Now's the time to modernize accounts payable

Say goodbye to manual invoice processes

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Report prepared for:

Executive summary

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Senior managers have long recognized that inefficiencies abound with accounts payable (AP), especially in organizations heavily laden with manual and paper-reliant processes. But the latest research reveals that the technologies used to support AP automation are mature and capable of introducing significant return on investment (ROI) for businesses when deployed.

Now is a good time to act. Businesses marketwide are adopting AP automation solutions to streamline internal processes and improve their bottom lines. By identifying the time and effort currently spent processing paper and PDF invoices, routing approval emails and posting approvals within the accounting system, businesses can identify the value presented by AP automation solutions.

Don’t get left behind. Here’s why businesses should join their peers that are invigorating their financial back offices with AP automation:

Most U.S. businesses are starting to use AP automation. As the pandemic stressed manual processes, U.S. businesses' adoption of AP automation solutions grew significantly from a pre-pandemic levels. Adoption is projected to continue to accelerate with 70% of midsize and large U.S. businesses planning to adopt an AP automation solution. The ROI value proposition is significant, and those that don't adopt are likely to be missing out on benefits. These could include consolidation of business practices to a single easy-to-use tool, reduced manual intervention in invoice coding and resulting errors, increased visibility into the approval and payments processes, improved on-time processing, a reduction in supplier disputes and an increase in early payment discounts captured.

Receiving electronic invoices accelerates the transition to electronic payments. Solutions that automate invoice processes also provide suppliers the ability to select how they want to get paid, and many of them select electronic methods. This adds to supplier satisfaction.

Supplier networks and onboarding are critical. Solutions that provide an established network accelerate onboarding, ROI and utility.

Improve internal controls, facilitate approval processes and prevent fraud. Electronic processing adds visibility and builds confidence in the payment information provided by suppliers. The introduction of a network reduces the likelihood of fraud.

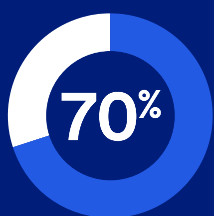
Simplify automation with enterprise resource planning (ERP) integration. AP automation solutions also accelerate payments reconciliation. On the front end, integrating with existing ERPs to match purchasing and invoice data yields a clean "approved" payables file. After processing payments, integration capabilities post "cleared payments" to the ledger. Businesses that use AP automation to reconcile their payments can save two to three days each month when closing monthly financials.

Introduction

AP automation has long promised efficiencies, visibility and enhanced control over the handling of supplier invoices. AP automation's rapid technology advancement reflects its upward momentum of interest, with 70% of U.S. businesses planning to leverage such solutions by the end of 2024. The technology delivers meaningful returns on investment, operational improvements and an easier path for shifting payments from paper to electronic.

This white paper helps businesses understand the key value proposition of AP automation solutions. These include streamlining AP operations, accelerating the transition to electronic payments, access to supplier networks, reducing fraud and accelerating AP reconciliation.

Most businesses use AP automation to gain ROI



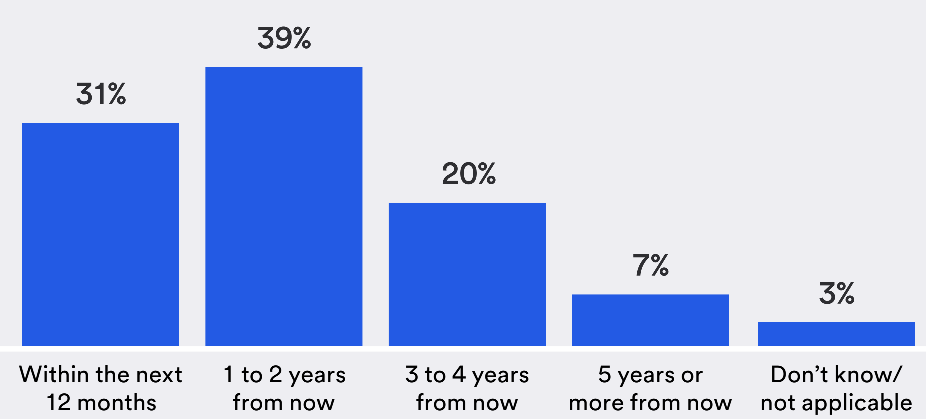
of U.S. midsize and large businesses are planning to introduce AP automation to their organizations by 2024.

The benefits of AP automation extend far beyond suppliers providing PDF invoices and emailing scans to managers for approval. And calculating a meaningful ROI is no longer about headcount reduction, but rather about the implementation of a new and efficient process to minimize human effort and allow for the transition of expertise to exception handling or other more meaningful tasks.

With AP processing improvements in mind, Figure 1 shows that an incredible 70% of U.S. midsize and large businesses are planning to introduce AP automation to their organizations by the end of 2024.

Figure 1: Majority of U.S. Businesses Are Planning to Introduce AP Automation

Q. **When do you think your organization is likely to start using automated payables software?** (Base: 181 employees at U.S. businesses)



Source: Datos Insights survey of 1,037 employees at mid- and large-sized businesses, Q3 2023

The broader concept behind AP automation means facilitating the entire process from supplier onboarding through payment reconciliation. The multitude of tasks in between are enhanced by advanced technologies to guide workflows, ensure data quality and even provide governance over spend. These include integrating purchasing data to invoices submitted to match and perform quality assurance checks on prices, quantities and other important terms.

Invoice processing is a critical element and maintains a powerful connection to payments: It has a many-to-one relationship. Each AP payment can cover multiple invoices. This means that staff might need to exert significant time and energy to process 100 invoices across a business, only to produce a single vendor payment that costs pennies.

The savings from transitioning that from paper to electronic payments might represent pennies per transaction, which can add up based on volume and payment channel costs. In comparison, streamlining the effort to process the 100 invoices represented by the single payment represents many dollars. And that's the point:

Payments are a pennies problem, while invoices are a dollars problem.

Overcoming prior ROI hurdles

Most suppliers and vendors in the U.S. are smaller businesses. And when a large business works with a smaller business, invoices become a problem. A large business has an incentive to automate its AP process, but its smaller vendors and suppliers do not have sufficient budgets (or reasons) to pay for expensive enterprise-class invoice automation solutions. This creates a gap between the business and its suppliers, for which the business will need to continue using manual processes to take care of paper or PDF invoices.

True AP automation bridges this gap and provides ROI for both larger businesses and smaller suppliers and vendors in a cost-effective manner.

One of the key methods of bridging this gap is by offering inexpensive and streamlined ERP integration for AP automation clients, and providing an easy-to-use web-based interface for suppliers to submit invoices.

Traditional models, even for ERP integration, would necessitate system upgrades, added license fees, and major IT budgets. These add up. With the introduction of low-code/no-code ERP integrations offered by AP automations, the cost for such integrations drops significantly, allowing a broader population of businesses to benefit from this technology.

The value propositions, enabled by an inexpensive ERP integration, take form by improving internal operations, expanding electronic enablement for suppliers and transitioning channels to electronic payments.

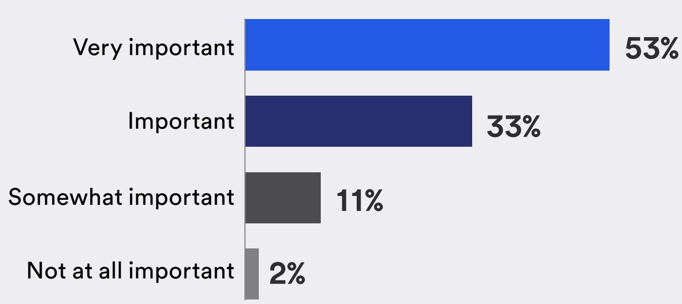
Leveraging a supplier network to help onboarding

AP staff spend most of their time performing their daily tasks, with little time left to take on new initiatives. These teams, over the years, have been asked to onboard suppliers to receive electronic payments with limited success. While AP staff know their suppliers well and can identify those that drive volume, they don't necessarily have the bandwidth or strategy to communicate and engage with suppliers. Historically, supplier onboarding was limited to the effectiveness of a staff campaign to connect with each supplier and offer an electronic payment option.

Figure 2: ERP Integration Is Very Important When Making Payments

Q. When your business determines the type of payment to make, how important is the ability to automatically connect payments to accounting or bookkeeping systems?

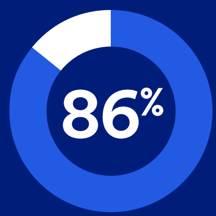
(Base: 1,006 employees at small and mid-sized U.S. businesses)



Source: Datos Insights survey of 1,006 employees at small and mid-sized businesses, Q1 2023

The hallmark of an effective AP automation platform is a large network of suppliers that have already indicated their preferences to provide invoices electronically and receive electronic payments. A supplier network also eases a way for staff to convert additional suppliers from paper to electronic payments. Such networks provide businesses with an instant boost when transitioning vendor payments from paper to electronic.

The ability to pay suppliers according to their preferred payment method is strongly linked to the ERP system used to generate payments. Up to 86% of businesses report, as reflected in Figure 2, that their ERPs are either



of businesses ERPs are important or very important when determining payment channels.

important or very important when determining the types of payment channels they use. When a business onboards its suppliers or leverages a supplier network, it can offer them payment channels that the ERP system can accommodate and are favorable. This helps a business control its payments activity via its ERP and leverage the presence of a network.

Payment channels represent more than the speed of payment, but also the integrated ability to explain the purpose of a payment. This is critical for proper accounting. Different payment channels also include various levels of remittance information, which, when received, help the recipient properly account for the payment. Moreover, some payment channels provide better clarity than others with regard to cost and delivery. AP typically bears the brunt of this effort without the introduction of an AP automation system that creates clear agreements, payment instructions, and channels for data.

Businesses recognize the importance of getting this right, as highlighted in Figure 3. The top gaps in their payment strategy or process primarily include payment speed (70%), resolving customer inquiries (56%), and recipient satisfaction (48%). These are critical challenges that are satisfied with an AP automation solution that can integrate with businesses' desired payments channels and the have ability to share remittance detail with them.

Figure 3: Key Gaps in the Payment Strategies and Processes of Businesses

Source: Datos Insights survey of 1,037 employees at mid- and large-sized businesses, Q3 2023

Enhanced internal controls and fraud protection

Why rob banks when bad guys find it easier to rob AP? AP faces multiple threat vectors, including insiders, mail thieves and hackers who gain entry into supplier email accounts.

A more modern fraud that's exploded over the last decade is business email compromise fraud – when organized crime rings either masquerade as a corporate executive giving payment instructions to eager staff, or when a hacker sends a legitimate invoice from a supplier's system along with the hacker's payment details. AP automation provides many key controls that reduce the exposure to such attacks:

Supplier compliance and onboarding process: Suppliers control their information on a network, including an accurate address, payment instructions and account information. The odds that a hacker can fool one business on its own is higher than the odds that multiple clients are fooled within a supplier network.

Supplier network neighborhood: The presence of a supplier network introduces a high likelihood that someone will catch onto and be able to isolate any hacked suppliers from perpetuating fraud. When AP is operating on its own without the presence of a network, fraud is usually only caught when accounts are reconciled at month-end.

System-based invoice receipt: The network receives and processes invoices, eliminating manual processing. This reduces the opportunity of tampering. Invoices that are not real are set aside as exception items and can be scrutinized.

Invoice management tracking: Each step of the invoice process – review, approval, and annotation – is logged. This ensures accountability since approval hierarchies are set up according to AP's business rules. System-managed rules ensure compliance and provide the basis for determining and communicating status.

Invoice approvals and controls: Invoices are routed based on business rules to the appropriate approver for review and sign-off. This layer of control largely emulates what's expected within an accounting platform, however, with visibility into the process by highlighting response times. The user experience and adaptation to a mobile environment is also critical for a better user experience.

Electronic payment: Payments directly flow from approved invoices and supplier payment instructions into the company's ERP/accounting system via API calls or automated file uploads/downloads.

Automation and payments-related benefits

Surprisingly, businesses get more from AP automation than just improved performance, supplier integration, fraud prevention, and adoption. Data suggest that businesses prefer to work with their primary bank and particularly prioritize offerings that automate reconciliation, accounting system integration, and access to newer payment rails.

When considering AP automation, the key is that these happen within the context of an ecosystem that manages the entire process from invoice receipt to matching, approvals, posting, payments and reconciliation. Accounting technology and payments work well when they come together in an integrated manner. And businesses benefit from solutions that integrate with and reflect activities accurately within their accounting systems. This is accomplished through the posting of "paid" files that automate bank to general ledger reconciliation.

AP automation accommodates a continuum starting with a plug-and-play approach that tackles one portion of an existing workflow. This offers a return without having to make a huge investment (or taking on a big operational risk). Getting comfortable with such technology is important since positive results will drive AP's efforts to evangelize its use across the organization.

Additional payment-related benefits of AP automation include planning and routing payments based on a number of features and preferences. For example, if a vendor accepts several payment channels, AP might defer to payee preference or its own payer preference, cost-based rules, value date, clearing priority and so on. This helps businesses leverage newer payment rails and optimize costs.

AP automation priorities

Automated reconciliation

Accounting system integration

Access to newer payment rails

Next steps

CFOs, controllers, and treasury managers:

Take immediate action to address the internal costs, processing quality deficiencies and internal control needs of your AP process.

Don't let outdated legacy invoice processes drain resources and hamper team performance. Embracing AP automation will help streamline internal operations.

Evaluate AP automation solutions that offer integrated functionality, including supplier onboarding and management, invoice capture and approval workflow management, accounting system integration, purchase order integration, approval flows, payment planning, preprocessing and execution and back-end reconciliation.

Identify hard costs, such as late fees and interest charges, and establish a GL code to track these expenses. If vendors cause disruptions to production due to late or missing payments, include these in cost calculations as well.

The shift toward electronic invoicing is happening rapidly, and waiting to adopt it could result in losing a competitive edge in the marketplace. By 2024, 70% of businesses will likely use AP automation and realize ROI through internal operational efficiencies.

Look for solutions that offer flexible deployment options, including cloud-based, on-premises and hybrid models. Evaluate the scalability features and easy customization to meet specific business requirements.

Methodology

This white paper draws on the author's in-depth knowledge of the industry and subject matter. It also includes data extrapolated from an online survey of 301 employees of U.S. midsize and large corporations that Datos Insights undertook in Q3 2023, as well as an online survey of 1,006 employees at SMBs that Datos Insights undertook in Q1 2023. Respondents are employed in operations, finance, accounting, payments strategy, or treasury/control and are knowledgeable about their organizations' finance, treasury, payment operations, methods, and processes. Organizations represented in the pool of respondents generate annual revenue and turnover of at least $20 million USD.

Datos Insights estimates that the data for the total sample have a three-point margin of error at the 95% level of confidence; statistical tests of significance among segments were conducted at either 95% or 90% confidence level, depending on the sample size.

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