PERSPECTIVE

Accounts Payable Automation – Raising The Bet

Abstract

Automation and return on investment (ROI) are interconnected from the point of view of a finance manager.

A strong business case is the trigger for automation. However, it has been observed that enterprises across industries majorly focus on the business case and often, lack a clear plan on what, how, and when to measure the success while considering the investments made.

This paper discusses the automation opportunities in the accounts payable (AP) process in an enterprise at a high level and recommendations for a structured monitoring mechanism to maximize the returns on the automation investment.

Automate or bear the fallout

As the world continues to be dramatically reshaped by software, the demand for automation services continues to rise. E-product companies are continually coming out with various automation solutions and positioning them aggressively to take a large share of the market. Some have even gone a step ahead to establish alliances with outsourcing providers to create a pipeline and add new clients. Service providers also work in tandem to build their in-house capability for automation solutions. Amidst the thirst for automation, it is equally important to ensure that there is a foolproof plan and monitoring mechanism to maximize ROI from accounts payable (AP) automation.

Here the focus areas are explained in detail for enterprises that decide to embark on an automation journey.

Automation opportunities in accounts payable

Invoice processing

- OCR for data extraction
- Auto-matching algorithm in ERP
- Self-billing, e.g., ERS
- E-invoicing, EDI
- Mass uploading using Excel templates
- Auto-routing of non-PO invoices to approvers as per Delegation of Authority (DOA) Matrix
- Automated tolerance check controls
- Auto-notification to suppliers on invoice stage

Hold / exception invoice management

- Auto-block and auto-release of invoices for selected reason categories
- Auto-notification, reminders and escalation mails for blocked / parked invoices

Payments

- Automated payment cycles
- Deployment of macros for formatting payment registers

Vendor queries

- Self-service portals enabling 24/7/365 support
- Automated responses by deploying text analytics
- Auto-ticket assignment for queries received by e-mail
- Auto-reminders and escalations on tickets missing the SLAs

Reconciliations

- Automation of 'transaction matching' process steps enabling bulk comparison in a fraction of a minute
- Work-enabled routing, tracking on status of account reconciliations

Understanding the ROI

ROI is a reflection on the effectiveness or yield of the investments made. Every investment in business parlance will be decided by way of 'business case' with the associated underlying assumptions. This is no different from a technology solution. Also, it is important to ensure the focus is on the benefits reaped from time to time.

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A 360-degree approach to maximize ROI

Typically, enterprises focus on their technology investments that are reviewed in a standalone manner. So is the case when it comes to measuring and monitoring its ROI. While this approach achieves the objectives to a certain extent, the true potential of the technology investment can only be explored and a higher ROI achieved only by following a 360-degree approach, as explained with an example below:

Approach to transformation (vendor portal services)	Client A	Client B
Implementation of vendor portal	✓	✓
Drive supplier enrollment	✓	✓
Authorize accounts payable to reject queries sent by e-mail and mandate suppliers to register for using portal services	✓	✗
Print vendor portal details on purchase order copies	✓	✗
Monthly reporting and analysis for fast tracking enrollment – repeat violations	✓	✗
Highest ROI	**Client A**	

Approach to transformation (electronic payments)	Client A	Client B
Setting up of electronic payments	✓	✓
Drive supplier enrollment (one-time) and wait for positive response from suppliers	✓	✓
Review invoice copies of vendors that carry banking details for electronic funds transfer, prioritize for enrollment when compared to rest	✗	✓
Mandate electronic payment at time of supplier onboarding with exceptions kept to the minimum	✗	✓
Highest ROI	**Client B**	

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Shift in ROI: Four scenarios

The following table illustrates the way returns vary from case to case, where a decision was made to implement vendor portal to introduce self-service mode for selected query categories. Scenario 4 is a classic example of a 360-degree approach with an ability to deliver maximum ROI.

- **Scenario 1**
  Limited focus on driving suppliers to use the vendor portal accompanied with a significant dip in 'first pass yield %' in invoice entry.

- **Scenario 2**
  Moderate focus on driving suppliers to use the vendor portal accompanied with an increase in 'first pass yield %' in invoice entry.

- **Scenario 3**
  Significant focus on driving suppliers to use the vendor portal accompanied with a good increase in 'first pass yield' in invoice entry.

- **Scenario 4**
  Very high focus on driving suppliers to use the vendor portal accompanied with a very good increase in 'first pass yield' in invoice entry.

Description	Before vendor portal rollout – Traditional method	**After vendor portal rollout**							
		Scenario 1		Scenario 2		Scenario 3		Scenario 4	
		Conventional method	Vendor portal	Conventional method	Vendor portal	Conventional method	Vendor portal	Conventional method	Vendor portal
Average query volume p.a.	289,800	217,060	62,017	180,130	77,198	137,451	91,634	103,214	103,214
First pass yield	**65%**	**58%**		**73%**		**82%**		**91%**	
Average productivity per FTE p.a.	12,600	12,600	-	12,600	-	12,600	-	12,600	-
FTE requirement trend	23	17	-	14	-	11	-	8	-
FTE cost p.a.	690,000	516,810		428,880	-	327,264	-	245,748	-
Amortized costs towards vendor portal rollout p.a.	-	-	60,000	-	60,000	-	60,000	-	60,000
Total costs p.a.	**US$690,000**	**US$576,810**		**US$488,880**		**US$387,264**		**US$305,748**	
Cost per query	**US$2.38**	**US$2.07**		**US$1.90**		**US$1.69**		**US$1.48**	
% reduction in cost per query		**13%**		**20%**		**29%**		**38%**	

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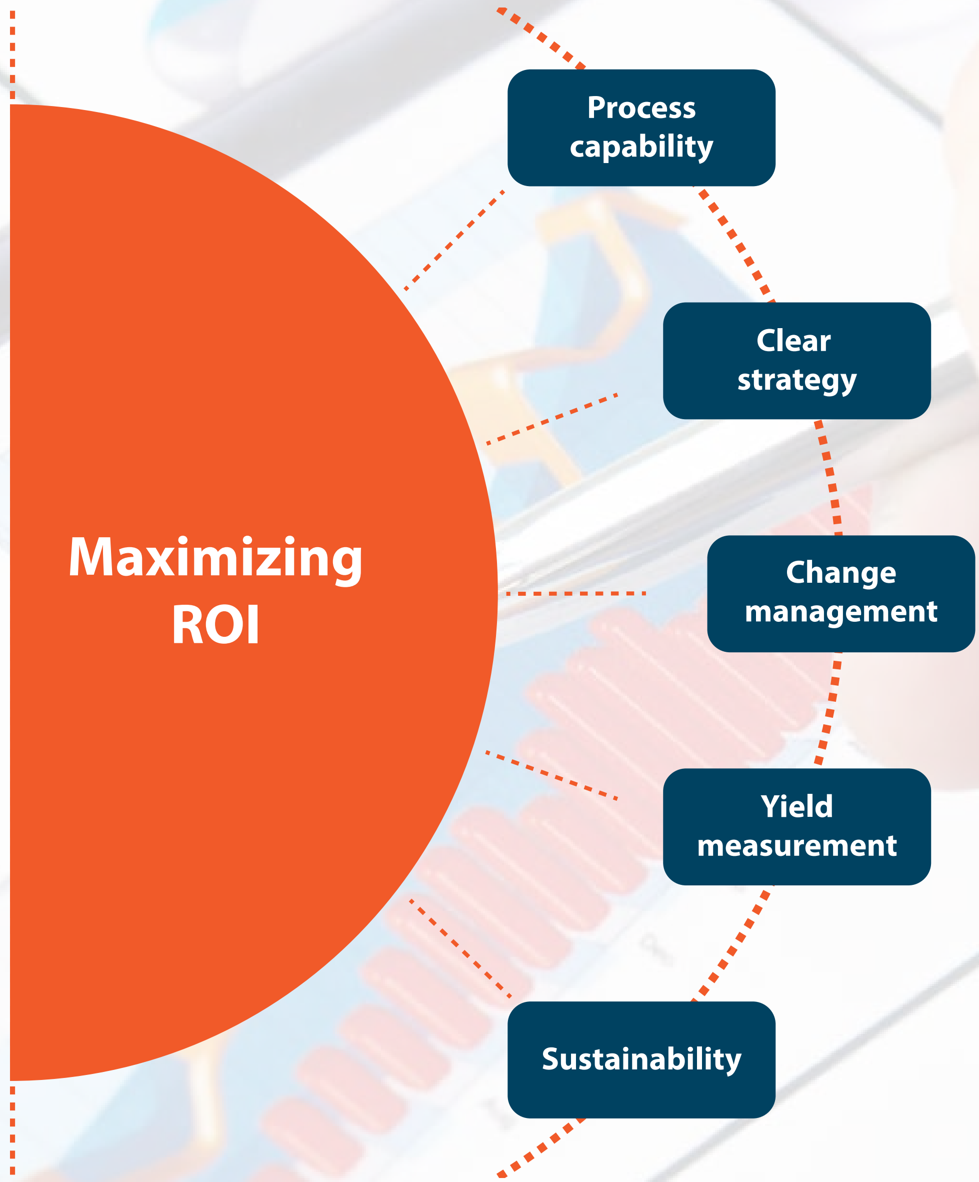
Maximizing the ROI: Key enabling factors



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Enabling factor	Description	Recommendations
Process capability	Irrespective of the automation solution, the underlying process capability holds the key to the extent the benefits can be achieved.	**Some key capability indicators are:** • First pass yield % • After the fact PO (ATF PO %) • Ability to drive e-invoicing %, supplier registration for vendor portal services, mandating suppliers to use vendor portal
Clear strategy	To have a clear strategy is important in meeting the desired cost reduction objectives in a timely fashion. Each automation investment is different and comes with its own set of challenges. It is important to visualize the journey ahead and carry out adequate preparation before rollout.	**Some examples are:** • Identifying the targeted supplier base • Addressing training needs of end users • Ensuring readiness from IT and end-user standpoint • Ensuring proactive communication with the impacted parties • Lay down clear guidelines on treatment of issues, challenges, and scenarios expected during initial stages of change management
Change management	For specific set of initiatives that are supplier facing, it is important to involve the procurement group from the beginning. Procurement support plays a key role when it comes to rolling out initiatives that impact the way suppliers function.	**Ensure that:** • Collaboration sessions between procurement and finance are conducted throughout the course of the project • Supplier awareness sessions are planned
Yield measurement	Metrics measuring the success factor is an important step in determining if the benefits are on expected lines. This acts as a vital input in observing the trends, identifying areas of improvement, underlying issues, etc.	**Some recommended metrics are:** • Calculation of first pass yield % at daily intervals • Number of suppliers registered for self-portal services • % of queries addressed via self-portal services • % of top suppliers onboarded to e-invoicing program • % of e-invoices requiring manual inter-neuron to post

Sustainability	Achieving cost reductions is not a one-time task as past performance doesn't guarantee future results. It is important to have a strong monitoring mechanism in place to make sure that the metrics are not going downhill. Along with the resultant metrics, one should be able to drill down to the reasons pulling down the performance levels. Any dip in focus on these elements can potentially dent the cost reduction objectives if unaddressed early.	**Ensure that:**
		• Revised way of doing things are strictly adhered to. Some examples are:
		  ◦ Invoices are submitted in the right mode. E.g., don't accept paper invoice submission from suppliers who onboarded the e-invoicing program
		  ◦ Sending standard communication response driving suppliers to register for the vendor portal services
		  ◦ Sending standard communication responses to use vendor portal services to find out the status

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Conclusion

Automation continues to be a focus area and will be a key to success in reducing operating costs for many years to come. It is important to ensure focus on all the elements described in this paper to maximize the ROI on automation investments.

Decision to introduce automation is just the beginning of a long journey. An enterprise with a clear focus and well-defined strategy in driving automation to proper use will always have an edge over other enterprises in 'maximizing ROI'.

About the Author

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Arvind is responsible for developing best-in-class P2P offerings with a world-class service framework. He has around 16 years of experience in F & A delivery, transitions, program management, and accounting and audit, out of which he has spent close to 14 years in the outsourcing industry in both captive and third-party environments. Arvind is a graduate in commerce and is a Six Sigma certified professional with a deep understanding of the North American and European markets along with deep domain knowledge of procure-to-pay cycle.

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