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A Checklist for Developing a Future-Proof AP Organization

by The Hackett Group

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A Checklist for Developing a Future-Proof AP Organization

By Patrick Connaughton and Amy Fong

Executive Summary

Transforming the accounts payable process delivers indisputable value in the form of reduced transaction costs, traceability and increased control over payment timing. Data from The Hackett Group's most recent Purchase-to-Pay Performance Study shows that organizations with high levels of AP automation save 43% on invoice processing costs and use one-third as many internal employees. However, top-performing organizations don't focus solely on process automation. Rather, they take a multifaceted approach – one that includes supplier visibility, self-service, centralized invoice receipt, digitized information, optimized internal resources, and a carefully balance between processes managed in-house and those that are outsourced.

Introduction

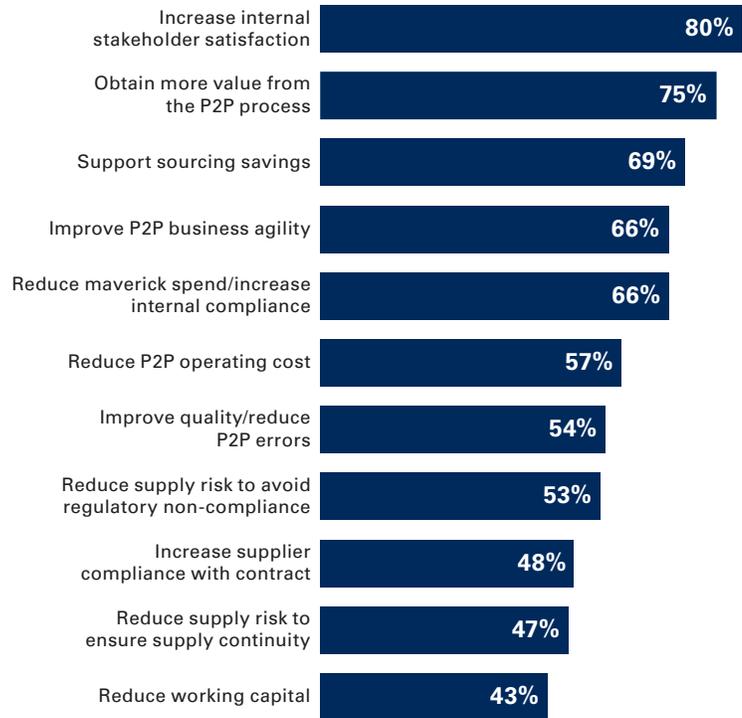
When evaluating the case for accounts payable improvement, companies should assess the potential value beyond basic productivity and cost savings. Top-performing AP organizations focus on effectiveness objectives such as increasing stakeholder satisfaction, supporting sourcing savings, improving agility and better managing working capital (Fig. 1).

Despite the clear benefits of optimizing the AP process, many companies still have costly manual processes, longer cycle times and poor control over working capital. The most common barriers to transformation are end-user resistance to change and, within the AP function, a lack of resources and IT budget. Some have difficulty making the business case for transformation in the absence of extremely high transaction volumes.

To address each of these areas, The Hackett Group organizes its transformation discussions using a service delivery model framework which includes capabilities in human capital, service partnering, organizational design, governance, technology, service design and analytics/information management. We will explore each of these areas in this report.

FIG. 1 Top objectives of purchase-to-pay organizations in 2017

Percentage of respondents who consider objective to be of "critical" or "major" importance



Source: Purchase-to-Pay Key Issues Study, The Hackett Group, 2017

Information and Analytics Capabilities

Information comes in many forms, including data standards, report design, scorecards, KPIs, master data elements and repositories of unstructured information. Analytics comprises building predictive models and investing in a big data strategy. Top-performing AP organizations work cross-functionally to develop these characteristics:

- Supplier master data standards are in place, used extensively and periodically refreshed. This results in significantly lower supplier master data setup costs (Fig. 2). Formal accountability for master data changes is centralized and controlled. Supplier onboarding processes use technology to balance data collection for risk mitigation with efficiency.
- Global/enterprise-wide supplier payment terms exist, including early payment discounts. The length of supplier payment terms is consistent with leaders in most industries and applied based on thorough supply base segmentation.
- Policies and procedures are clearly documented and communicated. Compliance with policy is high due to policy ownership, enforcement and electronic monitoring. Metrics are managed from an end-to-end point of view with accountability assigned.

FIG. 2 Supplier management process cost per supplier master update



- Supplier master management: Labor cost + outsourcing cost
 - Quartiles are calculated based on the specific metric.

Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

\$5.20

Top-quartile process cost per supplier master update.

Enabling Technology Capabilities

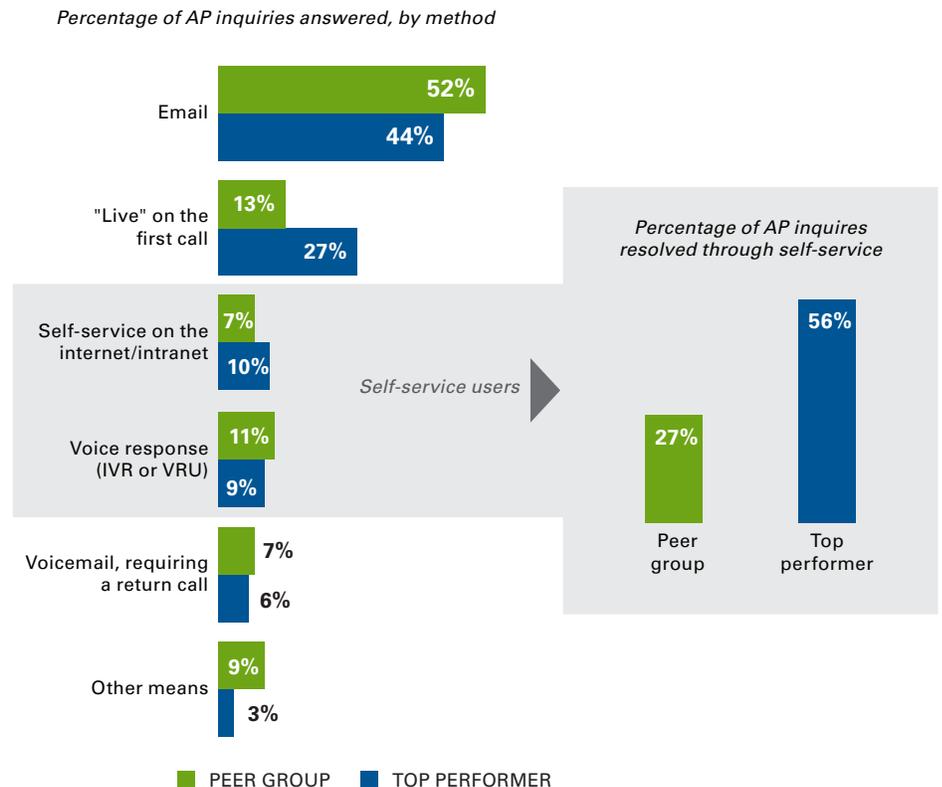
Enabling technology includes the creation of technology platforms required to support service delivery. Characteristics of AP top performers include:

- Invoice receipt is automated to the fullest extent possible. A combination of supplier networks, direct supplier submission to a portal, and EDI is used, based on supplier relationships and transaction volume. Data capture fills gaps where electronic supplier connectivity is not possible.
- Workflow for invoice routing, approvals and matching is electronic and automated, including routing for non-PO invoices to appropriate approvers.
- Suppliers and internal stakeholders access a secure online portal as their primary means to review payment status, submit supplier master change requests, view orders, view performance and review inventory/supply status (Fig. 3). A single, online portal for employees to perform all purchasing and AP functionality (e.g., complete requisitions, approve requisitions, check status, approve payments) is used.

FIG. 3 Self-service technology

56%

Percentage of inquiries resolved without AP intervention at top performers with an online portal or voice recognition.



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

- Supplier master information is submitted through an online portal with workflow routing for approval. Third-party data validation and enrichment providers are included in the workflow, as appropriate. Upon approval, information is automatically updated into the supplier master file. Field-level control and workflow are in place for designated data owners/approvers and data-entry staff.

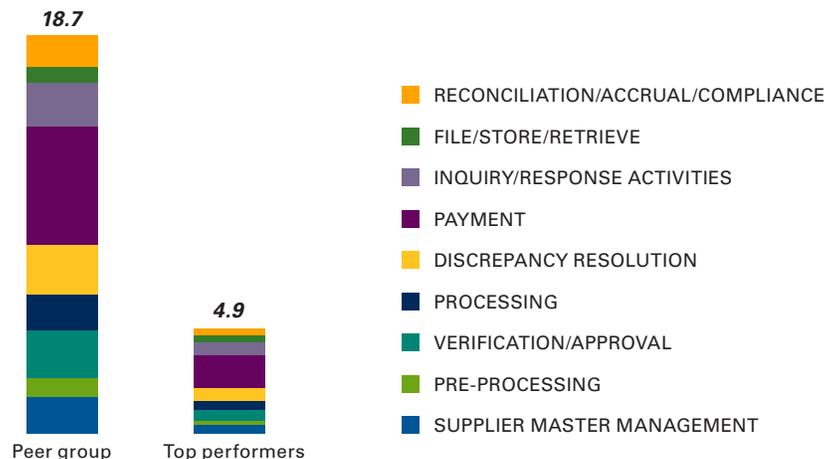
At top performers, internal FTEs are focused on high-value analysis and customer-facing activities.

Human Capital Capabilities

Human capital includes formal training and skills-development opportunities as well as recruiting and retention programs. Characteristics of AP top performers include:

- Training is done on a formal basis with emphasis on improving day-to-day tasks as well as expanding the role of resources to support higher-value activity. Resources receive end-to-end process training.
- Skill levels among AP staff are consistently high and support delivery on tactical and higher-value process activity. There is a high level of skills to support the end-to-end process.
- Automation and outsourcing replace routine roles; internal FTEs are focused on high-value analysis and customer-facing activities such as discrepancy resolution and inquiry response. As a result, top performers require less than one-third the number of internal FTEs as the peer group (Fig. 4).

FIG. 4 Internal AP FTEs per \$ billion in spend



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

Organization and Governance Capabilities

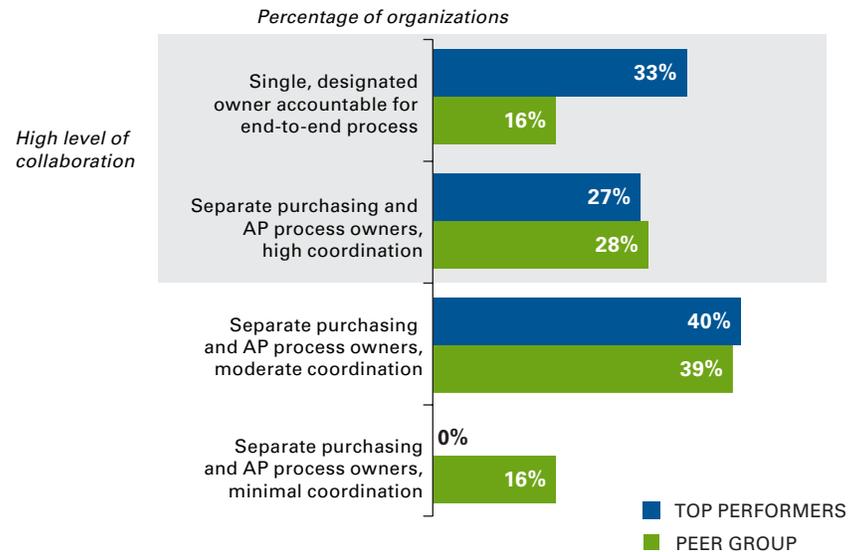
Organization and governance capabilities include how decisions are made with respect to organizational entities, structure and reporting lines. Top-performing AP organizations collaborate across the source-to-pay process, including:

- Full standardization of policies and procedures on a global basis, with localization where justified by local requirements. Policies and procedures are clearly documented and communicated. Compliance with policy is high due to policy ownership, enforcement and electronic monitoring.
- RACI models support the process down to an activity level with clear accountability and definition of roles. The RACI model is shared and well understood by stakeholders.
- Streamlined purchasing and approvals policy minimize checkpoints and push reviews to the lowest level of fiscal responsibility.
- A high level of collaboration and joint or single accountability for the purchase-to-pay process exist at the enterprise level, with ownership defined for process improvement, KPIs and strategy across the purchase-to-pay process. The process is very closely aligned with the strategic objectives of both procurement and finance. Process accountability is aligned with the function that would benefit most (Fig. 5).

60%

Percentage of top-performing AP organizations with a high level of end-to-end process alignment.

FIG. 5 Degree of end-to-end process alignment in purchase-to-pay



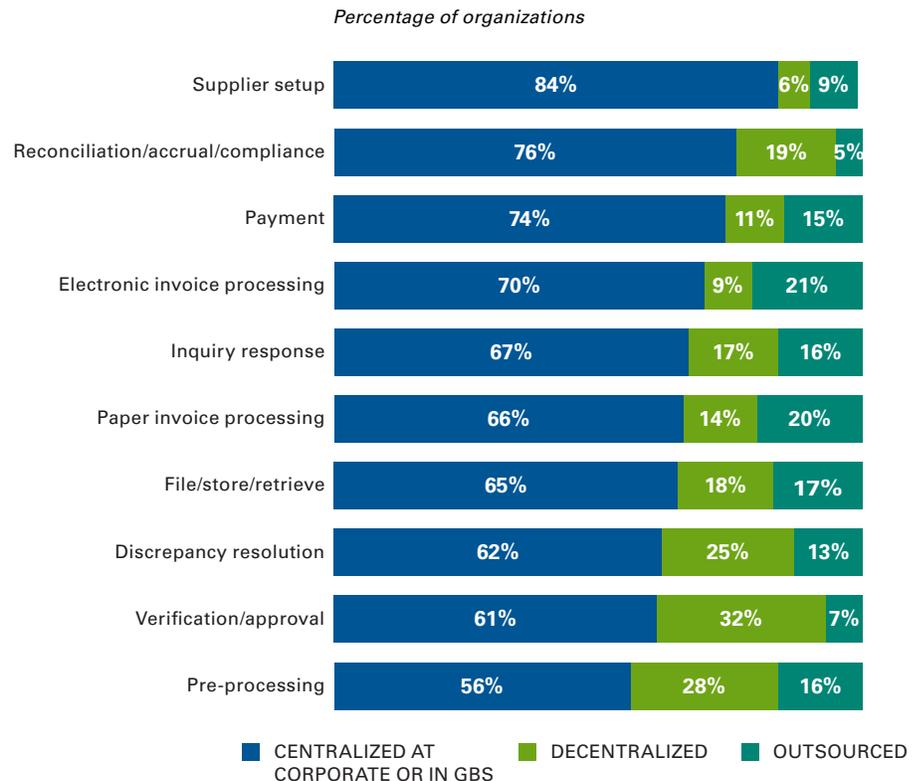
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

Service Partnering Capabilities

Service partnering includes optimizing the mix of in-house versus outsourced work and onshore versus offshore resources. Characteristics of AP top performers include:

- Outsourcing options have been evaluated for single activities and broader process opportunities.
- Supplier onboarding is highly automated, with process management done internally. Any remaining data management activity is considered for outsourcing to a third party.
- AP activities have been reviewed, transformed and appropriately outsourced and/or offshored based on a deliberate, systematic service partnering methodology (Fig. 6).

FIG. 6 AP service placement models



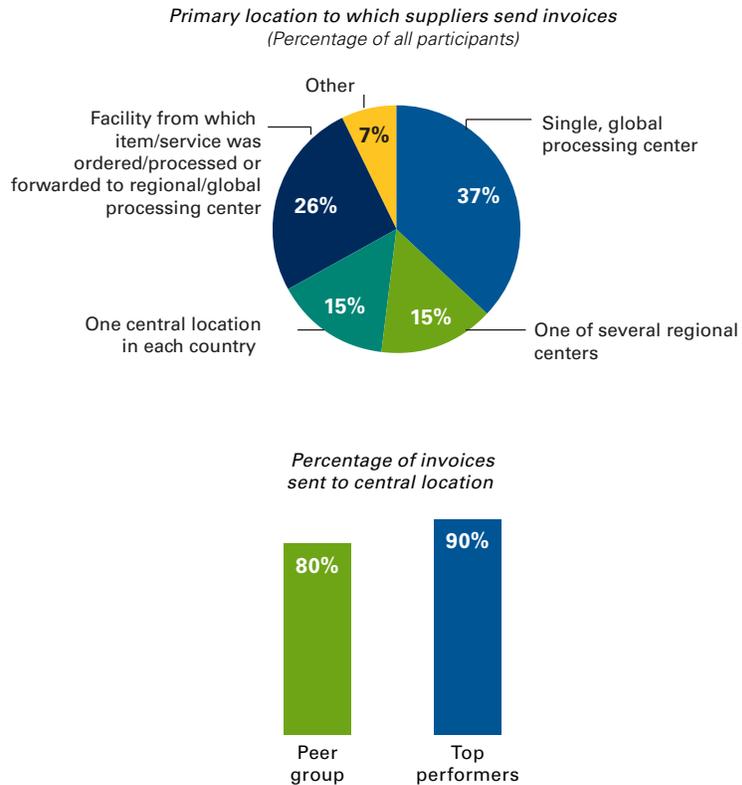
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

Service Design Capabilities

Service design refers to specification of locations where activities and processes are handled. It also includes the creation of standards and exception-handling rules plus definitions of functional roles, responsibilities and performance objectives. Characteristics of AP top performers:

- AP activities are highly automated with common global processes. For example, activities like invoice receipt have been moved to centralized resource pools best suited to meet efficiency and effectiveness objectives (Fig. 7).

FIG. 7 Process centralization



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2015

Top performers have a formalized, end-to-end channel strategy with most spend covered by contract or PO.

- A high level of coordination and standardization of supplier payment policies exists between procurement, treasury and the AP department. There is emphasis on working capital, early payment discounts, process efficiency and supplier risk/supply chain financing. Accountability for payment strategy is clearly defined.
- Invoice approval requirements have been defined based on a strategy to balance control of risk with process efficiency. Automated three-way matching is required for highly controlled and risky categories. Use of assumed receipt, evaluated receipt settlement and automation of recurring payments for appropriate categories. Payment approval requirements translate into upstream purchasing channel requirements that define requisitioning requirements.
- Purchasing cards are fully leveraged as a primary end-to-end channel strategy with significant penetration in ad hoc, low-dollar transactions. Purchasing cards are also leveraged as a payment tool to a high degree for specific categories of spend (e.g., e-catalogs). Card policy is clearly written and communicated across the organization. Audits done based on defined criteria. Category blocking and spend limit strategies in place based on usage patterns of cardholders.

A Checklist for Getting Started

The business case for AP improvement is different for each company, based on available resources, technology landscape and realistically achievable levels of automation given the organization's current capabilities. Maturing as an AP organization requires addressing every aspect of the service delivery model. The Hackett Group recommends using the checklist in Fig. 8 (a summary of the points made in this report) as a starting point.

FIG. 8 Digital service delivery model: AP capability development checklist



Source: The Hackett Group

Related Hackett Group Research

[Three Characteristics of Top-Performing Purchase-to-Pay Organizations \(June 2016\)](#)

[Onboarding Suppliers to an E-Invoicing Solution \(June 2015\)](#)

[Five Myths Stifling Adoption of Supplier Self-Service Tools for Invoice Automation \(April 2015\)](#)

About the Advisors

Patrick Connaughton

Senior Research Director



Mr. Connaughton leads the development of The Hackett Group's intellectual property in the areas of strategic sourcing and procurement. He has over 15 years of experience in supply chain and procurement research and advisory roles. He has published groundbreaking research in areas like spend analysis, contract life cycle management, supplier risk assessments and services procurement. Prior to joining the company, he was principal analyst at Forrester Research, where he focused primarily on helping executives mitigate risk through more effective supplier relationship management. Previously, Mr. Connaughton was a consulting manager at Manhattan Associates and Accenture.

Amy Fong

Associate Principal, Procurement Advisory Program, and Program Leader, Purchase-to-Pay Advisory Program



Ms. Fong has 20 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She helps business leaders improve source-to-pay processes, manage complex supply chain partnerships and mature their organization's service delivery model. She also performs primary research in source-to-pay and operations and is the author of a number of publications on these and other topics.

The Hackett Group (NASDAQ: HCKT) is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices implementation firm to global companies. Services include business transformation, enterprise performance management, working capital management, and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement and information technology, including its award-winning Oracle EPM and SAP practices.

The Hackett Group has completed more than 13,000 benchmarking studies with major corporations and government agencies, including 93% of the Dow Jones Industrials, 87% of the Fortune 100, 87% of the DAX 30 and 58% of the FTSE 100. These studies drive its Best Practice Intelligence Center™, which includes the firm's benchmarking metrics, best practices repository, and best practice configuration guides and process flows. It is this intellectual capital that enables The Hackett Group's clients and partners to achieve world-class performance.



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