# **7 WAYS TO TRANSFORM** YOUR ACCOUNTS PAYABLE DEPARTMENT INTO A STRATEGIC PROFIT CENTER

IOFM Institute of Finance & Management

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Accounts payable is ready to shed its image as a costly, back-office function. Most accounts payable practitioners expect that the strategic value of their function will increase over the next two years, per the Institute of Finance and Management's (IOFM's) 2018 Future of Accounts Payable report.

**34%** Thirty-four percent of accounts payable leaders identify transforming their department into a more strategic and agile business function as their top goal, Ardent Partners finds.

But accounts payable has a lot of work to do if it's going to raise its strategic standing.

Only 13 percent of senior finance managers surveyed by the Institute of Financial Operations' Accounts Payable Efficiency Study believe the function is a real strategic partner that adds value.

- **29.6 percent say,** "They get the work done."
- **24.1 percent say**, "They are on my radar only when there's a problem."
- **20.4 percent say**, "They are efficient and accurate."
- **9.3 percent say**, "They are a really strong team."
- **3.7 percent say**, "I'm not familiar with that group."

One-third of businesses perceive accounts payable as valuable in the context of processing invoices or scheduling supplier payments, per Ardent Partners' ePayables 2016: Eyes on the Prize report.

So, accounts payable has that going for it.

But accounts payable staff spend 84 percent of their time on mundane activities such as data entry, paper shuffling, and document filing. Worse, most accounts payable managers spend more of their time on transaction processing (36 percent) than on managing staff (34 percent), reviewing reports (21 percent), or planning (9 percent), IOFM research finds.

All these costly, manual tasks can be directly traced to the fact that more than three-quarters of accounts payable departments operate in a manual or semi-automated environment, per IOFM.

Inadequate accounts payable processes and systems result in **27 percent of time spent** on waste and activities that could be automated, per PriceWaterhouseCoopers (PwC) research.

If accounts payable practitioners want to raise the strategic standing of their department and job function within the enterprise, they need to show senior management that the accounts payable function is something the enterprise should "want to have," and not just a "got to have."

This white paper reveals seven proven ways that accounts payable leaders can transform their function from a tactical cost center into a strategic partner that delivers value to the enterprise.

## 7 Ways to Transform Accounts Payable

The accounts payable function at most businesses costs more than necessary, takes too long, creates too many errors, provides inadequate visibility, and frustrates internal stakeholders and suppliers. It's no wonder that controllers rank accounts payable as the most labor- and time-intensive finance function.

It doesn't have to be this way.

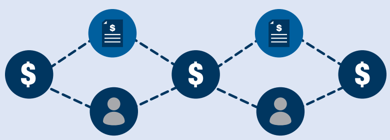
**Traditional approaches to accounts payable** no longer suffice for most businesses.

Here are seven ways that businesses can turn their accounts payable department into a profit center:

1. **Optimize your supplier payments:** When it comes to accounts payable automation, many businesses focus on operational improvements such as reduced invoice processing costs and faster invoice approvals. These are certainly compelling, as will be addressed later. But businesses can achieve five times the financial benefit of operational improvements on their own by optimizing payments to suppliers as part of their automation efforts. In fact, the financial benefits achieved by optimizing supplier payments can more than offset an

accounts payable department's overhead, transforming the function from a cost center into a profit center. Skeptical? Here are three ways accounts payable departments accomplish this feat:

> **Best-in-class accounts payable teams** spend 92 percent less per supplier payment than their peers, per the Ardent Partners 2016-2017 Technology and Innovation Outlook Report.



- **Extend your payment terms to free up capital:** Thirty-four percent of accounts payable departments expect that their standard payment terms will increase between 15 days and 90 days three years from now, per IOFM's 2018 Future of Accounts Payable report. The goal is to free up cash to pay down corporate debt, make capital investments, increase research and development, or support other growth initiatives. Leveraging certain card programs for electronic payments enables buyers to instantly extend their Days Payable Outstanding (DPO), a measure of the time it takes a business to pay its suppliers, without changing their payment terms. In this scenario, the funding for the payment program is provided by the buyer's bank via card. Buyers are cashing in on the fact that the payback period to the card issuing bank kicks in once payment is initiated, an average DPO increase of 22 days, per IOFM.

> **Fast payment** is akin to providing suppliers with a free line of credit.

- **Avoid late payment penalties:** Manual processes create bottlenecks that prevent supplier payments from being made on time. Studies show that most businesses believe that late payments to suppliers are a "fact of life." It doesn't have to be that way. In most cases, manual invoice approval cycle times are to blame for costly late payments, not a lack of funds. Automated accounts payable solutions help speed the pace of business by capturing and validating invoice data and posting it directly to an ERP application or other system of record. Invoices that require additional approval or exceptions handling are digitally routed based on pre-configured business rules. Invoices follow a single predictable path, drastically reducing the chances that an invoice is lost or gets "stuck" in the inbox on someone's desk. All this helps buyers avoid costly late-payment penalties. Timely payments to suppliers also help reduce credit lines, enables more investment in the overall business, reduces resources spent on payment settlement, and improves relationships with creditors and banks.

> **59%** Fifty-nine percent of supplier payments are initiated electronically, the Association for Financial Professionals' Payments Benchmarking Survey reports

- **Capture cash-back rebates on payments made via card:** Paper checks are losing their grip on how businesses pay their suppliers. The number of checks issued in the United States declined by 2.3 billion between 2012 and 2015, the U.S. Federal Reserve's Payments Study finds. And 55 percent of best-in-class accounts payable departments make more than half their supplier payments electronically, according to Strategic Treasurer's 2017 B2B Payments & Working Capital Survey. One reason that businesses are so excited about paying suppliers electronically is the opportunity to earn cash-back rebates on payments made via virtual card. Forty-three percent of best-in-class accounts payable departments regularly look to earn cash-back rebates, Strategic Treasurer's research finds. It is not uncommon for businesses to earn cash-back rebates on 30 percent of their spending. In some cases, the cash-back rebates earned by businesses have single handedly transformed their accounts payable department a profit center. The money earned through card rebates also can provide an accounts payable department with the capital to automate invoice processing.

**57%** Fifty-seven percent of accounts payable departments expect to earn more cash-back rebates three years from now, per IOFM's *2018 Future of Accounts Payable* report.]

2. **Optimize the business: capture early payment discounts to lower costs:** Fifty-two percent of accounts payable departments expect to earn more from early payments (as a percentage of spend) three years from now, per IOFM's 2018 Future of Accounts Payable report. Many suppliers will exchange a discount on the amount due on an invoice for earlier payment; the earlier the payment, the bigger the discount. The usual discount is 2 percent, the Institute of Finance and Management finds, which translates into considerable savings when applied to all eligible invoices, especially as businesses grow. The result is that a buyer's net cost for purchases will be lower. However, most accounts payable departments capture less than 21 percent of all of the early-payment discount offers from suppliers, and 12 percent are unable to capture any early-payment discounts, according to IOFM's 2016 AP Key Performance Indicators Study. The root of the problem is that manual invoice approval workflows are rife with inefficiencies and introduce opportunities for time-consuming errors. Automated accounts payable solutions make it easy for buyers to approve invoices within early-payment discount windows. The robust workflow and routing engine in advanced automated solutions enables businesses to approve invoices fast. Alerts and notifications help eliminate any bottlenecks. And automated solutions provide visibility into the status of invoices whose window for early payment discounts is closing. All this enables businesses to reduce invoice processing cycle times by 50 percent, on average.


**Highly automated accounts payable departments** capture seven times more early-payment discounts (as a percentage of spend) as their peers, per The Hackett Group's E-Invoicing Benchmarking Study. That means that a company that previously captured $200,000 annually in early payment discounts may gain $1.4 million a year in additional discounts through automation.

3. **Strengthen supplier relationships by paying promptly and providing early payment options:** Businesses thrive when their relationships with their suppliers are strong. Many businesses require a wide range of goods and services from a wide range of suppliers. Consistent and timely payment processes engender stronger relationships with suppliers and can lead to supplier pricing or Service Level Agreement concessions during negotiations. Automated accounts payable solutions accelerate invoice approval with customizable push notifications and alerts that mitigate the risk of late fees. More timely and predictable payments enable suppliers to improve working capital management, reduce Days Sales Outstanding (DSO), and avoid expensive and restrictive third-party factoring. Suppliers also enjoy greater visibility into receivables, streamlined remittance reconciliation, and better collaboration with their customers. And since information flows more freely between different teams and departments in an automated accounts payable environment, supplier inquiries are answered faster and in a more precise fashion; issues are resolved long before they become much larger problems for suppliers. What's


Automation reduces invoice approval cycle times by **more than 50 percent.**

more, electronic payments make it easier and less expensive for suppliers to receive and reconcile international payments.

4. **Empower the business to mitigate financial and compliance risks through better data management:** Sixty-three percent of accounts payable practitioners expect that demand for real-time visibility into accounts payable data will increase over the next two years, per IOFM's 2018 Future of Accounts Payable report. Accounts payable information supports many activities across the enterprise, including cash management, forecasting, budgeting and planning, finance and procurement collaboration, developing supplier payment strategies, and enhancing supplier management. But one of the biggest benefits of real-time visibility into accounts payable data is the ability to mitigate financial and compliance risks. Automated accounts payable solutions extract data from any invoice, use sophisticated algorithms to validate data, and archives documents and data in a secure, centralized location. Automating the capture and management of accounts payable information mitigates potential risks by:

    - Tracking invoice history and approvals
    - Ensuring compliance with invoice approval policies
    - Enforcing separation of duties rules
    - Assuring chain of custody
    - Making audit information readily available
    - Applying controls for PCI, HIPAA and other rules and regulations
    - Preventing documents from being destroyed or discarded ahead of deadlines

Fifty-eight percent of accounts payable practitioners expect that compliance will become a bigger burden over the next two years, per IOFM's 2018 Future of Accounts Payable report. Mitigating financial and compliance risks with automated accounts payable solutions enables businesses to avoid potential compliance violations and security breaches that can lead to reputational and brand damage, fines and penalties, stolen funds, lost business and more.

**Improving security and compliance** is a top improvement priority of 9.3 percent of accounts payable practitioners surveyed by IOFM in 2018.

5. **Be the source of valuable information to the enterprise:** A well-defined big data strategy is associated with strong financial performance, according to a 2015 survey of more than 500 global executives conducted by The Economist Intelligence Unit. Automated accounts payable solutions make it easy for different teams and departments to readily access the data they need to help drive business growth. A centralized, cloud-based platform puts critical data at the fingertips of authorized users, no matter where they are located. Authorized users across the enterprise can easily track cost and consumption metrics, gain full visibility into working capital and spending trends, manage utility costs and consumption in a single location, and benchmark performance and reveal opportunities with year-over-year reporting capabilities. Users also can compare actual versus budgeted spend and use with clear visuals, in-depth reports, and an intuitive interface. Reports can be instantly filtered by service type, time period, and location. The data provides an in-depth view into the performance of different teams and departments, from top to bottom, on an enterprise-wide scale. What's more, senior management can use the spend and cash flow information provided by an automated solution to make confident strategic decisions backed by powerful analytics. And cloud-based enterprise accounts payable solutions simplify mandatory reporting and data gathering for regulatory compliance and the creation of enterprise ESG reports. The technology seamlessly aggregates utility and waste data from across the enterprise to provide a high-quality disclosure of sustainability performance and to track year-to-year portfolio improvement. In return for access to your valuable information, your company's different teams and departments should share in the cost of your technology.

Automation reduces accounts payable costs between **50 percent** and **70 percent.**

6. **Contribute to higher profit margins through lower operations costs:** Managing invoices is an expensive process for most businesses, particularly those that are growing fast. In a paper-based environment, mail is opened, invoices are physically routed to one or more approver, invoice data is logged into one or more spreadsheets or systems, data on approved invoices is entered into an ERP platform or other system of record, invoices are filed, and payments to suppliers are made via paper check (which requires printing, signing, folding and stuffing checks and remittance detail, and affixing postage to an envelope). Invoice exceptions require back-and-forth e-mails, phone calls and/or faxes between the supplier and the buyer's different teams or departments. And any supplier inquiries are manually handled. Automated accounts payable solutions reduce the cost to process a single invoice by more than 50 percent. The technology provides a single, user-friendly platform for effortlessly capturing invoices from any delivery channel (mail, e-mail, fax, web, etc.), extracting and validating invoice data, digitally routing supplier invoices for approval based on pre-set business rules and posting approved invoices to an ERP platform or other system of record. Intelligent data capture technology extracts header, supplier, and line-item data from any paper or electronic invoice. Invoices also are matched with purchase orders or receipts. Any invoices that require approval or exceptions handling are electronically routed based on pre-configured business rules. Analytics tools extract and utilize accrued data to uncover opportunities for additional streamlining to further improve operational performance.  All this reduces costs and frees staff to focus on growth-driving activities such as cash flow analysis, spend analysis, supplier management and vendor master database cleanup.

**In a manual environment**, accounts payable staff are bogged down by a long list of costly, repetitive transaction processing tasks, including:

- Opening mail
- Keying invoice information
- Tracking down approvers
- Physically routing invoices
- Following up on approvals
- Resolving exceptions via back-and-forth e-mails and phone calls
- Keying information on approved invoices into an ERP
- Filing approved invoices
- Printing, stuffing and mailing paper checks
- Reconciling checks and invoices
- Printing reports for stakeholders

Accounts payable staff also must manage thousands of business rules, workflows, policies, and regulations for how their organization pays its suppliers. And staff must respond to seemingly never-ending phone calls and e-mails from suppliers regarding the status of invoices and payments.]

7. **Eliminate profit leakage by reducing errors**: Tracking, measuring and validating the accuracy of your accounts payable processes and data is extremely important. But most accounts payable departments manually validate their processes and data – a time-consuming and labor-intensive process that is not foolproof. For instance, manually keying invoice data into an ERP or other system of record is prone to errors, whether there is an incorrect bill, the invoice data is incomplete, or someone accidentally made a mistake during the input process. Automated accounts payable solutions reduce errors by automatically matching and coding accounting information such as general ledger, supplier, and department. The technology is tightly integrated with the buyer's system of record, facilitating the loading of master data into the automated accounts payable solution for

validation. A validation engine scans invoices for billing errors to ensure that the buyer doesn't overpay. And an analytics engine provides state-of-the-art validation algorithms to instantly notify accounts payable staff of missing invoice data and to flag potential input errors and usage outliers. Automated accounts payable solutions also check for duplicate invoices and other errors.

Each of these benefits of accounts payable automation is compelling. Together, they transform the accounts payable function into a money-making machine. It is no wonder that businesses typically achieve return on their investments in account payable automation in 6 months to 9 months.

## Conclusion

Most senior managers perceive accounts payable as a sunk cost that adds little strategic value. But accounts payable can offer the enterprise a lot more than processing invoices and scheduling supplier payments. By following the seven strategies in this white paper, accounts payable leaders can transform their function into a strategic, money-making powerhouse that helps the enterprise free up cash, increase net profit margins, strengthen supplier relationships, increase corporate agility and decision-making, mitigate financial and compliance risks, and support data governance initiatives. Fifty-eight percent of accounts payable and finance leaders surveyed by Ardent Partners believe that the use of new or improved technology will drive this transformation. Without an automated solution in place, accounts payable is likely to remain relegated as a tactical, back-office function.

## About the Sponsor

Goby's Accounts Payable Automation Solutions help users save time, mitigate risks, and increase ROI with powerful invoice automation, workflows, and analytics. Goby's complete data capture and high-integrity data prevent billing errors and reduce late payments while saving time and creating efficiencies that enable employees to redirect their efforts to value-add projects. With a presence that stretches across North America and into Europe, China, and Australia, Goby remains committed to their mission of creating delightful results out of ordinary data. Founded in 2008, Goby has 50 employees and hundreds of clients across the globe. To learn more, visit Goby at **www.gobyinc.com**.

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Accounting and finance professions have each undergone nothing short of a complete transformation since the Institute of Finance and Management (IOFM) was founded in 1982 and since then our mission has been, and continues to be, to align the resources, events, certifications, and networking opportunities we offer with what companies need from the accounting and finance functions to deliver market leadership. IOFM empowers accounting and finance professionals to maximize the strategic value they offer their employers.

Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

IOFM is proud to be recognized as the leading organization in providing training, education and certification programs specifically for professionals in accounts payable, procure-to-pay, accounts receivable and order-to-cash, as well as key tax and compliance resources for global and shared services professionals, controllers, and their finance and administration (F&A) teams.

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