How Automating Accounts Payable Unlocks Financial Value

By Bob Cohen

Today's global marketplace opens up tremendous opportunities for businesses of all sizes, but along with these opportunities come great challenges. From addressing the complexity of multiple internal financial systems, to the challenges of conducting business across borders, companies need a connected approach to unlock the value across their financial operations and transact effectively with trading partners.

Some of these internal complexities can be a result of mergers and acquisitions and corporate growth that have led to disparate divisions with separate financial systems. Often these systems operate as silos, without any visibility or integration between them, making it nearly impossible for organizations to know exactly where their finances stand at any point in time. For example, if a department such as Treasury doesn't have real-time access to financial information from Accounts Payable (AP), it's difficult to know if there are outstanding liabilities or to be able to manage cash flow accurately.

Most companies have an interconnected web of external financial systems with suppliers, buyers, and a host of others. Not only does this add to the challenge of trying to gain visibility into and control over finances, but, within this network, the actions of one company impact another. For example, many companies are holding onto their cash longer by taking more time to pay their suppliers. The average business-to-business (B2B) payment cycle is 60 days, and, according to data from S&P Capital IQ, 45 publicly traded companies actually had days' payable outstanding (DPO) that averaged more than 200 days! (For more on this subject, see "The Companies That Pay the Slowest," CFO.com, November 19, 2014.)

Though extended payment times provide strong financial benefits for large companies, allowing them to free up potentially billions of dollars of cash annually, the cash-flow pressure it places on suppliers could put their businesses at risk and in turn could jeopardize the supply chains of buying organizations.

On the global stage, conducting business with multiple trading partners across borders adds another layer of complexity. Finance departments are challenged by multiple currencies, languages, tax codes, and regulations.

Manual Processes Persist

In this fast-moving, connected business environment, companies are realizing that they need new strategies and solutions for conducting commerce globally. Accounts Payable is a key area of focus—and is in an ideal position to drive change—since it sits at a critical juncture of transactions with trading partners and the place where key information affecting cash flow, working capital, and spend resides.

Despite the fact that AP plays a critical role in enabling global commerce, it has been one of the last bastions of manual processes in finance. Many companies are still using manual methods to process and transmit invoices, making them ill-equipped to handle the challenges of doing business globally. When you consider that more than 150 billion paper invoices are issued worldwide each year—accompanied by purchase orders, remittances, delivery notes, statements, and credit reports—organizations are inundated with paper and hampered by a costly, inefficient process that impedes financial visibility and control.

According to Ardent Partners, a research and advisory firm focused on supply management strategies, only 29% of companies are currently sending and receiving invoices electronically, and a mere 19% are using business commerce networks to transmit e-invoices to trading partners across the globe.

Breaking Down the Barriers

Despite the lower adoption levels of AP automation, there are many factors that are promoting its growth worldwide.

Companies are recognizing the benefits of automated processes. Advanced technologies, such as automated invoice processing and e-invoicing through business commerce networks, are providing companies with the visibility and control to better manage spend, working capital, and cash flow and benefit from early-payment and volume discounts. Additionally, these technologies facilitate global commerce, enabling companies to transact regardless of currency, language, tax regulations, and other factors. By communicating electronically in real-time with trading partners, invoices are transmitted in a matter of minutes, speeding up processing while reducing costs and errors. In addition, open networks enable companies to transact with trading partners anywhere, regardless of which network they use.

To meet the demands of today's real-time environment, forward-thinking AP executives who really understand the value of automation—AP Change Makers—are continuing to move financial services to the "cloud" and implement mobile apps to enable managers to review and approve invoices no matter where they are. They're also using social capabilities, such as collaboration or chat tools, available in business commerce networks to address issues in real-time with trading partners.

According to Ardent Partners, there's a big discrepancy between AP performance for best-in-class organizations that have higher degrees of automation vs. their peers. These leading organizations can process an invoice in an average of 3.7 days compared to 17.1 days for other organizations, with an average processing cost of $2.42 per invoice. That's more than seven times less than what

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other organizations spend. These top-flight companies are also nearly 60% more likely to capture early-payment discounts and more than 50% more likely to use tools and programs that optimize working capital.

Further, the report found that 55% of organizations are planning to implement e-invoicing, and 41% are planning to use business commerce networks within the next two years. The benefits companies will gain from transacting, collaborating, and communicating with trading partners digitally are driving this growth.

E-invoicing adoption is being fueled by governments worldwide. There are a variety of reasons pushing governments to mandate and implement e-invoicing: decreasing costs, improving tax compliance and efficiency, and reducing fraud, among others. Most governments across Europe and Latin America not only have mandated e-invoicing but have implemented initiatives. The Scandinavian countries in particular are often considered the European leaders in the adoption of electronic invoicing. For example, since February 2005, all government institutions in Denmark have been required to only accept electronic invoices from suppliers.

In 2013, members of the European E-Invoicing Service Providers Association (EESPA) processed and delivered 840 million electronic invoices to buyers. This figure is based on survey results EESPA compiled in June 2014 and represents a significant growth of 19% over 2012 volumes of 706 million. The adoption of e-invoicing is expected to increase even more rapidly on a European and global scale with the support of regulatory standards and better infrastructure and as more organizations recognize the benefits that e-invoicing delivers.

To promote borderless commerce, the European Union (EU) is moving ahead to make e-invoicing required for government suppliers in 2015 and the standard method that private companies must adopt soon after. In Latin America, Mexico, which has implemented e-invoicing to prevent fraud, follows Brazil with the second-largest volume of e-invoices worldwide, according to industry analyst firm Billentis.

Additionally, in the United States, the federal government is a strong advocate of e-invoicing. It has begun implementing the Invoice Processing Platform (IPP) to reduce waste in 74 federal agencies, resulting in $5 million to $6 million in savings (about $20 an invoice). With some 86,000 vendors already enrolled in IPP, the U.S. Treasury estimates that it could eventually process 20 million to 30 million invoices electronically (up from 230,000 a year currently), making the potential savings much, much greater.

Overcoming the Late-Payment Culture

While an efficient AP department can speed up the processing of invoices, there's a late-payment culture that's impeding business commerce and negatively impacting small and medium-sized enterprises (SMEs) the most. In a survey that Basware conducted with MasterCard in June 2014, more than half (57%) of financial executives said they actively delayed paying their suppliers in the past 12 months. Two-thirds (67%) reported that they've used payment terms as a strategic lever to help manage cash flow. Overall, including the intentional late payments, 84% of respondents pay suppliers late, which they blame primarily on a lack of necessary systems and automation to facilitate timely payment.

It's clear that changes are needed to enable companies to maximize their working capital, but also to ensure the financial stability of their trading partners. Large credit card companies are partnering with invoice automation leaders to provide innovative new B2B e-payment solutions that, for example, speed up invoice processing and payments while, at the same time, extending terms for buyers. Additionally, there are new financing options coming to market that will open up more opportunities for buyers and suppliers alike.

Unlocking Hidden Business Value

Managing finances is a challenging task, particularly in a fluctuating or uncertain economic environment. Finance executives need to know: How much is the company spending? Where can we cut costs and still get the most value from our purchases? How much cash do we have on hand? The answers to these questions aren't hard to find if a company has real-time visibility in its finance and analytic capabilities to drill down into the data.

AP executives not only are using analytics to find financial bottlenecks, make processes more efficient, and reduce costs, but they're also using the data to identify procurement, spend, and payment trends and to uncover opportunities across their financial supply chain for accelerated payments or other strategies. With this insight, AP departments are enabling their companies to improve their cash conversion cycles and key performance indicators such as DPOs and DSOs (days' sales outstanding). They're also able to realize savings by capturing and analyzing data externally from their trading networks.

By leveraging automation and analytics, the AP department is collaborating with divisions throughout the organization to help them make better-informed financial decisions based on immediate insight into spend, cash flow, and other measures. Specifically, AP is delivering value by:

◆ Helping Treasury manage cash flow more effectively. Because automated processes provide real-time insight into every invoice that enters an organization, Treasury is now able to know all of the liabilities and forecast cash flow and working capital more effectively.

◆ Providing Procurement with insight into spend and suppliers to enable strategic buying. Since AP contains actual information on spend and supplier history, Procurement is in a position to recognize opportunities to better negotiate discounts.

◆ Providing accurate information to Accounting to enable the department to conduct faster, more accurate closings.

◆ Enabling Finance to conduct faster, easier, more accurate audits as well as providing a mechanism to better identify and prevent fraud.

The pace of business, globalization, and new requirements are creating a ripe environment for change. Gone are the days when AP was solely a back-office function. Now, internal and external stakeholders are turning to AP for key insights and strategic information to help them run their finances more effectively, uncover new opportunities, and strengthen their trading relationships. As you may already be seeing in your company—or surely will soon—AP is driving change within the organization, not only helping to transform the way businesses buy, sell, and collaborate with each other across the globe, but also helping them unlock critical value in their own financial operations. **SF**

Bob Cohen is vice president, North America, for Basware, a leading provider of cloud-based purchase-to-pay and e-invoicing solutions that enable better buying, selling, and connected commerce for organizations around the world. You can reach him at (203) 487-7900 or robert.cohen@basware.com.