

Kofax White Paper

About the Institute of Management and Administration (IOMA)

Since 1984, IOMA has provided authoritative guidance to corporate managers across a wide range of disciplines. In the Accounts Payable space, IOMA has become the leader in promoting and explaining the AP function; in educating AP professionals; in supporting the AP function and its practitioners through AP certification; and in linking key accounts payable vendors and services to the markets they serve.



Overcoming Barriers to AP Automation: A Roadmap for Success

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In 1999, the head of a major electronic-invoicing task force predicted that 95 percent of the Fortune 500's U.S. paper invoices would be transformed into electronic invoices by 2002. Over 10 years later, that prediction has not been fulfilled.

Although there have been significant technological breakthroughs that can help accounts payable dramatically reduce costs and improve cycle times, most AP organizations have been slow to adopt them. Invoice automation is one example.

An annual survey of technology adoption in AP conducted by RECAP Inc. for 10 years from 1998 through 2007 found that adoption of technology takes significantly longer than it should. In follow-up discussions with selected survey participants, it was discovered that many firms repeatedly put off their key automation initiatives despite significant pressures to reduce costs and reduce AP cycle time, the time from receipt of an invoice to payment.

Typically 80 percent of the work done in accounts payable is associated with invoice processing. Over 99.9 percent of all invoices are prepared on computers, yet the vast majority of them are processed by manually keying information from a

paper invoice document into an automated system to process and pay.

IOMA's AP Department Benchmarks and Analysis 2010 report found that the average company with a low level of automation spends \$15.70 to process an invoice. This is almost 20 times as much as companies with a high level of automation, those in the top 20 percent, where the cost is \$0.74. The average company with a high level of automation spends \$6.31 per invoice, more than eight times as much as those in the top 20 percent. These results are similar to results of surveys reported in Aberdeen Group's E-Payables: Invoice Receipt and Workflow report published in May 2009.

Unless your organization is already highly automated and in the top 20 percent, you should be concerned about closing the gap and taking your invoice automation to the next level.

Levels of Automation

Every AP organization has some level of automation. At a minimum, AP organizations have automated financial systems that are used to post transactions, feed information to the general ledger and disburse funds to vendors. This lowest level is universally in place. Companies with this level of automation typically have high processing costs and long cycle times.

As a company's AP organization moves from this low level of automation, costs and cycle times decrease. However, moving to a higher level of automation is sometimes blocked or delayed due to various barriers. The higher the level of automation, the greater the need for cooperation from, and coordination with, other internal and external organizations.

Many research and consulting firms have extensively examined and documented approaches to AP automation. Based on that research and supplemented with interviews with companies that have successfully achieved very high levels of AP automation, a framework and approach have been developed that significantly reduce the risks and increase the likelihood of success in achieving high levels of AP automation.

The framework identifies six levels of AP automation. Using a strategy of moving successively from one level to the next has been found to result in high levels of automation within relatively short periods of time.

Level 0 – Automated Transaction Processing System

About 20 percent of companies with 10 or more employees are operating at this level. Some of these companies use basic AP software that allows posting invoices and making payments. Others have more comprehensive enterprise resource management (ERP) systems that integrate with purchasing, inventory control, and resource scheduling.

In addition to high costs and long processing cycles, there is often little appreciation by outsiders for the work that has to be done by AP.

Level 1 – Scanned Invoices

Scanning of invoices within AP can dramatically reduce storage costs and the time required to retrieve documents when they are requested. Implementing scanning and manual indexing is very inexpensive and very low risk. It also has little impact on most processes within AP and no impact on processes used in organizations that interface with AP.

Scanning invoices and eliminating the storage and retrieval of paper can often save 30 – 50 percent of AP's invoice processing costs.

Manual indexing should not duplicate data that is entered into the basic AP or ERP system. Tight integration is key to having an effective imaging solution by having references to scanned documents that link images to transaction data.

Level 2 – Optical Character Recognition

Optical character recognition (OCR) can be used to automatically capture information from invoice images. Manual keying of information from paper invoices is costly and subject to transcription errors.

Incorporating OCR can significantly increase AP's invoice processing productivity. A survey of over 400 AP departments by IOMA in 2006 found that few companies were using OCR but that those using it were processing 25-60 percent more invoices with the same level of AP staffing. Given that people within AP do more than just key data from invoices, using OCR typically results in doubling the number of invoices processed per hour per processor. In more recent surveys by IOMA and others, OCR is the technology with the fastest rate of growth in adoption in AP departments.

The functionality provided by implementing OCR in AP has broad implications for implementing other types of invoice automation. Experience with the issues associated with interpreting key information from scanned documents has direct relevance to interpreting vendor data associated with other types of electronic invoicing.

While using OCR does change more processes in AP, it can be done so that there is no impact on other organizations that interface with AP.

Level 3 – Automated Workflow Within AP

Every AP organization has rules and procedures for routing paper documents within the department. By automating the process and working with images rather than paper, invoices no longer “get lost in AP.” In addition, details about the backlog of invoices to be processed and bottlenecks are instantly available.

Key to automating workflow is a detailed understanding of the rules and procedures. While most AP organizations know their normal invoice process flows, the exception processing is often undocumented or not fully understood. Preparing data flow diagrams showing the decisions and alternate paths that documents take when there are exceptions is key to defining the rules for automated workflow. If the current process is ineffective or inefficient, automating it won't help to achieve the expected benefits. Implementing automated workflow offers a great opportunity to upgrade old processes and incorporate proven best practices.

When automated workflow is implemented, it is key to also have tools that allow AP managers and supervisors to check on the status of work that is in process or on hold. Dashboards that provide real-time access to transaction status are invaluable. Additionally, the ability to reroute and reprioritize work is a central component of an automated workflow solution.

As with using OCR in AP, implementing automated workflow in AP can be done with little or no impact on organizations outside of AP.

Level 4 – Automated Workflow With Intra-Company Routing, Approval, and Dispute Resolution

After automated workflow is implemented within AP, it should be expanded to provide functionality for other

departments such as purchasing and approvers. Many believe that centralized capture of invoices with routing to other departments for review and approval is a best practice. However, even in organizations where nearly all invoices are sent directly to AP, there may still be certain transactions that are sent to other departments and then routed to AP. Remote capture and submission of invoice images or central capture of invoice images and routing for approval can be implemented.

While this level of invoice automation does impact most departments within a company, it also has significant benefits. Cycle time from receipt of invoice to posting is often reduced by 80-90 percent. This dramatically reduces the number of missed discounts and increases the number of discounts that can be taken. Visibility is increased and AP workload can be managed more efficiently and effectively.

Many companies try to shorten the overall timeframe by combining Levels 3 and 4. By implementing Level 3 first, many potential issues can be addressed and resolved before exposing a solution to the broader audience associated with Level 4. By phasing these two steps, the overall elapsed implementation time is often shorter. In addition, phasing usually costs less and achieves better results.

When workflow is expanded to include organizations outside of AP, automated tools are needed to get visibility as to the status of items awaiting actions by people outside of AP. Automated follow-ups and reminders as well as the ability to escalate are functions that should be included when an organization takes its invoice automation to Level 4. When automated workflow is expanded beyond AP, these tools should also allow AP to more effectively monitor and manage compliance.

Stakeholders outside of AP such as approvers should have a simple and intuitive user interface. This is critical for user adoption and buy-in. Requiring these stakeholders to interface directly with the AP financial or ERP system is counterproductive, as the user interfaces for these systems are usually complex. Furthermore, direct access into these systems by external users often requires substantial enhancements to security and access controls. A well designed AP automation solution will feature web based workflow approvals that require minimal field-user training.

Level 5 – Supplier Self-Service

There are many approaches to getting invoices in an electronic form directly from suppliers. Despite predictions of widespread adoption, only approximately 10 percent of all companies are receiving a significant percentage of their invoices electronically. Many more have tried but have not succeeded or have had limited success. The primary reason for failure is that companies have tried to implement this level of automation without first going through the four prior levels.

Supplier self-service can be thought of as a set of tools that suppliers can use to submit invoices electronically, obtain status of submitted invoices and resolve problems. Proper implementation of supplier self-service typically achieves a fivefold improvement in AP productivity. Surveys done by IOMA and Aberdeen Group in 2009 show that a significant portion of the much lower processing costs—as much as 20-fold for highly automated companies—is often due to the use of electronic invoicing.

A robust self-service approach supports submission of invoices in many different structured and unstructured formats. Unstructured formats such as PDF or fax

images of pages and word processed documents can be processed using OCR to turn the invoices into standard structured files. Structured documents provided as spreadsheets, EDI, XML, or other agreed upon formats can also be put into standardized files. All standardized files can then be routed, matched, approved and processed with minimal human intervention.

Achieving Level 5 frees up resources and opens new opportunities for AP to focus on more analysis. By being able to draw on detailed data, AP can get even more operational efficiencies as well as provide valuable insights into ways to further enhance the procure-to-pay process.

When companies skip, combine or change the order in which levels are implemented, their projects are often delayed or do not achieve the expected benefits. A well phased plan can typically move a company from Level 0 to Level 5 in two years or less. Changing the sequence or skipping levels often results in cancelled projects or ineffective solutions, with insufficient controls and excessive exception processing.

Barriers

For an AP organization to make appropriate changes to successfully move to the next level, it must understand the barriers and how to overcome them.

Excessive Implementation Time

Some automation projects take too long to implement. As a result, once the final results are achieved, it's found that the results that are actually needed have changed or the original reason is no longer valid. Even worse, subsequent changes in available technology, staff or regulatory issues have made the original solution ineffective, obsolete or incomplete.

In a similar manner, some projects do not achieve the expected or promised benefits and payoffs.

One Size Does Not Fit All

A solution that may be very effective for a large organization may be too costly for a small organization. Conversely, a small organization often can more easily make dramatic changes to processes and procedures since few people are affected and need to be trained. Companies doing business in a single local market are not subjected to many regulatory issues that affect companies operating in multiple countries.

However, there are some technologies like scanning and OCR that do scale very well and can be equally effective in both large and small organizations.

Interdependency Issues

Business-to-business electronic invoicing requires vendors and buyers to agree upon the information to be provided by each party to the other. They must also agree on how to interpret such data and how rejects and exceptions are to be handled.

There is a relatively small number of software packages used to automate invoice processing in AP. Fewer than 25 packages are used by most very large companies and fewer than 200 packages are used in total. However, there are hundreds of thousands or millions of different billing systems used by vendors to generate invoices. Vendors who generate very large numbers of invoices are typically not willing to provide a special feed to meet the needs of specific customers. Vendors who send very few invoices are even more reluctant to provide special feeds.

Difficulty With Standards and Guidelines

For over 40 years there have been standards and guidelines for electronic data interchange (EDI) for use in purchasing and accounts payable. Despite having well documented rules, most companies have found that they need information technology staff to come up with and agree upon specific rules for each vendor with which they do business. While such costs may be justified for high volume suppliers, 90 percent or more of all suppliers do not have sufficient invoice volumes to justify the costs of getting invoices from them via EDI.

Promised Benefits and Payoffs Can't Be Achieved

Similar to some automation solutions taking too long, others also suffer from not being able to achieve the benefits and payoffs that were expected. This may be due to misunderstandings of how systems actually work or insufficient tools and processes to respond to specific situations.

A clear understanding of existing processes and procedures along with good metrics to measure interim results are needed. Good metrics as to the goals of each project and the performance of each solution provide insights so that corrective actions can be taken and the desired results can be achieved.

Perceptions and Reality are Not the Same

There is sometimes a lack of understanding of the actual requirements. This is often due to insufficient up-front analysis of the current situation or understanding of the changes that will be required. Sometimes a project team is missing important skills or expertise and does not realize it. Sometimes assumptions are made about what various technologies can do and the assumptions prove to be incorrect.

Once a solution is in place, there are often misperceptions as to how well it is working or if the solution is achieving its intended goals.

Reluctance to Change and Risk Aversion

Two barriers to implementing new ideas are reluctance to change and risk aversion. In many instances, these barriers are simply putting off the inevitable. Eventually, someone will take a hard look and decide that the risks are overstated or that external pressures make it necessary to overcome resistance or reluctance to change. When change is avoided for too long, there is sometimes cataclysmic change such as replacing many of the members of the team or outsourcing.

Overcoming Barriers

While some of the barriers apply to moving to all levels of automation, the higher the level, the more barriers that are typically encountered. By using the approach of moving from level to level, it is usually relatively easy to overcome barriers or to implement solutions that minimize the impact of barriers.

In addition to using the level framework, the following are some other techniques that can be used when dealing with barriers.

Quick Hits

Implementing scanning provides a big payoff in a short period of time with little effort and little impact on processes within AP.

OCR is also very effective, low cost and low risk. According to several surveys, OCR is the fastest growing technology being deployed in AP, with nearly three times as many companies using it today as three years ago.

As noted earlier, neither scanning nor OCR requires procedural changes or training for anyone outside of AP. Neither internal organizations nor vendors are affected.

Segment Your Supplier Base

One of the major problems that companies encounter when trying to implement e-invoicing is resistance from vendors. Vendors are often reluctant to change their processes for a single customer. To overcome this reluctance, an analysis of vendor transaction activity can provide insights so that appropriate solutions can be presented to vendors and a higher rate of adoption of new procedures can be achieved.

Typically, between 10 and 100 vendors account for 80 percent or more of AP's invoice volume. While getting invoices electronically from these vendors typically seems like the best way to lower processing costs, these vendors often generate many invoices for many customers and may be reluctant to provide a solution specific to one AP department. These vendors should be approached individually with the goal of finding out which of their customers are currently receiving invoices electronically. By then finding out how such invoices are being sent and how well those processes are working, specific procedures unique to such vendors can then be implemented with a high level of success.

At the other end of the scale, over 90 percent of all vendors send fewer than 10 invoices a month to individual customers. These suppliers are extremely reluctant to implement a customer specific strategy that requires special software on their end. For these vendors, the most effective e-invoicing solutions typically involve sending paper invoices directly to AP, where they are then scanned, or sending electronic images of invoices directly to AP, often as email attachments. For

these vendors, OCR is the most effective technology, as it has little impact on how they provide invoices.

Vendors that are not at either end of the volume spectrum are good candidates to start out by using OCR and advancing to other forms of structured electronic transactions once AP has a vendor self-service process in place.

Make a Better Business Case – Identify and Measure Benefits and Payoffs

AP is a function that presents many opportunities for reducing costs. In addition, once companies put the appropriate tools in place, AP can get even greater benefits by improving compliance with company policies, identifying spend opportunities and increasing discounts. However, to accomplish these goals AP must make the case and monitor results to show that the strategies achieve the intended results.

A business case should clearly identify the benefits, both tangible and intangible. Surveys can help identify where AP should focus. Benchmarking against other firms can help to identify overlooked opportunities and benefits that can help to make the case.

Use Metrics to Get Convergence Between Perceptions and Reality

When moving from one level to another, it is key to review existing metrics to see if they are still relevant and to add new metrics to help assess whether there are improvements in quality, timelines, throughput and productivity.

When Level 3 and Level 4 automated workflow are implemented, it is key to have an integrated set of metrics to help manage the process.

Identify and Reduce Risks to Ensure Success

When implementing a new solution, it is critical to apply the right resources. The project team should include people who have the complete set of skills needed for a successful implementation. While not everyone on the team is likely to have all of the skills, it is key for the team in total to have the complete set of skills. Ideally, some of the people on the team will have had past experience working together. Some of the team members will be familiar with the new solution in both its functionality and the underlying technology. Team members should also understand how the changes will have to be fit into the company's culture and the way organizations outside of AP will be impacted.

By carefully managing and reducing risks, moving to the next level can be a successful endeavor.

Conclusion

Take a critical look at your AP organization. Assess where you are and where you want to be in terms of AP automation. Find your current level of automation and understand the strengths and weaknesses of your current processes. Identify metrics to address key pressures and key challenges as well as metrics to measure the efficiency and effectiveness of your invoice processes.

Set clear goals and time frames for moving to each of the next levels. Identify metrics to monitor progress toward achieving objectives and moving to each new level.

Keep up to date on new and emerging technologies as there will be additional levels that you will want to move up to in the future.

About Kofax

Kofax plc (LSE: KFX) is the leading provider of document-driven business process automation solutions. For more than 20 years, Kofax has provided award winning solutions that streamline the flow of information throughout an organization by managing the capture, transformation, and exchange of business critical information arising in paper, fax, and electronic formats in a more accurate, timely, and cost effective manner.

In September 2009, Kofax acquired 170 Systems, which further extends and strengthens the company's leadership position in the capture and financial process automation markets. The combination of the two companies' software products allows Kofax to provide a complete invoice processing solution that incorporates paper and electronic capture as well as accounts payable workflow capabilities.

For more information, visit www.kofax.com.

About the Author

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From 1988 through 2007, Jon was the cofounder and chairman of RECAP, where he was responsible for strategic planning and overall direction. He has been head of the audit committee of the board of directors of a public company and is an advisor to several firms.