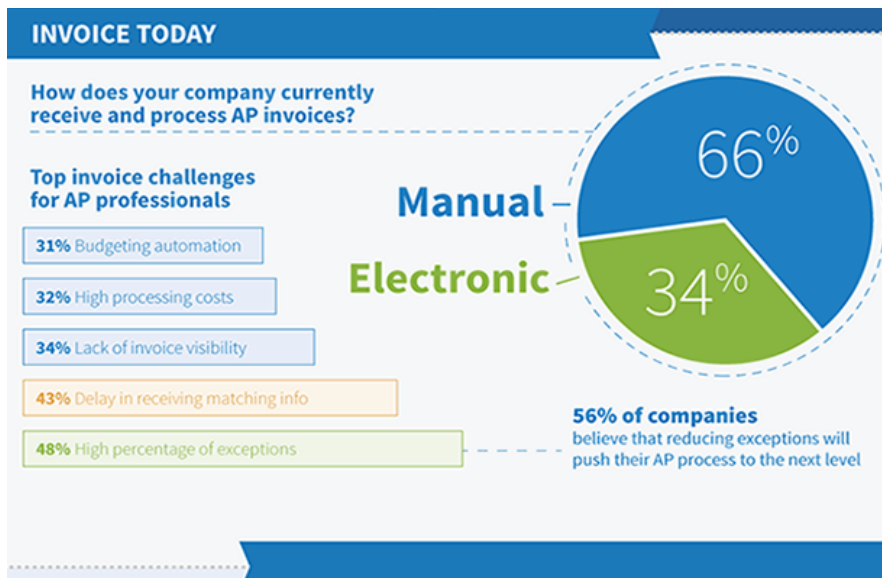
Industry stats show that 8 out of 10 (or roughly 82%) of all invoices will have at least one exception[5]. Relying on manual entry alone can mean an exception – or more – isn't caught, putting the brakes on what you thought was automation so someone can physically research the error before resuming their assigned tasks. The best laid plans of CFOs, Controllers, and heads of Accounts Payables can go awry with an errant key stroke, the missing of a needed early discount, or the late payment of a bill to a critical supplier. The resulting damage to a company can be both financial (think: missed monthly projections) or reputational (your vendor labels you as 'slow pay'). Climbing back from a pitfall, innocuous though it may have been, can be daunting. But with the right invoice automation in place, and fully adopted, those nightmare scenarios can be a thing of the past.

Not All Automation Is Created Equally

You have no doubt read umpteen lists of Best Practices that seek to qualify how an efficient AP shop is to be run, offering guidance on everything from 'eliminating manual data entry' to 'integrating your accounting system'. In between, articles advocate the use of specific technology, like single-dimension document storage products or anything that relies solely on the data capture buzzword, Optical Character Recognition (or OCR for short).

In theory, these kinds of systems are put in place to scan an invoice, pull out what is important, and reduce the amount of manual intervention required to begin – or continue – the AP process. It sounds good until you realize that there are some things that a pure document storage product cannot do, and that even the best OCR product is still subject to error. No OCR system in use today is going to be 100 percent accurate, meaning you will still have to deal with errors. The best conventional OCR products

have shown an accuracy rate of 98 percent on recognizing the text of a typical, quality document image[6] [keywords being: 'typical' and 'quality'].

INVOICE TODAY

How does your company currently receive and process AP invoices?

Top invoice challenges for AP professionals

31% Budgeting automation

32% High processing costs

34% Lack of invoice visibility

43% Delay in receiving matching info

48% High percentage of exceptions

Manual — 66%

Electronic — 34%

56% of companies believe that reducing exceptions will push their AP process to the next level

And once the image is captured, assuming it is of a high enough quality to be usable, what happens to it? In a document storage system, it is simply cataloged until needed – which ultimately means it is going to be printed and attached to the approval documents, or it will be scanned and attached to an email for a similar approval process. Once again, you have introduced the FTE into the process, slowing down the path toward final approval. You may have a digital document, but there has been little to no automating of the AP process. And we haven't even mentioned workflow yet.

A true and actionable Best Practice in the realm of automation is an image capture process which employs both OCR and manual intervention to ensure the legitimacy of the data, as well as an uninterrupted workflow for the decisioning and payment of an invoice.

Those last two paragraphs may sound contradictory to one another on their face, but consider the combination of what they are saying: Automation, in and of itself (in whatever form) is not a magic pill; the addition of the right kind of manual processing, performed at the right time, is key to efficiency and quality results.

Taking Advantage of Workflow Done Right

Inherent in the transformative leap from manual processing to the automating of tasks is the need for an integrated workflow. We have already seen where automation by itself won't turn you into a sharp shooter. By the same token, a ragged and inconsistent approach to workflow, especially one which continues to rely on the manual passing of paper and lengthy unmonitored periods between the

completion of assigned tasks, is similarly wasteful and can leave your efforts, be they cost cutting or maximizing of discounts, off-target. A 2017 Aberdeen Group survey found that "Forty-seven percent of respondents said the need for real-time availability of data is a key AP challenge [related to workflow] and 29 percent said difficulty locating/managing paper-based documents was a struggle [tied to approval]."[7] Does that sound at all familiar to you and your processes today?

Once that invoice is scanned into the system, you need to be able to take advantage of a platform which automatically assigns a workflow template or model to each invoice, recognizing unique conditions for them all, if possible. This is the point where your accounting inaccuracies (and even rework caused by inaccuracies) are dramatically reduced. By setting preconditions for expenditure types based on the categories of product(s) purchased, you have effectively removed the guesswork required on the part of an AP clerk to research the appropriate GL path, and you have enabled that clerk to simply eyeball the entry to note that it is correct and shorten the time until that invoice moves to the next stage for approval. Invoice workflow automation is truly core to the long-term success.

- **Cost Reduction:** Manual routing, multiple handling of the same invoice, lost/missing invoices[8]
- **Error rates**: With the right software, error rates are minimized, fraud is more easily prevented, financial and reputational risk is minimized[8]
- **Personnel**: You can make more efficient use of your staff so they can concentrate on more important topics[8]

If the first step of this invoice automation process was the accurate capture and digitization of the vendor's information, and the second step was the establishing (and usage) of a competent workflow management process, the third and fourth steps are logically the approval of the invoice and the subsequent payment of the invoice.

An overarching goal of this idea of automating your AP shop is the direct benefit it will have on the bottom line. Quantified in different ways, you may see that impact in the saving of hourly wages tied to invoice processing. You might recognize the impact as a decrease in the time it takes to move an invoice along the approval and accounting system continuums (critically important if your purchasing model is decentralized and/or cumbersome). Or you might see it

as the reallocation of FTE resources, or in either accelerated discounts from vendors or the rebate potential from paying by commercial card.

Invoices automatically routed to the correct individual for approval can be seamlessly routed back to an AP clerk tasked with final step of making the payment. From there, the system would present an invoice for payment, and would, in turn, receive the appropriate information to allow for reconciliation of the payment. And it's on to the next, and so on.
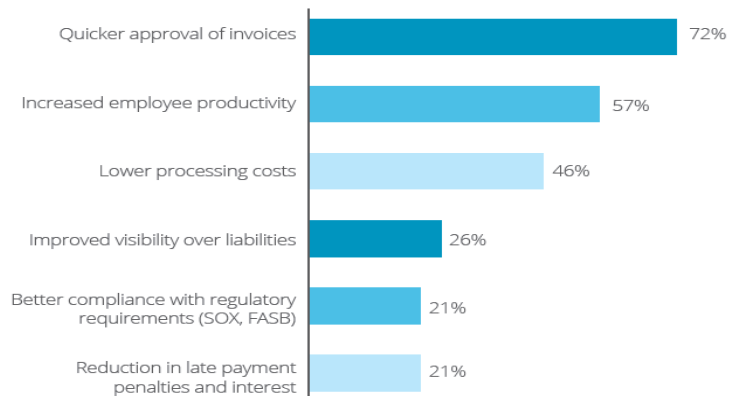
It's Not Rocket Science (unless you actually sell rockets…)

Much more pointed than a mirror and a rifle aiming backward, invoice workflow automation is most assuredly forward-looking and a weapon you can use in cutting costs, increasing productivity, ensuring the capture of applicable discounts, and paying your vendors and suppliers on time, every time.

By taking what you already have (the invoices, the personnel, the process) and re-engineering the path taken only slightly, with the right technology, the benefits achieved are clear. In that same 2017 Aberdeen survey, 27% of respondents said they were 'planning to implement' some form of invoice workflow automation. At the same time 30% said they 'are not using/planning to use an invoice workflow automation solution. Those percentages should change considerably in the report for 2018. But just looking at the first three bars in the graph on the right, there is an immediate sense of how invoice workflow automation is poised to help you achieve much greater efficiencies and skyrocket your return on investment.

BENEFITS ACHIEVED THROUGH INVOICE WORKFLOW AUTOMATION

Benefit	Percentage
Quicker approval of invoices	72%
Increased employee productivity	57%
Lower processing costs	46%
Improved visibility over liabilities	26%
Better compliance with regulatory requirements (SOX, FASB)	21%
Reduction in late payment penalties and interest	21%

[NOTE: The information referencing product on offer, and information both referencing and specific to the client has been removed per request to satisfy use as a sample document.]

Source Information

Picture, Annie Oakley; Wikipedia

[1] *Article;* http:// blog.square-9.com/4-benefits-of-accounts-payable-automation

[2] *Article;* '2017 Invoice Workflow Automation reports: Understanding The Use Case and Long-Term Value of an Automated Invoice Management Environment', PayStream Advisors

[3] *Article*; 'The Problem With Paper: A Case for Automating Accounts Payable', AvidXChange

[4] *White Paper*; 'Process Automation for Accounts Payable', Oracle White Paper November 2016

[5] *Article;* 'Mission Possible: Reinventing Invoice Automation', by Guest Contributor, July 11, 2017 / CFO Essentials

[6] *Article;* 'OCR Accuracy Rates', www.cvisiontech.com/library/ocr/

[7] *(see 5)*

[8] *Article;* 'Benefits of Invoice Automation', www.smart-soft.net/support/article/automated-invoice-processing/benefits-of-invoice

Graph, p4, 'Invoice Today'; www.certify.com/2016-10-25-Accounts-Payable-Benchmarks-for-2016

Graph, p6, 'Benefits Achieved Through Invoice Workflow Automation' (see 2)