

AP Automation: New Visibility Boosts Business Process Performance

An IOFM white paper

IOFM INSTITUTE *of* FINANCE
& MANAGEMENT

Sponsored by **Canon**
CANON INFORMATION & IMAGING SOLUTIONS

About Canon Information and Imaging Solutions Inc.

Canon Information and Imaging Solutions Inc., a wholly owned subsidiary of Canon U.S.A. Inc., was formed to harness the power of Canon's in-depth knowledge of information flow and world-class imaging technology. Utilizing Canon's vast collection of imaging technology and development tools along with select third-party enterprise applications, Canon Information and Imaging Solutions delivers compelling market-driven solutions in the area of business process automation, procure-to-pay and order-to-cash automation, inventory management automation, records management, and print management. Additional information about the company, its programs and its mission can be found at www.ciis.canon.com.

About IOFM

The Institute of Finance & Management (IOFM) is the leading source of information, tools and resources for finance professionals across our focus areas. For more than a quarter of a century, our newsletters, reference publications, online information services and conferences and events have provided authoritative guidance to corporate managers across a wide range of disciplines.

About The Accounts Payable Network

With a network of more than 50,000 AP process owners in the U.S. and around the world, and a host of membership benefits, The Accounts Payable Network (The AP Network) is the world's largest AP-focused organization. The AP Network's deep, comprehensive resources for executives and managers who oversee accounts payable give you point-and-click access to exclusive accounts payable knowledge base help. Focus areas include best practices for every AP function; AP metrics and benchmarking data; tax and regulatory compliance; solutions to real-world problems; AP automation case studies; member Q&A networking forums; calculators; and more than 300 downloadable, customizable AP policies, flowcharts, templates and internal control checklists. To learn more, visit www.tapn.com.

AP Automation: New Visibility Boosts Business Process Performance

Have you noticed lately that your email system seems to be reading your mind? You'll type some suggestions about a time for meeting with a colleague and shortly thereafter, you're being asked by your computer (or tablet or smartphone) to confirm that date and time on your calendar.

Of course, the computer is not reading your mind. But it is reading your email's content. With sophisticated applications scanning every character you enter, the email platform is able to extract what appears to be meaningful information and take action with it. This is one of many ways consumers are benefiting from—and embracing—technological advances.

At the same time, many accounts payable departments have made little progress in using advanced technology to make their lives easier, to say nothing of improving overall department performance. A recent report from The AP Network says companies remain reluctant to embrace advances in their procure-to-pay operations. The technologies we address in this white paper—optical character recognition (OCR) and e-invoicing—are at 37 percent and 48 percent utilization respectively by surveyed organizations.

That represents a significant missed opportunity. Using these technologies, an AP department can:

- Save time and money.
- Increase accuracy.
- Improve visibility.
- Become a more value-added function in the organization.

All that is required is a mind shift and the willingness to make some new technology part of daily AP operations.

The Slow-Changing World of Paper Invoices

It's understandable why many AP departments have been slow to move away from paper. After all, that's how they are still receiving invoices from vendors. On average, 56 percent of suppliers bill companies using paper (the median is 60 percent), according to The AP Network report. About 22 percent use electronic invoices (the median is 10 percent), and the remainder email PDFs.

The firms surveyed for The AP Network report are receiving a significant number of invoices to process each month. Each employee is responsible for handling an average of 694 a month (the median is 1,077).

In the face of these thousands upon thousands of paper invoices, AP departments may feel overwhelmed. While vendors may invoice with paper for the foreseeable future, that doesn't mean AP departments have to wait until they shift to electronic versions to take advantage of digital technology.

How Accounts Payable Automation Works

The method of converting paper to electronic information is surprisingly easy today. Here is how it works:

Step 1: Scanning

Just as you'd feed a document into a scanner to capture an image, you feed the invoice into the front end of your automation system. The optical character recognition element "reads" what the invoice says and translates it into useful information for you. Of course, vendors do not all use the same paper form, so details will be arranged differently on each submission. But technology has evolved to the point that this is not a problem. The scanning software recognizes which characters represent, say, the date of the invoice, the amount, and the vendor's name and populates the information into your system accordingly.

Step 2: Verification

In rare instances, the OCR function may have become confused and inserted the wrong information in a field. An AP analyst can easily review the information and correct it. At the same time, the analyst can check the number on the invoice against the purchase order for the item in question. This is made possible because the software application running the AP automation process can integrate with a company's enterprise resource planning (ERP) system. In fact, automated functions can be implemented that let the analyst know there is a mismatch between the purchase order number and the invoice so it can be resolved immediately.

Step 3: Approval

The method of attaining approvals is also automated. Invoices reach those who need to approve them electronically, and there is no need to carry a check to another department for signatures.

Step 4: Payment

A voucher is automatically created and submitted for payment processing.

Step 5: Image Storage

Just as a bank stores electronic images of paper checks it has processed, an automated system stores electronic images of paper invoices that can be retrieved by anyone with assigned access. The images can be accessed through an enterprise content management (ECM), customer relationship management (CRM), customer service or other type of system.

Benefits of Automation

Digging a little deeper, you can see the many ways this process can benefit an AP department. The whole system simply works faster, which means you can pay quicker. In turn, that can result in discounts from vendors for shortening the cycle from submission to payment. Vendors may offer a 2 percent discount if a

bill is paid within 10 days instead of the usual 30 days, for example. Over time, those discounts can add up. And of course, you enjoy better relationships with your vendors.

It's no wonder that on-time payments have consistently remained one of the top three concerns of AP practitioners surveyed annually by The AP Network. Respondents on the 2014 benchmarking survey said an average of only 58 percent of early pay discounts are captured.

Not surprisingly, this has been the experience of most AP departments. Without automation, only 48 percent of payments are made on time. That figure of median on-time payments jumps to 90 percent when AP departments incorporate even a modest level of automation, according to The AP Network. Automation helps speed up the process and reduce errors. Paper systems simply invite more errors than electronic systems. But a large contribution comes from all the time spent securing approvals from different parties. Without a human having to hand-carry an invoice payment for approval, total hours per invoice drop significantly.

The AP Network research shows how dramatically costs drop per invoice as organizations move from zero automation to high levels:

- Average cost of an invoice, no automation: \$33.19.
- Average cost of an invoice, low-level automation: \$15.53
- Average cost of an invoice, high-level automation: \$8.90

Other savings are realized in the reduced cost of storing documents electronically instead of as paper. Studies suggest that electronic storage costs less than a third as much as paper storage over the years. And with fewer hours required for AP clerical staff to spend marshaling invoices through the system, they are freed up to spend more time on other tasks.

Outsourcing vs. in-house

As automated AP systems become more commonplace, outside organizations are popping up and offering to take over the whole function for companies. No doubt there can be cost advantages to outsourcing. Those advantages have to be balanced with the fact that you want to maintain visibility into the status of payments even if you're not handling them in-house. Any solution you seek should offer you a way to do that.

There are also potential issues with security that you want to address before handing over the function to an independent group.

More important, switching to an automated system gives an AP department greater visibility throughout the enterprise. You're better able to collect and share key information about payments with anyone in the overall organization who needs to know.

Furthermore, an automated system can be incorporated into operations beyond AP. It can start further upstream in the procure-to-pay process—including all the steps that proceed the invoice, including:

- Material requirement planning.
- Vendor selection.
- Requests for quotation.
- Purchase requisitions.
- Purchase orders.
- Goods receipts.

By examining each phase of the P2P process, you can see more clearly how valuable it can be to move paper documents into an electronic stream of information. Now suddenly everyone in the organization can readily track where things stand at each stage. Efficiency, accuracy and transparency are all greatly enhanced with automation, with the payoffs in savings and time that go along with those benefits.

Integrating into Current Applications

While it is always a benefit to have more information available, it can become a problem if that information is not easily shared across platforms. Ideally, the AP automation system you select operates as a contributor to existing systems that are part of your company's daily operations. This gets to be a technical question, so your IT team needs to be part of the decision.

But in general, you'll want to ensure the system you pick is compatible with the industry-leading ERP solutions such as Oracle, J.D. Edwards and SAP as well as the most prominent CRM systems such as Salesforce. That makes it easy to seamlessly import and export information from one system to another.

Making the Case

AP department leaders do their best to ensure vendors are paid in a timely fashion without undue costs and with as much transparency as possible. Vendors complicate the situation, though, by insisting on submitting paper invoices.

Fortunately, forward-looking AP leaders have a way of taking control of the situation. Automated AP systems allow you to shift your operations to an electronic format, even if many of your vendors remain wedded to paper. Knowing that such a system will save you time, money and effort—while enhancing your department's contributions to the organization—perhaps it is time to make automated AP the new way you do business.

Sponsor Perspective

Canon Information and Imaging Solutions (CIIS) is happy to have sponsored this IOFM white paper on AP automation. The findings confirm the observations made by Canon professionals throughout many years of working with our clients on streamlining document-intensive workflows. Leveraging our expertise in information management in areas such as accounting and procurement, as well as Canon's imaging technology, we have found that the ability to intelligently capture information from documents, and share

it with relevant enterprise systems and departments, can bring enormous business value.

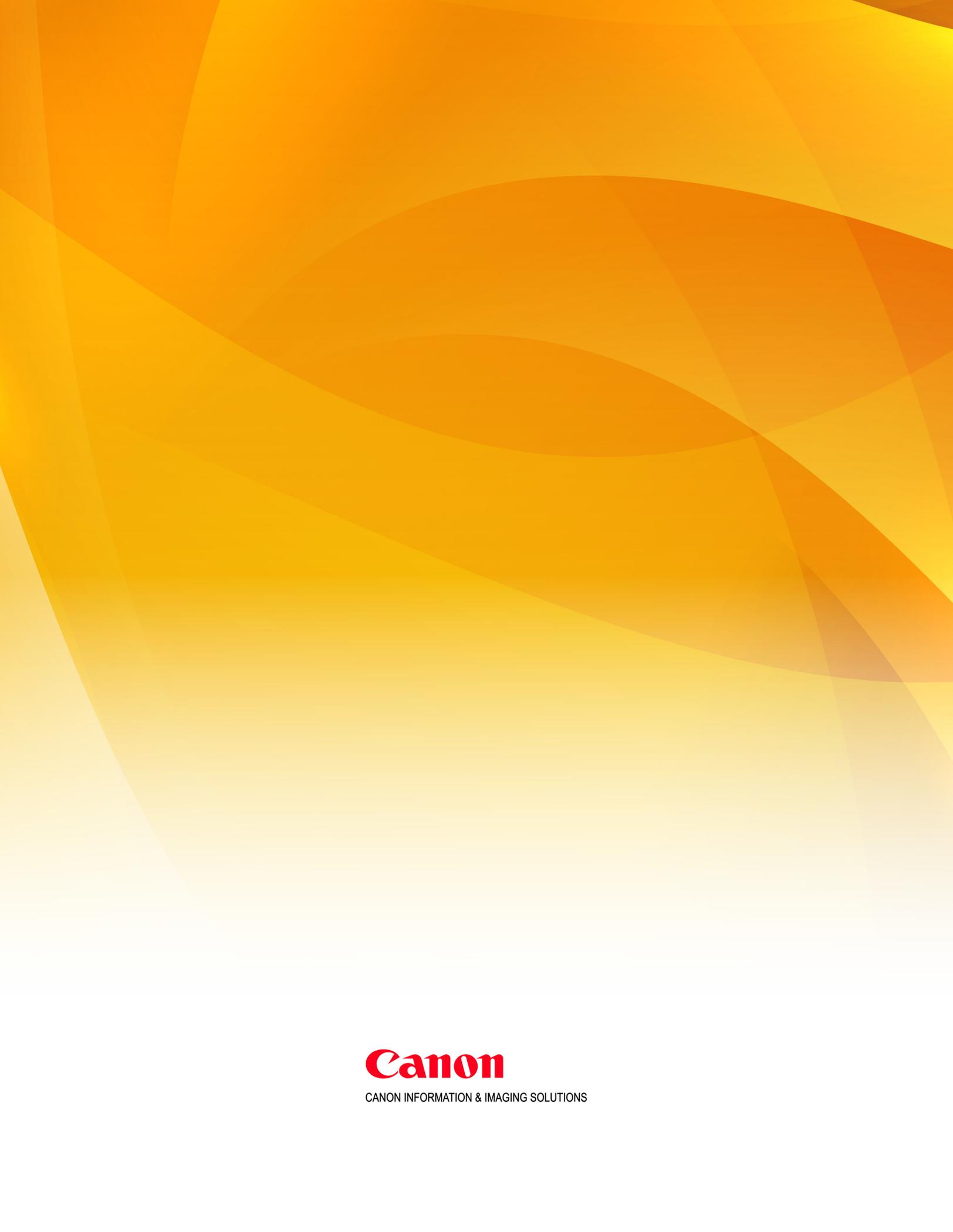
The use of enterprise systems to automate business processes has already brought increased efficiency and flexibility to companies across industries. There is, however, one important area of information that remains beyond the scope of automation: the documents (paper or electronic) that play a key role in many business processes, such as accounts payable and procure-to-pay.

As the IOFM white paper points out, making payments on time and taking advantage of early payment discounts still present challenges for AP departments since less than half of payments are actually made on time. Automating procure-to-pay processes can enable businesses to tackle these challenges, and, as a result, reduce costs and as well as capitalize on discounts.

In Canon's view, procure-to-pay is not quite as simple as "procure" and then "pay." P2P is actually a collection of several distinct processes, with a vast amount of specific information contained within all the various documents used in each of the numerous processes. By implementing automation solutions, companies are able to capture all key information from the documents and automate all processes, such as invoice validation and approval. This can bring significant productivity gains for many important stakeholders in multiple areas of the organization—accounting, procurement, sales, customer service.

In addition to the increased efficiency, companies can gain business intelligence by bringing together vital information previously scattered across various back-end systems and stored in paper and electronic documents. Equipped with easily accessible, current and reliable information, users can make fast and accurate business decisions.





Canon

CANON INFORMATION & IMAGING SOLUTIONS