PREPARING FOR AP AUTOMATION: PART 1

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Abstract

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Preparing for AP Automation: Part 1

Automating your accounts payable department isn't just a good thing to do, it's a necessity. A payables department full of paper will soon go from an efficiency eyesore to an auditor's red flag as paper processes increasingly become less compliant with financial and privacy regulations. However, just because something is necessary, doesn't make it easy. As such, we've evaluated steps that our customers and other companies have taken when undergoing the automation process. This breaks down into two parts: Researching to Select a Provider and Preparing Your Organization.

This paper will go over the basic steps that you can take from Part 1 in order to find the Payables Automation Solution that best suits the needs of your company, as well as how your organization can best begin to prepare for that change. Some parts of this paper will apply to you, while others may not. Hopefully, you will discover what has helped other companies like yours in the past, and how taking similar steps can benefit your future.

Researching to Select a Provider

Being told to do research to select a provider is like when someone tells you to pick a place for dinner. Sure, you know eating is the end goal, but do they want fast food or sit down? What's the price range? How long do they want to be there? And then there's just the wide variety of food selection: Italian, Chinese, Mexican, Thai, the list goes on. Finding a place for dinner, or a provider for AP automation, is a blanket statement, you need more information to ensure that everyone involved is satisfied. This paper dives into the steps listed below to help you gather the necessary information for complete satisfaction of your provider choice.

Five Steps to Automation Selection

1. **Know What Benefits You're Looking For/What Problems You're Trying to Solve**
2. **Size of Payables Department**
3. **Describe Your Type of Organization**
4. **Internal Capabilities**
5. **Executive Buy-In**

Step 1: Know What Benefits You're Looking For/What Problems You're Trying to Solve

There may be many things that come to your mind when you think of your current AP process, parts that you think run well, and others that may constitute some of your bigger challenges. When searching for the right solution for your organization, it's important to keep those things in mind so you know the kind of questions to ask potential providers. Questions are essential in this process, as many providers will try to sell you a "one size fits all" solution, but AP departments don't work that way. Your department is unique and you, therefore, need a unique solution.

When gathering information, it can be helpful to attend conferences like IOFM or talk to other companies in your industry that are similar to your own. Conference attendance is great because it's a more relaxed environment where it's very easy to ask questions and gather a lot of information. There are also, most likely, several different providers, so it's possible to get several different perspectives on what automation may look like for your company. Important questions to ask providers include how flexible their solution is, how they go about supplier adoption, what, if any, supplier portal they have, and what companies use their solution.

The upside to talking with companies in your same industry, on the other hand, is being able to ask about specific functions or processes that may make your industry unique. Helpful questions include asking how long implementation takes, how the transition was for their company, and what immediate benefits they've seen. You also have the ability to speak with different companies and find out what things they may wish they'd done differently, or certain features that they absolutely love. Table 1 shows different potential concerns within an AP department and the corresponding solution.

Knowing what questions to ask comes from knowing the strong points and the weak links of your AP department. In a recent study by Transformation Management Consulting entitled "Accounts Payable Automation – What Solution is Right for You?", Tammie Calys dives into the different methods that can be used to discover what solution is best for your AP department. As stated in the article, "Technology needs to differ within organizations depending on both macro factors – relating more to the dynamics of the organization itself – and micro factors – associated with functionality necessary to support the processes," reemphasizing the point that automation is not a "one size fits all" product.

Table 1: Here are some examples of challenges you want to address in your payables department and the functionality you'll want to have in your automation solution to address those concerns.

Potential Concern	Solution
Audit Issues with Approval Controls	Automated Workflow (all rules based)
Audit Issues with PO Matching	Automated PO Matching (all rules based)
Audit Issues with Paper Invoices (lost/missing)	Supplier Portal
Poor Credibility in the Company	Supplier Portal with Automated Workflow
Late Payments related to approvals	Supplier Portal with Automated Workflow and Online Dispute Resolution
Late Payments related to PO Matching	Supplier Portal with upfront 2-way match, Automated Full PO Matching after submission with Exception Routing and Online Dispute Resolution
Lost Discounts unrelated to late payment issues	Auto-Sloped Dynamic Discounts
Discounts for non-discount terms	Dynamic Discounting/Early Payment, Virtual Card
Special Reporting Needs	Ad Hoc Reporting (Design your own)
Rising Labor Costs	Supplier Portal with Automated Workflow
Fraud Concerns	Supplier Portal with Automated Workflow and Virtual Card
Change accounts payable from a cost center to a profit center	VCard and Dynamic Discounting
Manual process for supplier creation and validation	Supplier Network
Manual payments	Automated payments for check, ACH, and VCard
Manual capture of ACH info	Automated capture of ACH info
Manual data entry of invoices into ERP/Errors keying invoices	Supplier portal and imaging/indexing
Lack of visibility into invoice and payment data	Approval HQ, Admin Dashboard, and Reports
Manual accruals of outstanding invoices	Accrual report of invoices
No KPIs on invoice approvals	Dashboard of KPIs on AP processes per user
High paper storage and retrieval costs	Online archive system

Within the different sections of the paper, Tammie Calys covers different topics that should be taken into consideration within each organization. On a macro-level, she mentions things such as organization size, volume of invoices received, and price tag. While many macro-level concepts are taken into consideration when looking for a new solution, some people may not see how start-to-finish AP automation can also affect things more micro-level. Good things to look for on this level include invoice capture, dispute management, level of matching required, and cost – or rather, no cost – to suppliers.

Also included in the paper is a questionnaire that takes both macro and micro factors into consideration. Based on your answers to the questions, you can calculate how many "points" you get, which then relates to a portion below giving solution suggestions. The most common factors most companies take into consideration are discussed in the paper, like timeline or price tag, but it also explores things such as the size of an AP department and a company's propensity for change.

Step 2: Size of Payables Department

There's a lot that goes into making an accounts payable department run well, from workflow processes to PO match efficiency. Some may argue that there are different ways to judge the size of an AP department, including looking at how efficient the processes are. In the eyes of AP automation solution providers, however, the size of an accounts payable department comes down to two main things: number of invoices and number of employees. Number of invoices is simple enough, how many come in, how often do they come in, and how quickly and efficiently are they processed? How many invoices you receive isn't likely to change because of automating, but how quickly and efficiently they're processed will.

The other half of a payables department size is number of employees. On a general level, it's as simple as how many people work in accounts payable. Broken down a little further, you need to figure out what each of those people are doing. Let's say you have 12 employees and 9 of them spend 100% of their time doing data entry and responding to supplier inquiries- automation can help. Setting up a supplier portal that allows everything to be electronic, including inquiries, is just one way start-to-finish automation can help your AP department. The right automation solution for your company works with your complexities, increases efficiency, and frees up your employees' time, allowing them to put effort into other projects and tasks.

Step 3: Describe Your Type of Organization

Along with the size of your organization and payables department, it's important to know what type of organization you have. This is not referring to whether you're in healthcare or food production, but rather the politics, you could say, of the organization. These factors were also mentioned in the piece by Transformation Management Consulting, such as an organization's willingness to change. If an organization as a whole is open to change, cooperative, and helpful, the automation process is much easier. However, if an organization is defensive or inflexible, the automation process becomes more difficult and the approach may need to be modified.

Knowing these things about your organizations also helps you know how to best go about finding the best accounts payable automation solution. For example, an inflexible organization may want to automate payables, without changing the existing workflow process. While this might make the effort easier to implement (since nothing is changing for the rest of the organization), it severely limits the level of automation that can be achieved. A quality automation solution will have dispute resolution and communication built into the workflow so that an approver can flag issues with an invoice and the supplier can be automatically notified. The supplier response goes directly to the approver and the issue can be resolved quickly without any payables interaction or effort. Without that specialized functionality, the payables group is still part of the resolution process, playing intermediary and adding multiple steps and effort to the resolution process.

Highly political or inflexible organizations are most successful with automation solutions that stay within payables departments (scanning, OCR, and payables clerk tools). Unfortunately, payables-only automation solutions provide few of the benefits of true automation. On the other hand, flexible organizations, willing to embrace change, are able to capture the full benefits of automation. When the world's largest airline implemented iPayables InvoiceWorks, the CEO approved the project and mandated all invoicing be processed via the InvoiceWorks supplier portal and approval process. Without political posturing or any major contention, the organization simply adopted the new process and transformed all paper invoices into electronic invoices that came via the portal or e-invoice files. The inquiries from suppliers stopped nearly completely, the processing time dropped from 23 days to 3 days, and the payables department retrained the entire team to do audits since data entry and most matching efforts had been completely eliminated.

Step 4: Internal Capabilities

Your organization's internal capabilities are very important. Automation is not a small task, even if you do find a simple solution. It's essential that you coordinate with your IT department about the changes and reserve time in their schedule for the effort. It's not a question of the skill of the IT group, it's a question of what else they could be doing with their time and where this falls on their list of priorities. The more each department understands automation, the more everyone sees how automation benefits everyone. Find out what your IT budget can be for this project. If you have very limited budget (a few days of someone's time) and will get no help, you might be pushed back to the payables-only automation solutions (setting up Scanning/OCR for your own people to figure out). If you have a few weeks of someone's time, you can afford to integrate into your ERP system and get some better functionality (Upfront PO Matching on the supplier portal, coding validation during approval routing, new user and hierarchy updates to approval routing).

Project management is also necessary when considering automation, as with any major change within a company. Having someone to lead the project and assist the chosen provider simplifies the process for everyone, but it's a job that starts before it's time for adoption. Project management should be happening now as the decision to automate is being made, reaching out to other departments, doing the necessary research, and preparing to present to those who will make the final decisions.

Step 5: Executive Buy-in

No idea is a good idea until the person with the approving power says it is, even an idea as good as automating your AP department. Sad, but true. But, fear not: when presented clearly and precisely, few executives pass up the decision for a department to be more efficient in both time and money. Once they understand the benefits AP automation provides for the company as a whole, the choice to automate will be more obvious.

However, the decision still remains whether the change will be put into effect in your payables department alone, or if it will be company-wide in application. Not that we, as an enterprise automation provider are biased in any way (we totally are, for those of you who don't speak sarcasm), but there are several benefits to automating company-wide. One of the biggest complaints against AP departments that we've heard is lack of consistency and visibility. Enterprise-wide Automation opens up that visibility to the organization and the suppliers and consistency is enforced across all involved parties. That doesn't mean a heavier work load for other departments, it just means instead of having an AP clerk or someone deliver invoices and collect signatures, it would all happen online. Then, another 80% of what the payables department does is eliminated entirely because things like data entry and question-filled supplier calls are all handled on a supplier portal, allowing even the supplier to see the invoice as it goes through every step of the process.

Conclusion

Part 1 of Preparing for AP Automation has shown the different external and internal research that needs to be done in order to find the provider with the best accounts payable automation solution for your organization. With this information, you should have more solid guidelines of what you're looking for as you reach out and talk to different providers. Part 2 of Preparing for AP Automation, Preparing Your Organization, walks you through helpful steps for planning with the different departments that could, and should, be involved in the automation process within your organization.

This article was written by iPayables, Inc. If you have any questions regarding these steps or AP Automation, please feel free to contact us at 866-874-7932 or https://www.ipayables.com/contact/

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