AP CONTROL PANEL:
ACCOUNTS PAYABLE IS AN ORGANIZATION'S SECRET WEAPON FOR IMPROVING FINANCIAL HEALTH

IOFM Institute of Finance & Management

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While AP handles most of an organization's cash and therefore should be able to provide a great deal of transparency into its financial health and processes, how empowered does the function really tend to be?

For many organizations, accounts payable has been—and may still be—considered a clerical function. AP staff is charged with paying bills, period. Unfortunately, that approach misses the opportunity to capture key business intelligence that AP should have access to.

Attitudes are starting to change, however. With the feature-rich automation tools now available to AP departments, it's finally being recognized that, once relieved of much of the clerical work, the accounts payable team can offer significant insight into an organization's financial health and practices.

Yet overall, where are organizations along that curve right now and how much transparency actually exists?

To find out, we inquired about how well AP's existing tools support and provide information regarding:

• Operations
• Organizational working capital
• Compliance and security

The AP Control Panel

Hyland and the Institute of Finance & Management have partnered to create the AP Control Panel, a first-of-its-kind tool to evaluate AP departments' level of control over operations, cash flow, compliance and security. **Learn more here**.

The survey methodology

This is the third and final report for the AP Control Panel - a research series investigating the level of control accounts payable organizations have over the key areas known to improve performance. The survey, conducted jointly by Hyland and the Institute of Finance & Management, provides helpful operational benchmarks as well as insight into how much an organization's bottom line can be impacted by the invaluable metrics AP can provide.

More than 300 accounts payable professionals participated in the survey. We first asked them to identify their invoice volumes and automation peer groups.

We then posed these important questions related to the three main areas of interest:

Operations

1. How difficult is it for your organization to track invoice status?
2. By what methods can you search for invoices?
3. How often can you view notes and modifications to invoices?
4. How able are you to view and track process performance metrics?

Working capital

5. Can you report on accruals and predict payments?
6. Can you report on available early pay discounts and percentage of discounts captured?
7. Do you know your enterprise and per-supplier spend in real time?
8. Are you able to track DPO (days payables outstanding)?

Compliance and security

9. How difficult is it add or remove invoice approvers?
10. How quickly can you correct policy violations within AP processes?
11. Can you see who performed which AP processes? Can you monitor non-AP approvers' activity?
12. How easy is it for you to modify and control access to AP processes and resources?

Below, we'll summarize the responses to each area of interest.

Operations

Invoice Volumes and Automation

A natural assumption is that high volumes of invoices would correlate to significant levels of automation. This is generally accurate.

As seen in Figure 1 below, where the dark blue color represents low invoice volumes and light blue represents higher invoice volumes, those respondents with more invoices tended to have more significant degrees of automation by about two to one. The remainder of high-invoice respondents were about evenly divided between having limited and moderate automation.

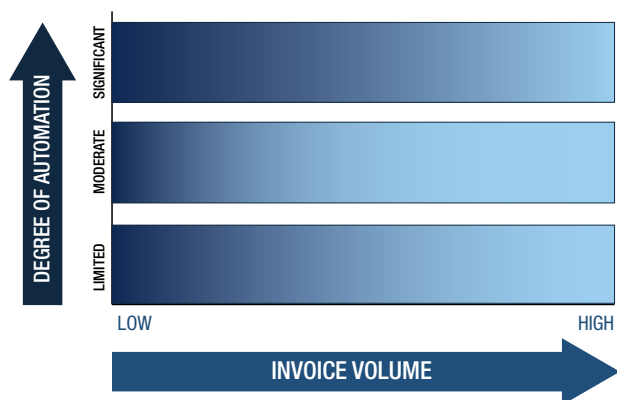### Invoice Volume Relative to Degree of Automation

Figure 1.

Nearly half of respondents with low invoice volumes indicated they had limited automation, as one would expect; but the number possessing significant automation was surprisingly high in this group, only 12 percent less than those with limited automation.

So, while one would expect to find a dramatic difference in levels of automation among AP departments based on invoice volume, many AP departments with high invoice volumes still process many invoices manually, and contrarily, AP departments with low invoice volume may still have significant automation at their disposal.

The question is, how effective are those automated systems at providing useful business intelligence?

Automation and Invoice Tracking Capability

One of the presumed benefits of most automated AP systems is the visibility they provide into process performance. These include such measurements as time to approve invoices, time to pay them and workload per accounts payable employee (invoice cost per FTE). These metrics track the overall efficiency of the department and can facilitate staff performance evaluations based on their output of work.

As shown in Figure 2 below, those organizations with significant automation have much greater insight into these performance measures than those without. No respondents with limited automation reported that tracking this information was easy, whereas nearly a third with significant automation responded that collecting this data was easy or extremely easy.

What's telling, however, is that even in the group with significant automation, more than 40 percent found this to be difficult or extremely difficult. Clearly, having automation does not guarantee visibility into transactional process efficiencies.

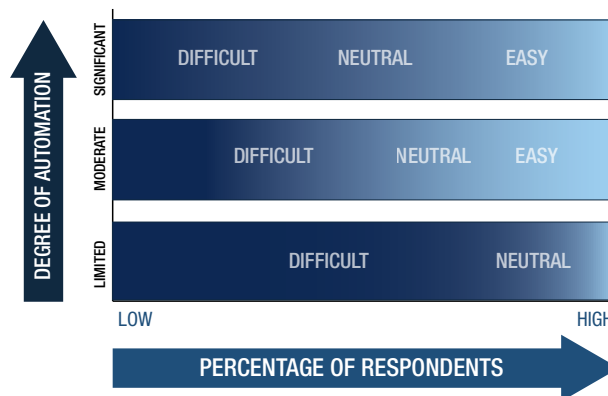### Organizations Ability to View and Track Process Performance Metrics, by Level of Automation

Figure 1-2.

Automation alone does not guarantee visibility into process efficiencies.

Methods of Sorting Invoices

Some of the key functionality AP automation should provide is the ability to sort invoices by multiple methods. This is valuable for researching invoices from a specific supplier, performing lookups by amount or invoice number, finding out which invoices are oldest, and so on.

The survey tabulated the combined responses for the following sortation criteria:

• Date of receipt
• Invoice owner
• Due date
• Invoice date
• Invoice amount
• PO number
• Supplier
• Invoice number

Figure 3A shows the combined data for all respondents:

Ability to Sort Invoices by Method by Percentage of Respondents
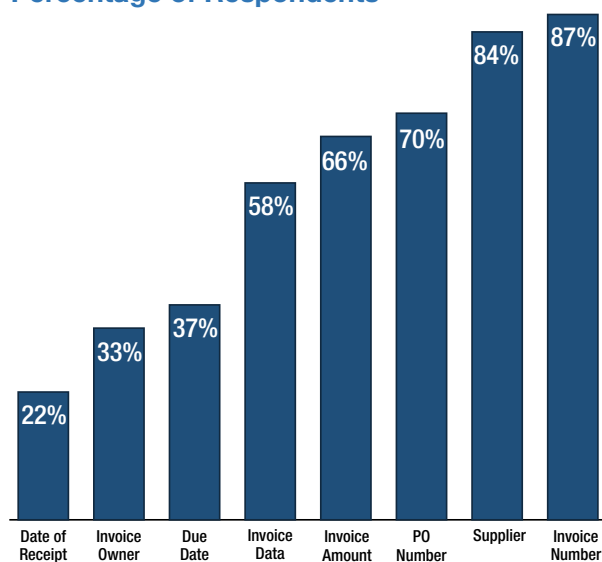

Figure 1-3A.

While most survey participants can sort by supplier and invoice number, far fewer can sort by key dates or invoice owner. Lack of access to this information can result in invoices being paid late and prevent the organization from being able to see who's spending the most, for example.

Also note that information highly specific to particular invoices—invoice number, PO number, amount—are easier to sort for than more general, aggregated data like due date. For many, that means that the AP automation system is better as a research tool used in resolving one-off problems than it is in providing broader data about where processing backlogs are or who's creating them.

When taken in the context of degree of automation, it becomes clear that those with significant automation

do have more sorting options that those with limited or moderate information. Yet the average number of sort parameters accessible to even those with robust automation is just over five—far short of the eight possible responses offered in the survey. See Figure 1-3B.

> **Better sorting capability allows AP to see who's spending money, how much and on what.**

Average Number of Invoicing Sorting Methods Available by Degree of Automation (Max. 8)
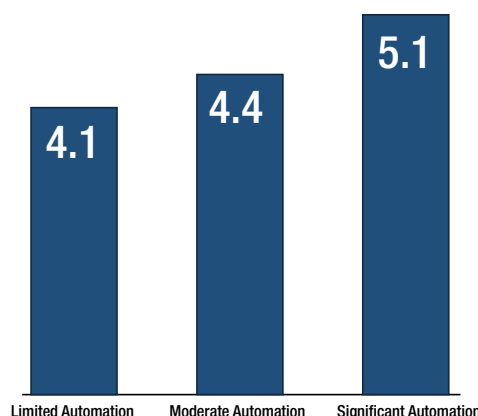

Figure 1-3B.

While those AP departments with more automation capabilities have greater visibility into their data, is it really enough?

Notes, Correspondence and Invoice Modification Tracking

Now let's take a look at how well respondents are able to view notes attached to invoices within their systems. These might alert the AP team that the vendor doesn't appear to be in the system and may need to be entered in the vendor master file; that the invoice still needs to be routed to someone for handling or approval; that it is under dispute resolution—and the like.

Automation should provide a means to do this. It will save time and effort on the part of the team by telling them what needs to be done and prevent them from paying an invoice that's still being investigated. It

saves time that might otherwise be wasted by re-doing research that's already been done by someone else.

While notes provide highly useful information to the AP team, fewer than half of respondents said they can see this information always or almost always; over a fourth of them said they could never or almost never see this. (See Figure 1-4A.)

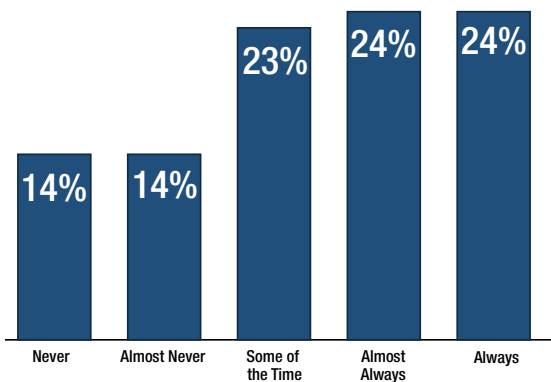### Respondents Ability to See and Track Invoice-Specific Notes and Modifications

Figure 1-4A.

How does this data look when it's categorized by degree of automation? See Figure 1-4B.

Respondents Ability to See and Track Invoice Notes and Modifications by Degree of Automation

Figure 1-4B.

Here, the benefits of automation are more clear-cut. Those with significant degrees of automation were much more likely to be able to track invoice-specific data than those with only limited automation. Those respondents who reported having moderate automation took a more middle ground, most often reporting that they could sometimes acquire this data.

Process Performance Metrics

While being able to track details about individual invoices is important in day-to-day operations, having access to the aggregate data provided by any automation system is vital. Residing within that data are clues to inefficiencies and bottlenecks, business intelligence about how long it takes to get an invoice approved and paid, even metrics about how many invoices are being handled by each employee, both individually and on average.

Yet the survey reveals that more than half of respondents found obtaining this information difficult or extremely difficult. Fewer than one in five said it was easy or extremely easy. (See Figure 1-5A.)

Respondents' Ease of Viewing and Tracking Process Performance Metrics
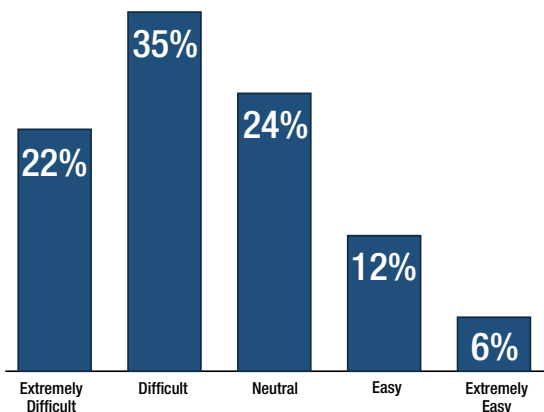

Figure 1-5A.

How does this correlate to the respondents' level of automation? Here, it's clear that the greater the degree of automation, the more insight AP has to its performance. No respondents with limited automation found this process easy. However, it's also important to note that even those participants with significant automation found this difficult more often than they found it easy. (See figure 1-5B.)

> **Better automation means greater insight by AP into its own performance.**

Respondents' Ability to View and Track Process Performance Metrics by Degree of Automation
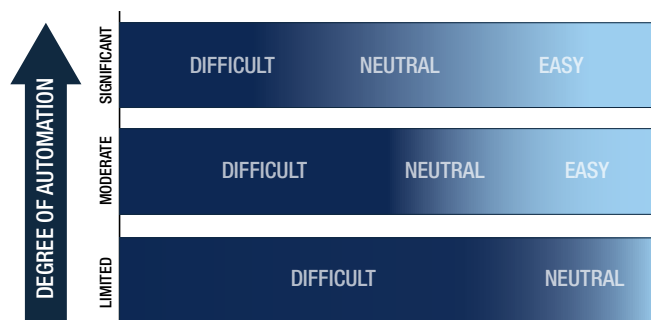

Figure 1-5B.

Overall Efficiency and Transparency

The combined picture of AP's efficiency and insight into the data available is consistent with what's been seen up to this point. Figure 1-6 shows how respondents fared on an aggregate scorecard in which all four measurements are weighted equally, with the best possible score being 100 percent.

Efficiency of AP Operations Based on:

Visibility of Invoice Status • Sorting Capabilities • Visibility of Notes and Changes • Ability to Capture Performance Metrics
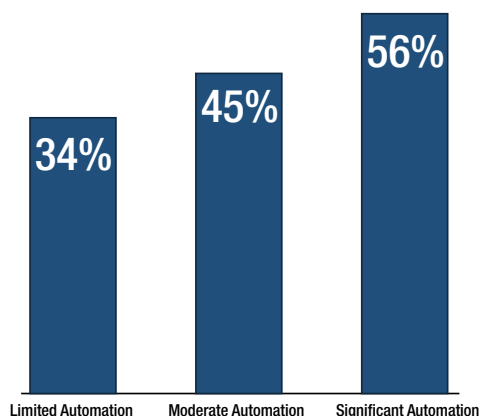

Figure 1-6.

While an increased degree of automation definitely improves overall business insight, even those respondents with significant automation are far from that 100 percent efficiency mark—and fare just a scant 22 percent better than their peers with limited automation.

TAKEAWAY: Operational Improvement in AP Requires a Complete View

First, it's clear that having a significant degree of AP automation does not guarantee optimal operational efficiency. This might be due to one of two reasons, or a combination of both: Either the system does not collect and report the complete metrics it should, or AP doesn't know how to acquire and leverage the data the system does provide to help improve departmental operating efficiency.

Perhaps because accounts payable is considered a transaction-based processing operation, the focus of some solution providers and AP management may tend to emphasize the "one-off" aspect of entering, getting approvals for, researching and paying single invoices. While that's the traditional AP workflow, focusing on the processing engine of the solution without attempting to derive business intelligence from the aggregated data pool is wasting a priceless resource.

Optimized AP automation cannot rely on gathering only the data that's easy to collect. Hyland's research shows that 80 percent of business intelligence resides within unstructured documents, which many automation solutions cannot find, much less analyze. While one goal of an automated processing solution is to get invoices paid quickly, doing so at the expense of losing key information contained within both paper and electronic invoices is a bad bargain.

> **Some solution providers focus on "one-off" workflow rather than on business intelligence.**

Working Capital

Much of the potential power AP possesses lies within its access to information about the organization's cash position. This includes accruals, discount availability and capture, enterprise spend and spend by individual supplier in real time, and days payable outstanding (DPO).

Let's start by looking at respondents' ability to collect information for each data point related to working capital.

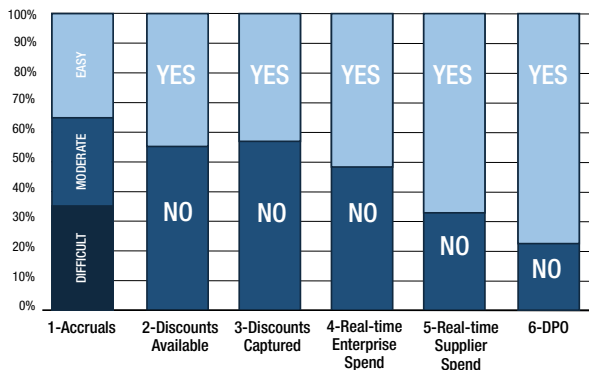## Overall Responses by Question: "Can you track...?"

Figure 2-1.

What does this tell us?

- First, **accruals**, which are key to accurate and compliant financial reporting, were easy or extremely easy to track for fewer than a third of total respondents

- **Available discounts and discounts captured** data was readily available to fewer than half of respondents, yet this is where AP can make a significant contribution to the bottom line.

- Organizations are better at getting **real-time spend data** for individual suppliers (question 5) than they are at getting enterprise spend data (question 4)—not good for high-level business intelligence.

- **DPO** is the easiest of all metrics for respondents to collect. This is information critical to understanding the overall cash cycle of the organization and providing insight into where AP could improve efficiency.

Simply put, data that can be used to improve discount capture and provide real-time insight into the financial health of the organization is too hard to get for most. And while most respondents found it easier to capture this information by individual supplier than to acquire broader enterprise spending data, that's where business intelligence can really pay off for the organization as a whole.

Early Pay Discounts: Where AP Can Really Shine

A very tangible benefit AP can bring to an organization is in capturing early pay discounts. Being able to pay accurately and on time can add significant cash to an organization's bottom line. A rule of thumb is that for every $1 billion in PO spend, between $3 and $5 million can be captured in early pay discounts.

We tabulated survey participants' responses about whether they can report on both available and captured

discounts, the first step in developing a strategy for gaining those rich rewards.

Respondents' Ability to Report on Available Discounts and Discounts Captured
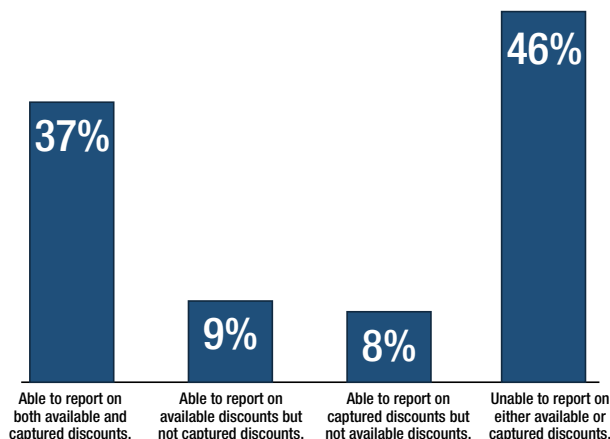

Figure 2-2.

Fewer than four in ten respondents are able to track both available and captured discounts. A small percentage are able to track one of those metrics but not the other, but the greatest share can report on neither of them.

Given that discount capture is where accounts payable can make the greatest impact—some successful departments are able to pay for their own operating expenses or even turn in a profit—AP solutions should be doing a better job of providing the business intelligence necessary to maximizing that potential.

In 2019, early pay discounts could increase by two to four times over 2018's.

As interest rates rise, vendors increasingly want to be paid early. Analysis by The Bavelos Group, experts on discounting and working capital, estimates 45 percent growth in early pay programs each year, now through 2025. Inadequately capitalizing on available discounts is leaving money on the table, now more than ever.

How Does AP Automation Impact Insight into Working Capital?

Correlation of AP Automation to Degree of Insight into Working Capital Issues
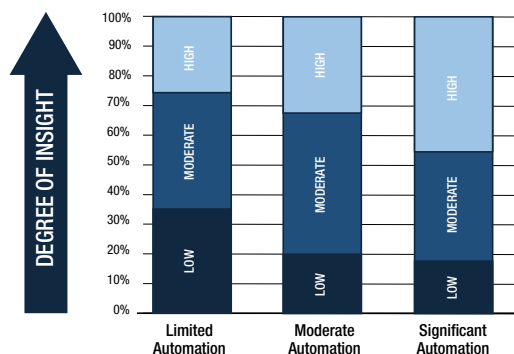

Figure 2-3.

The graph in Figure 2-3 shows the relationship between the aggregated scores for the data points shown in Figure 2-1 and the respondents' degree of automation.

As we might expect, more automation does provide a significantly greater level of insight into working capital issues. Those participants who can process 70 percent or more of their invoices entirely through automation scored highest: 45 percent of them reported deep insight into working capital metrics.

On the opposite end of the spectrum, only one of four of those with limited automation had transparency into working capital data.

Working capital data isn't just nice to have—it's essential to running a business.

Working capital data isn't just nice to have; it's essential to running an efficient, profitable and compliant organization:

- Understanding the organization's cash flow is essential for making buying decisions and acquiring investments.
- Accurate financial reporting is mandatory for public companies, with severe penalties for noncompliance.
- Transparency into the financial health of an organization is important to potential vendors, who will set credit limits and discount terms based on that information.

- Controlling payment timing and discount capture generate significant savings that go straight to the bottom line.

TAKEAWAY: Greater AP Insight Can Improve the Bottom Line

What AP doesn't know about working capital results in significant loss of control and transparency. The data generated by the transactions they process should provide insight into efficient operations, cost savings and financial planning. Yet many organizations still view AP as a strictly clerical function, effectively depriving themselves of key information needed to:

- Remain compliant with SOX and other regulations
- Capture the maximum number of discounts
- Regulate and monitor cash flow
- Gain real-time feedback on enterprise and supplier-specific spend needed for vendor scorecarding, budgeting and forecasting
- Allow AP to monitor its own performance and improve it

Yet even assuming the value of this data is appreciated at the C-level, what's the most accurate and efficient way to gain access to it?

Hint: Manual data-crunching and reporting isn't it.

The best way to gain access to key financial data is through automation.

Even organizations that don't process millions of invoices a year can benefit from automation, as the Control Panel data shows. Not only does this ensure near real-time visibility into operational efficiency, it provides a streamlined and accurate view of the company's financial health whenever it's needed.

Compliance and Security

Compliance

Automated or not, most organizations establish business rules within their payable process to ensure compliance with internal and external regulatory policies. Knowing how well those rules are being followed and being able to detect any violations are essential to maintaining compliance and guarding the organization against risk and costly fines. To do so, AP management should also have the ability to track the actions of staff throughout the process, not only the AP staff, but those in other departments who are involved in AP processes—approvers, for example.

Penalties for Non-Compliance Are on the Rise

- T&E fraud accounts for $500 billion in fraud annually
- IRS penalties have increased to a maximum of $3.2 million per organization
- OFAC fines and penalties increased to $71.5 million in 2018
- Unclaimed property audits average $36,000 per penalty per year

Time is of the essence when it comes to detecting compliance violations. Automation makes that possible much more quickly, as well as providing insight into who committed them. About half of survey respondents with significant automation reported that process to be fast or extremely fast.

When dealing with compliance violations, wasted time is the enemy.

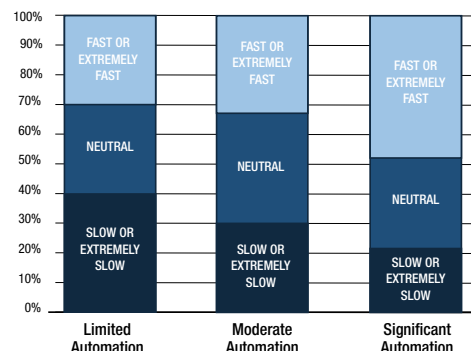### Speed at which AP Complaince Violations Can Be Identified and Corrected

Figure 3-1.

Now let's take a look at tracking. Being able to obtain a log itemizing all AP transactions and who performed them has a lot of value:

- **Training.** Those employees who are making errors can be retrained to prevent future occurrences.
- **AP internal audit.** This can reveal compliance violations, as well as weaknesses in process that are causing workarounds. This process can also yield employee performance metrics.
- **Fraud detection.** Irregularities that point to employee fraud can be detected and investigated with this type of reporting. Given that many AP fraudsters get away with it for years, being able to gather and review this data can save an organization a lot of money by catching it early.

Here's what respondents said about their ability to track AP transactions relative to their levels of automation.

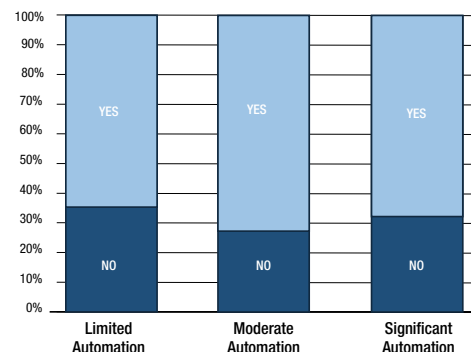### Organization's Ability to View a Log of AP Processes and Processors

Figure 3-2.

Here, we see that organizations all have a reasonable degree of transaction tracking, regardless of their level of automation. As a group, the results were fairly consistently 2:1, yes to no.

However, what about the ability to track approver activity in departments outside of AP? After all, most invoices must pass through other hands before payment and AP has somewhat limited control over their activity.

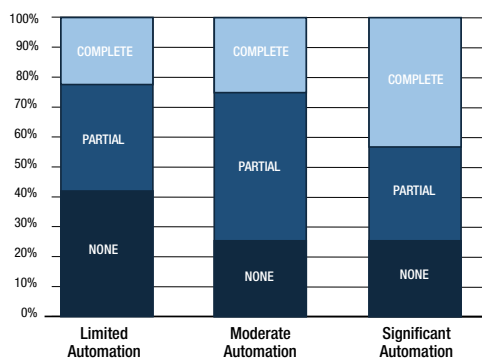## Organization's Ability to View the Actions of Non-AP Approvers

Figure 3-3.

Here again, we see those organizations with the greatest degree of automation also have the best insight into what other departments are doing when it comes to invoice approvals—or not doing, as the case may be.

Finally, AP organizations often need to quickly modify established business within their payables process to accommodate staffing changes or new process rules and policies. For example, an extra approver may need added for invoices over a certain dollar amount or an assigned approver simply needs to be changed because the previous employee left the company. In any case, the ability to quickly adapt and modify process for changes varies based on the degree or manual or automated processing.

How Difficult Is It to Configure or Modify AP Business Rules? (e.g., add or remove approvers)
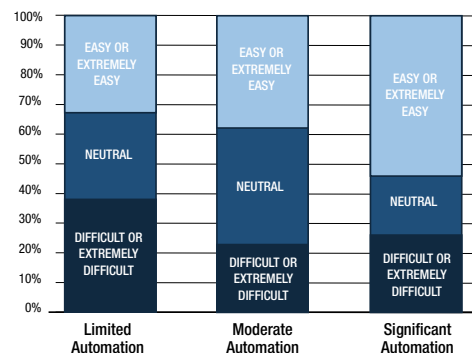

Figure 3-4.

Here, it's apparent that those with more automation find it much easier to amend which approvers are required to authorize invoice payments. In fact, the more automation an organization has, the easier this process becomes.

When it comes to compliance, your organization simply can't afford to take a hands-off approach. Non-compliance can cost big money and can potentially put an organization out of business. Therefore, AP must be empowered to monitor compliance activities, employee performance and workflow irregularities.

Security

Fundamental to any organization's security is its ability to control who has AP permissions. Failure to secure this is an invitation to fraud.

We asked respondents how much control their organizations have over who has access to AP processes, documents and systems.

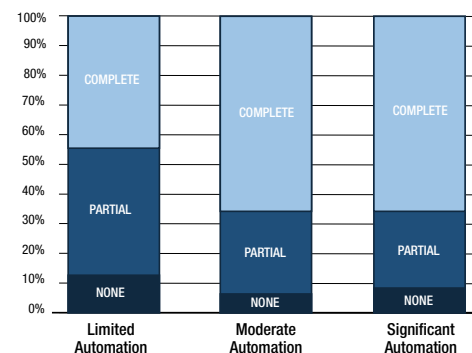## Organization's Ability to Control Access to AP Processes, Documents and Systems

Figure 3-5.

Fewer than half of survey participants whose organizations employ limited automation had complete control of these key factors. In more than 10 percent of cases, they had no control whatsoever.

On the other hand, those with moderate and significant automation were fairly evenly matched. More than 60 percent of respondents reported they had complete control of these processes, with fewer than 10 percent reporting having no control.

Lack of process control can cost an organization dearly.

It's worth considering: Even if an organization processes only 50,000 invoices a year, having no ability to control access to AP security makes it extremely difficult to monitor and detect expensive errors and fraud. When that number of invoices jumps into the millions, as many of our respondents reported, that lack of oversight can significantly erode profits, with the possibility of even putting an organization out of business over time.

TAKEAWAY: Powering Up AP Is Critical to Better Financial Insight

Accounts Payable can offer a window into an organization's financial health and liabilities, but it's a two-part challenge.

First, AP must be acknowledged for how much it can offer in terms of business intelligence, including operations, working capital. and compliance and security. The sooner upper management understands the potential power of the data AP is entrusted with and its potential financial benefits, the better off the organization will be.

The second part of this equation involves providing AP with the necessary tools to be able to leverage those metrics and step into its power.

AP needs to be empowered to reach its potential.

It's clear that automation solutions can offer essential insight into these key financial issues. Those organizations who identify themselves as having "significant automation" consistently report greater visibility overall into their operations, better control of quality and process—and of the company's cash.

It's also worth mentioning, however, that possessing significant automation does not in and of itself guarantee enlightenment. Some survey participants reported that, despite being highly automated, they had very little control of accounts payable data, compliance or processes, and minimal insight into their own operations.

What this tells us is that not all automation is created equal. The software solution, its configuration, the organization's understanding and utilization of its features—all these things factor in to how much insight it will provide.

AP can be your secret weapon for organizational financial health, but only if it is empowered to do so. A fundamental key to that power is an automation solution tailored to address the needs of the business, not just at a clerical, transactional level, but at a high-level, strategic one as well. If your organization is ready to make the leap toward enhanced financial transparency, call Hyland for a consultation.

About Hyland

Hyland is a leading content services provider that helps organizations across the globe manage information, simplify processes, and connect systems. Our expertly tailored solutions for accounts payable intelligently automate manual tasks and approval workflows, while providing a complete view of the right information where and when it's needed. With intelligent data capture, workflow automation, and seamless integration with ERP and financial management systems, Hyland solutions help account payable teams improve visibility, gain control, and increase efficiency across each stage of invoice processing.

Learn more at hyland.com/AP

About the Institute of Finance & Management

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.

Learn more at **www.IOFM.com**

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