

# Accounts Payable Optimization Study

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# Accounts Payable Optimization Study

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## About IOFM

The Institute of Finance & Management (IOFM) is the leading source of information, tools and resources for finance professionals across our focus areas. For more than a quarter of a century, our newsletters, reference publications, online information services and conferences and events have provided authoritative guidance to corporate managers across a wide range of disciplines.

## About Canon Business Process Services

Canon Business Process Services, a wholly owned subsidiary of Canon U.S.A., offers managed services and technology for information and document management, business process outsourcing and specialty workforce services. We help clients improve operational performance while reducing cost and risk. Canon Business Process Services has been named a Global Outsourcing 100 Leader by IAOP for the past eleven years and recognized in the Gartner Magic Quadrant for Managed Print and Content Services for five consecutive years. We have also been acknowledged by CIOReview magazine as a "20 Most Promising Legal Technology Solution Provider." Learn more at [cbps.canon.com](http://cbps.canon.com) and follow us on Twitter @CanonBPO.

## Executive Summary

Paper invoice processing takes too long, burdens staff with physical document routing, and results in lost or misplaced invoices, payment errors and late payments. Yet the majority of accounts payable (AP) departments remain overrun by paper. Despite the promise (and hype) of electronic invoicing, adoption among suppliers remains disappointing, and companies don't expect it to increase significantly any time soon. Similarly, most companies are not using technology to automatically extract data from invoices to eliminate keying.

It's against this backdrop that finance leaders must find ways to achieve their top objective of paying invoices to terms, while making it easier to route invoices for approvals and exceptions handling.

The objective of this survey was to learn how AP departments were doing in eliminating inefficient paper processes from their operations (not well, as you will read), determine their biggest challenges in processing invoices (not surprisingly, paper handling tops the list), understand AP's priorities and key drivers (automating routing to ensure invoices are paid to terms), and discover what AP sees as potential

obstacles (financial and labor resources). The results further demonstrate the solid grip that paper has on invoice processing. For instance, while electronic payments continue to make major inroads in AP, electronic invoicing remains limited, and a cynic would point out that much of today's electronic invoicing still requires manual intervention. On the bright side, organizations recognize the challenges and are taking steps to convert paper to more easily managed digital images. And outsourced services offer AP departments a way to automate invoice processing, without incurring the significant capital expense, ongoing maintenance cost, and IT burden of on premise systems.

### **Key survey findings:**

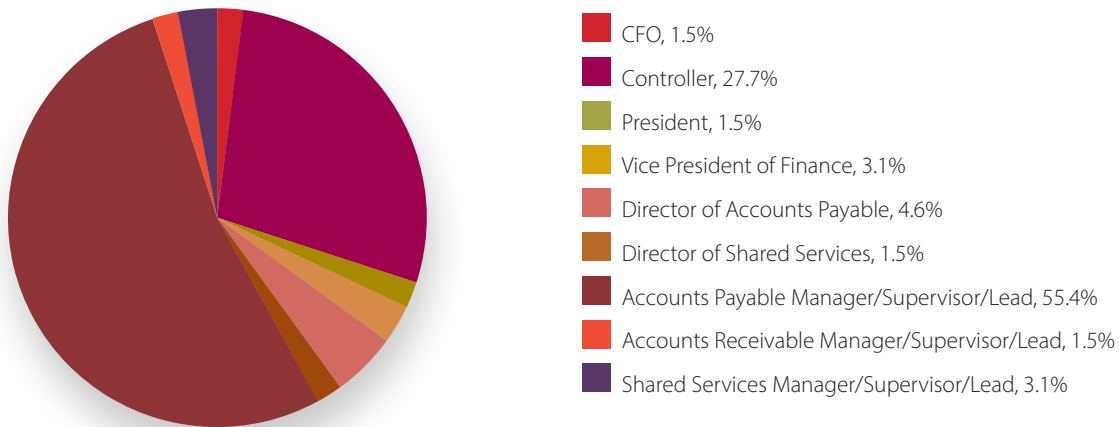
- Most organizations still manually handle the majority of their invoices
- Invoice approval routing, mail receipt, invoice data entry and invoice matching are the activities inflicting the greatest pain on AP departments
- The processing of disbursements, telephone bills and courier or freight bills are the most commonly outsourced AP activities
- Electronic payments is the most widely adopted AP automation strategy
- AP has made inroads into leveraging the financial shared services model
- Automating approval and exceptions workflows is the top AP priority of companies
- The percentage of invoices paid on time is the most important metric to AP departments
- Companies expect the number of paper invoices they receive to decline
- The majority of suppliers still don't use electronic invoicing
- E-mail attachments comprise the bulk of today's electronic invoicing
- Most companies don't expect suppliers to quickly adopt electronic invoicing
- Few invoices are processed "straight-through," without manual intervention
- Companies are most interested in outsourcing invoice imaging and indexing
- Adoption of automated data extraction technology is low
- Too many competing projects is the biggest obstacle to achieving AP priorities
- Dynamic discounting ranks among the lowest priorities for AP departments

While AP departments have made strides in migrating from inefficient paper processes (particularly when it comes to the adoption of document imaging and electronic payments), they have a long way to go to eliminating paper and the manual keying and physical paper routing associated with it.

### Survey Methodology

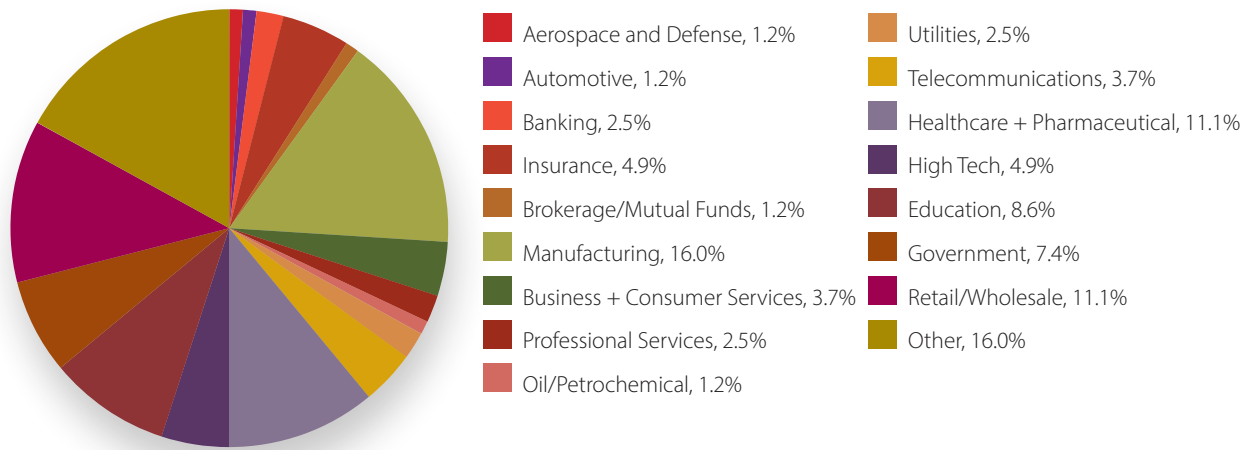
The online survey was presented to several thousand finance professionals during the summer of 2014. The survey was 22 questions, including some that could be answered instantly with a single mouse click and others that were more complex (and likely required the respondents to retrieve some information). Survey respondents were given several weeks to complete the survey. Some 101 finance professionals completed the survey, and 57 respondents answered every question.

### 1. Which of the following best describes your job function?



The majority of survey respondents (55.4 percent) identified themselves as an accounts payable manager, supervisor or lead. Approximately one-quarter of the survey respondents (27.7 percent) identified themselves as a controller, while 4.6 percent of survey respondents said accounts payable director best described their job function. Other job functions represented by respondents included shared services supervisor, manager or lead (cited by 3.1 percent of respondents), vice president of finance (3.1 percent), chief financial officer (1.5 percent), president (1.5 percent), director of shared services (1.5 percent) and accounts receivable manager, supervisor or lead (1.5 percent). Some 27.7 percent of survey respondents stated that their job function fell outside of the options provided; most of these respondents described their job function as an accounts payable specialist or an auditor.

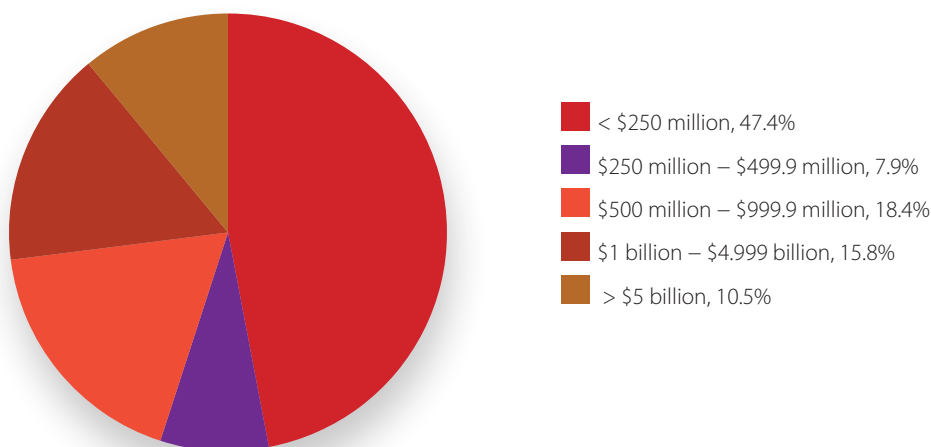
## 2. Which industry is your company in?



Manufacturing was the most prevalent industry represented by survey respondents. Sixteen percent of survey respondents said their company was a manufacturer. Some 11.1 percent of respondents were from retail/wholesale or healthcare/pharmaceutical companies. Education was represented by 8.6 percent of survey respondents, while 7.4 percent of respondents said they worked for an insurance or technology company. Other industries represented by survey respondents included telecommunications (cited by 3.7 percent of survey respondents), business and consumer services (3.7 percent), banking (2.5 percent), utilities (2.5 percent), and professional services (2.5 percent).

Sixteen percent of survey respondents indicated that their company did not fit any of the industries provided in the questionnaire. Among the industries cited by these respondents were logistics, real estate, transportation, engineering/construction, non-profit, brokerage, and quick service food.

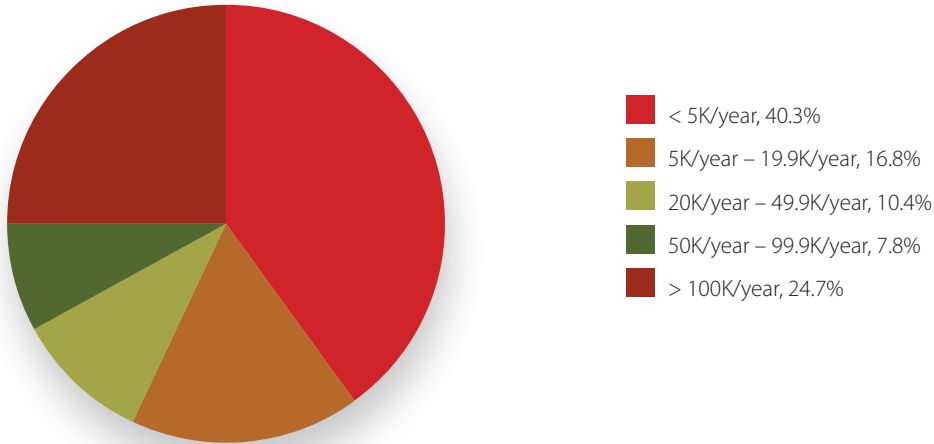
## 3. What is your organization's annual revenue?



Small and mid-sized businesses represented a majority of the survey respondents. Nearly half of the survey respondents (47.4 percent) indicated that their company had less than \$250 million in annual revenues.

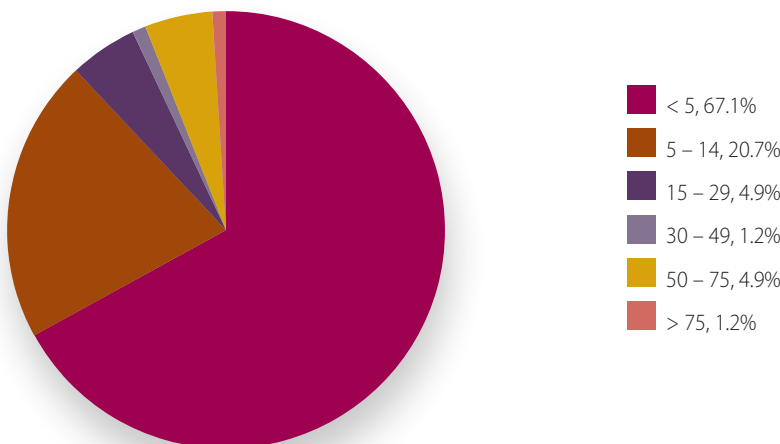
Conversely, 10.5 percent of survey respondents represented companies with more than \$5 billion in annual revenues, while 15.8 percent of respondents were from companies with between \$1 billion and \$4.999 billion in annual revenues and 18.4 percent of survey respondents were from companies with between \$500 million and \$999.9 million in annual revenues. Some 7.9 percent of respondents were from companies with between \$250 million and \$499.9 million in annual revenues.

**4. What is your annual invoice volume?**



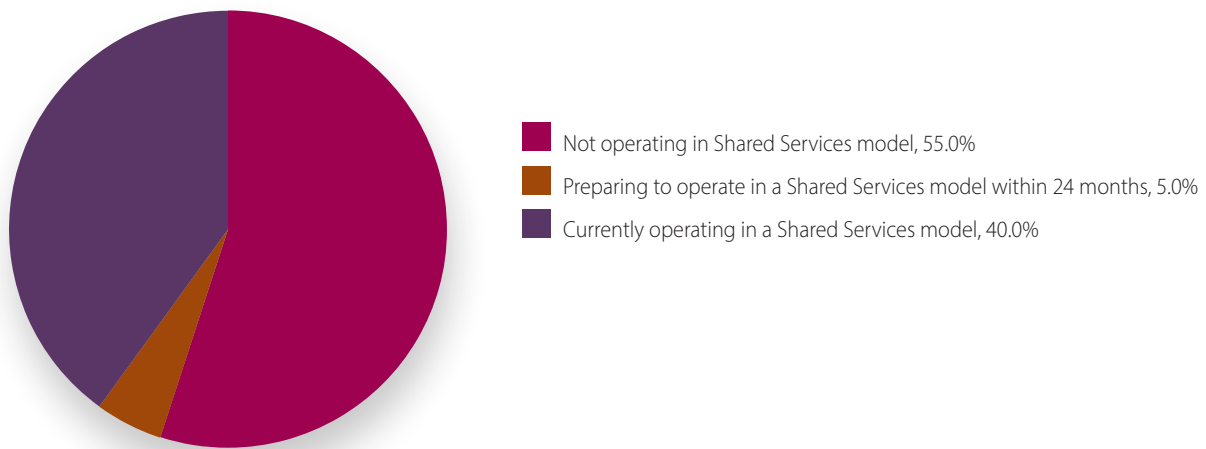
With such a large percentage of respondents from small and mid-sized businesses, it is no surprise that nearly half of the respondents (40.3 percent) indicated that their company processes less than 5,000 invoices per year. Conversely, one-quarter of the survey respondents (24.7 percent) stated that their company processes more than 100,000 invoices per year and 7.8 percent of survey respondents indicated that their company processes between 50,000 invoices per year and 99,900 invoices per year. Some 16.8 percent of survey respondents indicated that their company processes between 5,000 invoices per year and 19,900 invoices per year, while 10.4 percent of survey respondents stated that their company processes between 20,000 invoices per year and 49,900 invoices per year.

**5. How many people are employed in your organization to process invoices?**



It typically doesn't take many people to process low invoice volumes, even in the most inefficient shops. So with small and mid-sized companies representing a majority of the survey respondents, it was no surprise that approximately two-thirds of all survey respondents (67.1 percent) employ less than five people to process invoices. One-fifth of the survey respondents (20.7 percent) indicated that their organization employs between five and 14 people to process invoices, while 4.9 percent of survey respondents employ between 15 and 29 people to process invoices. Only 7.3 percent of survey respondents stated that their organization employs more than 29 people to process invoices.

## 6. Is your AP organization currently operating in a shared services model?



The financial shared services model has made significant inroads in AP.

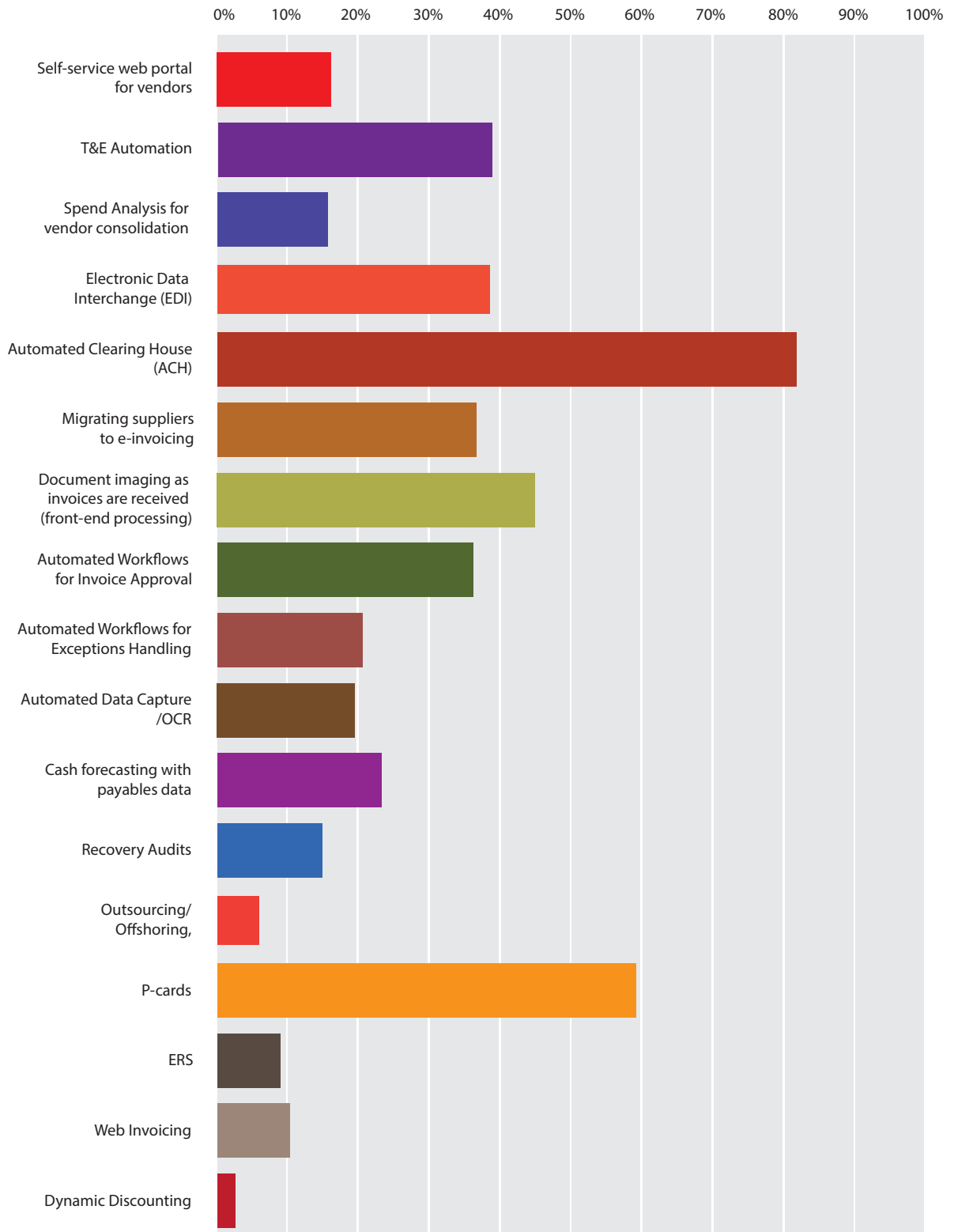
Unlike outsourcing, where functions that were previously performed internally are handed over to an external party, a financial shared services model establishes a centralized internal entity to process work. A financial shared services organization becomes a supplier to the enterprise, and may charge a fee for its services. In all cases, a financial shared services organization will standardize processes and consolidate systems so that functions become more efficient, more predictable and less costly. Shared Services Link finds that businesses employing a financial shared services model reduce their costs an average of 50 percent, with some businesses reporting cost reductions of up to 70 percent.

Forty percent of survey respondents currently operate in a shared services environment. An additional five percent of survey respondents are preparing to operate in a shared services model.

While the shared services model is clearly gaining momentum among AP organizations, 55 percent of survey respondents are not operating in a shared services model, and are not preparing to do so.



## 7. Which of the following strategies does your organization currently use?



While the industry trade publications focus significant attention on automated invoice processing, electronic payments is the most widely adopted automation strategy among survey respondents.

An eye-popping 82.1 percent of survey respondents currently generate or receive electronic payments via the Automated Clearing House (ACH) Network. The strong adoption of ACH payments is likely the result of increasingly affordable and easy-to-deploy services offered by a growing number of financial institutions. Additionally, 59 percent of survey respondents currently make purchases via p-cards, and 39.7 percent of survey respondents currently use electronic data interchange (EDI).

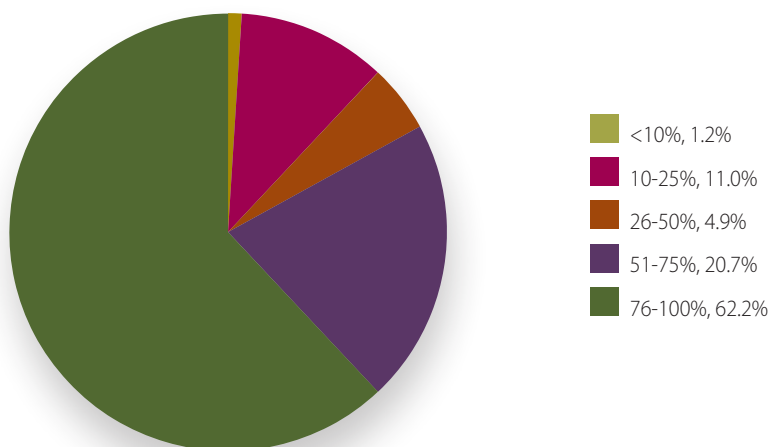
Beyond electronic payments, front-end document imaging (converting paper invoices to images as they are received) is the most common automation strategy employed by AP organizations. Nearly half of the respondents (44.9 percent) use front-end document imaging. Front-end document imaging is a well-established technology with a compelling return on investment for organizations of all sizes. Interestingly, less than half of the organizations that currently use front-end document imaging (19.2 percent) are automatically extracting data from invoices using optical character recognition (OCR).

Some 39.7 percent of survey respondents have automated travel and entertainment (T&E) expense management, while 37.2 percent of survey respondents currently use automated workflows for invoice approval, and 37.2 percent of respondents are migrating suppliers to electronic invoicing.

Nearly one-quarter of respondents (23.1 percent) use payables information for cash forecasting, One-fifth of survey respondents (20.5 percent) use automated workflows for exceptions resolution.

In spite of the hype around dynamic discounting, only 2.6 percent of survey respondents currently use the technology, making it the least adopted automation strategy among survey respondents.

**8. What percentage of your annual invoice volume is in the form of paper documents, fax documents, or e-mail attachments that require manual handling?**



Despite the growth of document imaging and electronic invoicing, most organizations still manually handle the vast majority of their invoices, including those that arrive via e-mail and fax. The high level of manual intervention can be attributed to low adoption of automated data capture, and the even lower adoption of the technology to extract data from fax documents and e-mail attachments.

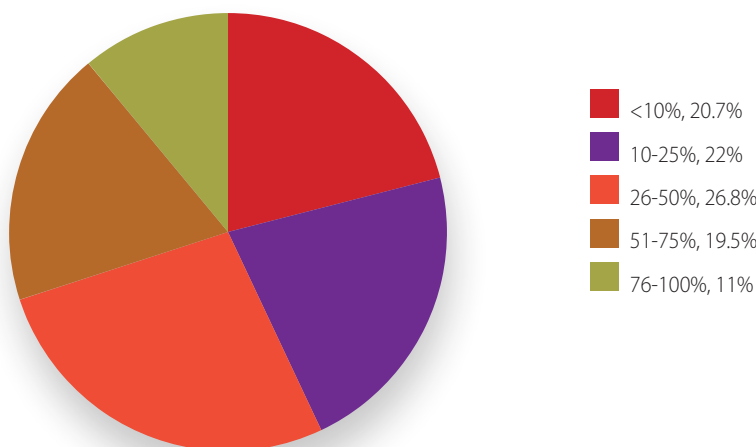
Automated data capture technology enables organizations to reduce the level of manual handling required for paper and fax documents and e-mail attachments. The technology automatically classifies documents, faxes or e-mail attachments, extracts and validates relevant information, delivers the information to downstream financial systems, and archives the images. This approach improves processing efficiency, reduces costs, improves data accuracy, and speeds turnaround.

Nearly two-thirds of respondents (62.2 percent) said their organization manually handles more than 75 percent of invoices that arrive as paper documents, fax documents or e-mail attachments. Another 20.7 percent of respondents reported that their organization manually handles between 50 percent and 75 percent of invoices that arrive as paper documents, fax documents or e-mail attachments.

On the bright side, 17.1 percent of survey respondents indicated that their organization manually handles less than 51 percent of invoices that arrive as paper documents, fax documents or e-mail attachments. Some 4.9 percent of respondents stated that their organization manually handles between 26 percent and 50 percent of invoices that arrive as paper documents, fax documents or e-mail attachments, while 11 percent of respondents indicated that their organization manually handles between 10 percent and 25 percent of invoices that arrive as paper, fax or e-mail attachment.

Only 1.2 percent of survey respondents stated that their organization manually handles less than 10 percent of invoices that arrive as paper documents, fax documents, or e-mail attachments.

**9. Three years from now, what percentage of your annual invoice volume do you anticipate will arrive in the form of paper documents, e-mail attachments or fax documents?**



Survey respondents expect a significant decline over the next three years in the number of invoices they receive as paper documents, e-mail attachments or fax documents. A reduction in these labor-consuming

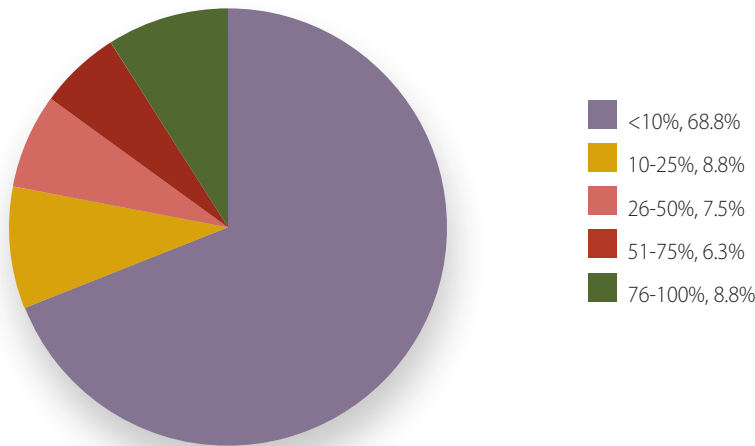
invoices will go a long way to improving the efficiency of invoice processing.

Seventy percent of survey respondents expect that less than 51 percent of the invoices they receive three years from now will arrive as paper documents, e-mail attachments or fax documents. Today, only 17.1 percent of survey respondents receive less than 51 percent of their invoices as paper documents, e-mail attachments or fax documents, contributing to invoice processing inefficiencies.

A plurality of survey respondents (26.8 percent) anticipate that between 26 percent and 50 percent of the invoices they receive three years from now will arrive as paper documents, e-mail attachments or fax documents. Twenty-two percent of survey respondents expect that between 10 percent and 25 percent of the invoices they receive three years will arrive as paper documents, e-mail attachments or fax documents, while a stout 20.7 percent of survey respondents anticipate that less than 10 percent of their invoices will arrive as paper documents, e-mail attachments or fax documents.

Some 30.5 percent of respondents expect to receive over half of their invoices as paper documents, e-mail attachments or fax documents three years from now; 82.7 percent of respondents currently receive over half of their invoices as paper documents, e-mail attachments or fax documents.

**10. What percentage of your suppliers currently submits invoices electronically so that no manual handling is needed to input them into your organization’s ERP system?**



The adoption of electronic invoicing among suppliers has a long way to go before it puts a major dent in the manual handling required to input invoices into the ERP system at most organizations.

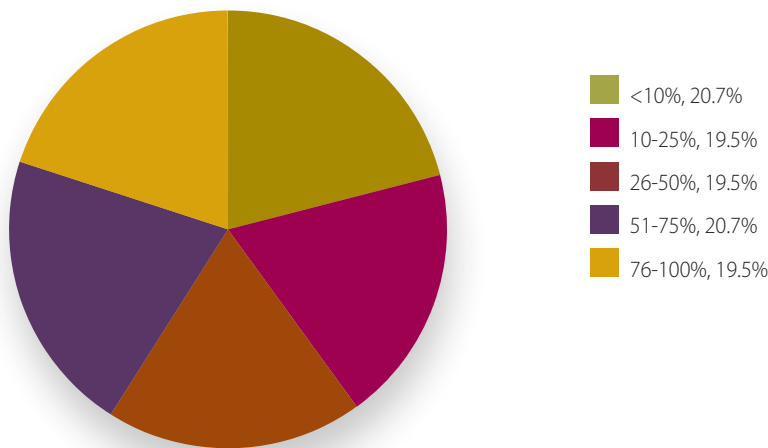
Electronic invoicing enables organizations to automatically post matched invoices, eliminating the need for operators to manually input invoice data into an organization’s ERP system. Similarly, electronic invoicing eliminates the risk of manual data entry errors. Best-in-class AP organizations automatically post more than 80 percent of their electronic invoices without human intervention (commonly referred to as “straight-through” processing), reports Stamford, CT-based Gartner.

However, 85.1 percent of our survey respondents admit that fewer than 51 percent of their suppliers submit invoices electronically so that no manual handling is required for input into an ERP system.

More than two-thirds of survey respondents (68.8 percent) indicated that less than 10 percent of their suppliers submit invoices electronically so that no manual handling is required for input into their organization’s ERP system. Some 8.8 percent of respondents indicated that between 10 percent and 25 percent of their suppliers submit invoices electronically so that no manual handling is required for input in an ERP system, while 7.5 percent of survey respondents stated that between 26 percent and 50 percent of their suppliers submit invoices electronically so that no manual handling is required.

Just 15.1 percent of survey respondents indicated that the majority of their suppliers submit invoices electronically so that no manual handling is required for input into the organization’s ERP system.

**11. Three years from now, what percentage of your suppliers do you anticipate will submit invoices electronically so that no manual handling is required to input them into your ERP system?**



Most companies don’t expect their suppliers to adopt electronic invoicing any time soon.

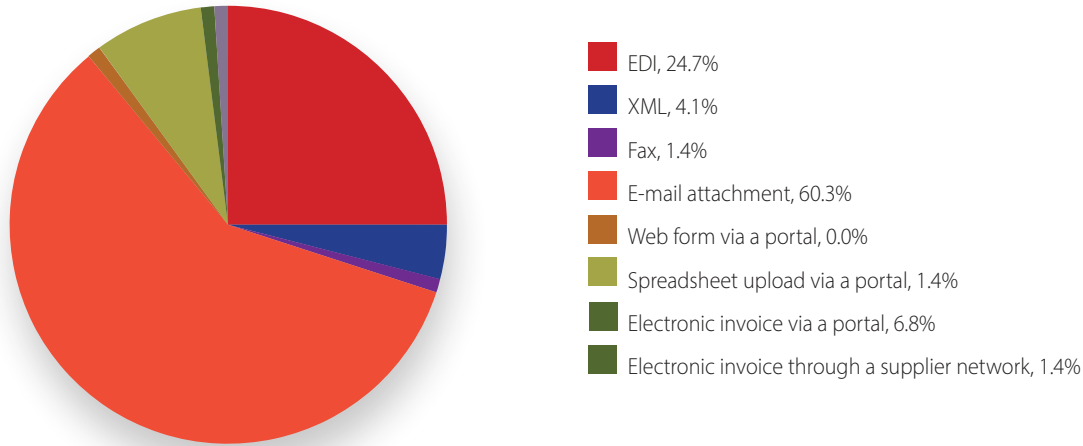
This raises the question of how survey respondents expect their paper invoice volumes to decline three years now (as they indicated in a previous question), without electronic invoicing growth. It’s hard to imagine a sudden upswing in EDI volumes, particularly among smaller survey respondents.

Nearly two-thirds of survey respondents (59.7 percent) expect that three years from now, most of their suppliers will still be submitting invoices that require manual handling for input into an ERP system. Discouragingly, a plurality of survey respondents (20.7 percent) expect that three years from now, less than 10 percent of their suppliers will be submitting electronic invoices that don’t require manual handling for input into the organization’s ERP system. Some 19.5 percent of survey respondents anticipate between 10 percent and 25 percent of their suppliers will submit electronic invoices three years from now that don’t require manual handling for input into an ERP system.

Buyers most frequently attribute the lack of electronic invoicing adoption among suppliers to the lack of technology on the part of suppliers and the lack of a compelling business case for suppliers.

Only 19.5 percent of survey respondents anticipate that three years from now between 76 percent and 100 percent of their suppliers will submit electronic invoices that don't require manual handling.

**12. In what format does your organization receive the majority of its electronic invoices?**



Even more disheartening than the low adoption of electronic invoicing among suppliers is the fact that e-mail attachments account for the majority of electronic invoices received by organizations.

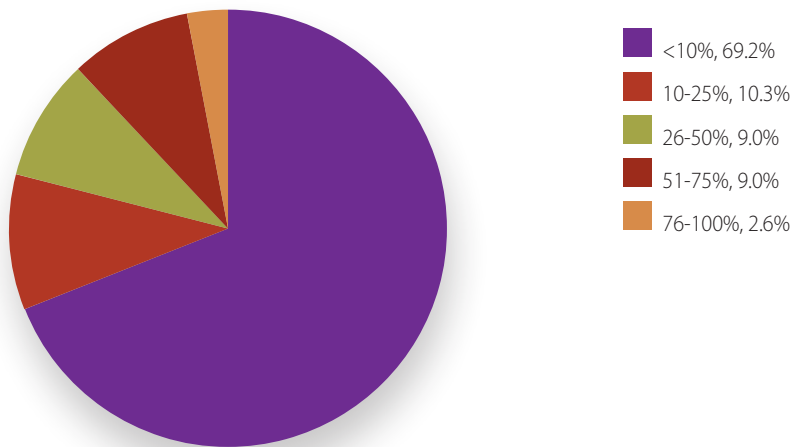
Since most companies lack the technology to automatically extract data from e-mail attachments, e-mail attachments may be the least efficient form of electronic invoicing for buyers. Many companies print invoices that arrive as e-mail attachments and manually input the data into an ERP system.

Nearly two-thirds of survey respondents (60.3 percent) indicated that their organization receives the majority of its electronic invoices as e-mail attachments. One-quarter of survey respondents (24.7 percent) stated that they receive the majority of their electronic invoices as EDI transactions.

Less than 10 percent of respondents indicated that their organization receives most of its invoices via a web portal (6.8 percent) or a supplier network (1.4 percent) – two methods that eliminate much of the manual handling required for paper invoices. Some 1.4 percent of respondents stated that their organization receives most of its electronic invoices as a spreadsheet upload to a web portal. None of the survey respondents receive the majority of their electronic invoices as a web form from a portal.

Few respondents indicated that their organization receives the majority of its electronic invoices via XML (identified by 4.1 percent of survey respondents) or as fax documents (1.4 percent).

### 13. What percentage of your total invoice volume is processed straight-through, without manual intervention?



Considering the meager percentage of invoices our survey respondents receive electronically via a web portal or a supplier network, it should come as no surprise that the overwhelming majority of respondents process very few of their invoices straight-through, without manual intervention.

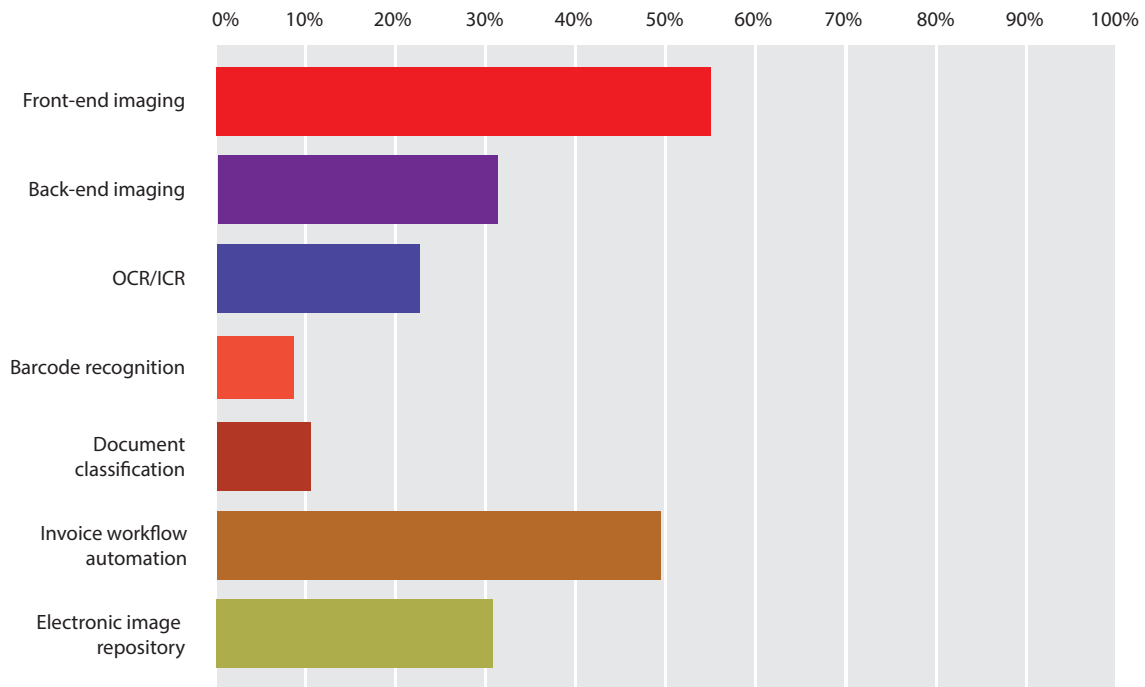
Unlike paper invoices, electronic invoices can be automatically matched with data in an ERP or other financial system, and posted electronically without manual intervention (“straight-through”).

An eye-popping 88.5 percent of respondents indicated that their organization processes less than 51 percent of its total invoice volume straight-through, without manual intervention. Worse, 69.2 percent of respondents stated that more than 90 percent of their invoices require manual intervention.

Some 10.3 percent of survey respondents indicated that their organization processes between 10 percent and 25 percent of its invoices straight-through, without manual intervention, while 9 percent of organizations process between 26 percent and 50 percent of their invoices straight-through.

On the bright side, 9 percent of respondents said their organization processes between 51 percent and 75 percent of its invoices straight-through, while 2.6 percent of respondents said their organization processes between 76 percent and 100 percent of its invoices without manual intervention.

**14. Which of the following technologies does your organization currently use to go from paper to digital invoice processing? Check all that apply.**



While document imaging and workflow technologies have gained a strong foothold in AP, the adoption of technologies for automatically extracting data from invoices is disappointingly slow – a surprise considering the time and expense associated with inputting invoice data into an ERP system.

The majority of survey respondents (54.4 percent) indicated that their organization uses front-end imaging to convert paper invoices to digital images as they are received. Converting paper invoices to digital images provides a range of benefits, including lower operational costs through reduced paper handling, improved document control, tracking and auditing, no more lost, misplaced or stolen invoices, faster invoice and information retrieval, and the elimination of physical paper storage.

An additional 31.6 percent of survey respondents use back-end imaging to convert paper invoices that have been approved for payment to digital images. Back-end imaging eliminates physical paper storage and speeds invoice and information retrieval to resolve supplier inquiries, as one example.

Half of the respondents (49.1 percent) use workflow technology for invoice approval and exceptions management. Workflow management technology enables organizations to define business rules for routing images to individuals, systems and/or processes based on existing policies or requirements for specific document types. Electronic invoice routing speeds approval and exceptions processes, facilitates document collaboration, improves document control, tracking and auditing, eliminates lost, misplaced or stolen invoices, and enables organizations to dynamically manage operator workloads.

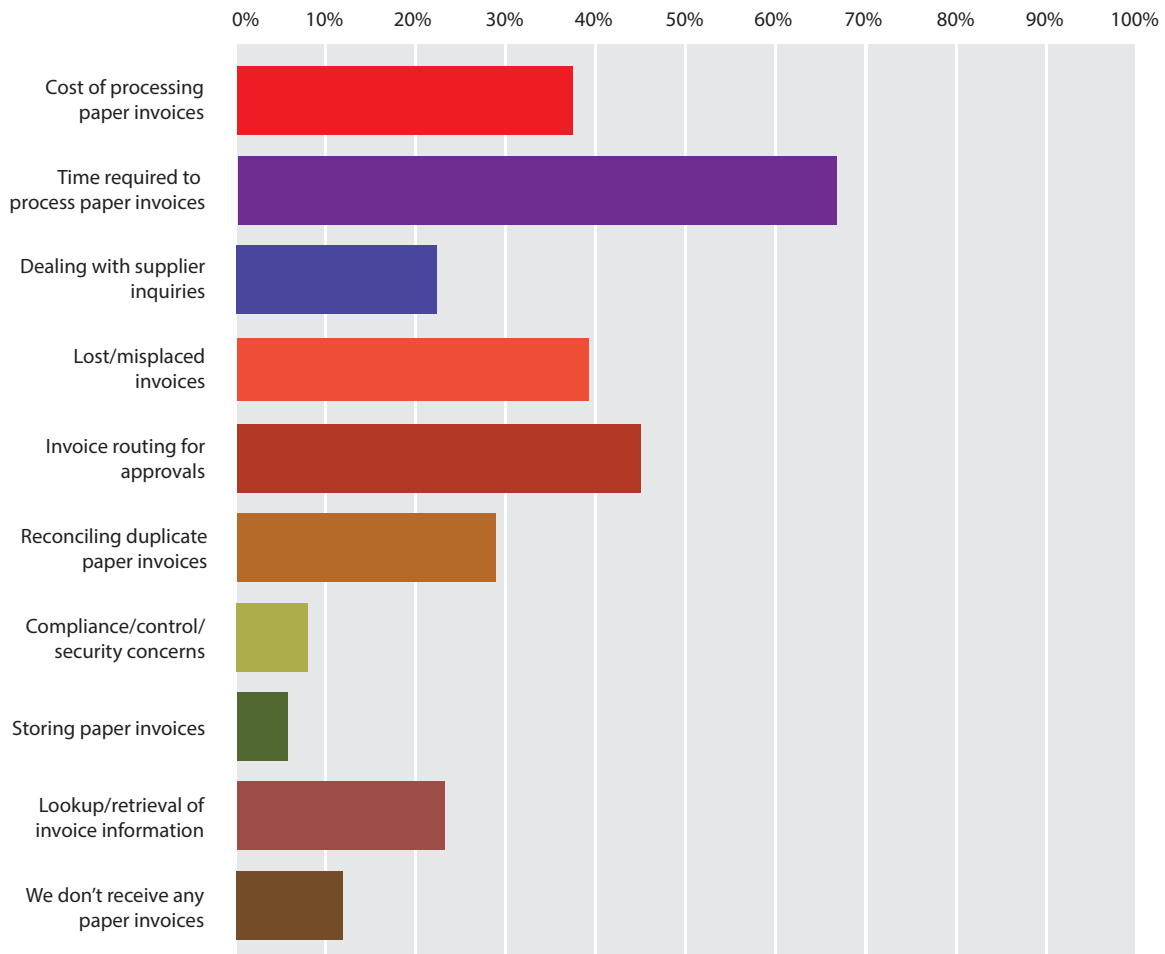
Some 31.6 percent of respondents use an electronic repository for storing images and information.



Although the majority of organizations are converting paper invoices to digital images, most still manually input the data from invoices into their ERP system. Less than one-quarter of survey respondents (22.8 percent) use optical character recognition (OCR) technology to automatically interpret the machine-printed data from invoices. An even lower percentage of respondents – 10.5 percent – use document classification technology to automatically determine the supplier that sent an invoice and how the invoice should be processed, based on pre-configured for that supplier.

Just 8.8 percent of respondents use technology to automatically read barcode data on invoices.

### 15. What are the three top challenges your organization faces in processing paper invoices?



Paper invoice processing takes too long, burdens staff with document routing, and results in lost or misplaced invoices. And those are just the top three paper-related challenges that companies face.

With all of our respondents currently receiving paper invoices, these challenges are widespread.

When asked to name their three top challenges in processing paper invoices, a whopping 66.7 percent

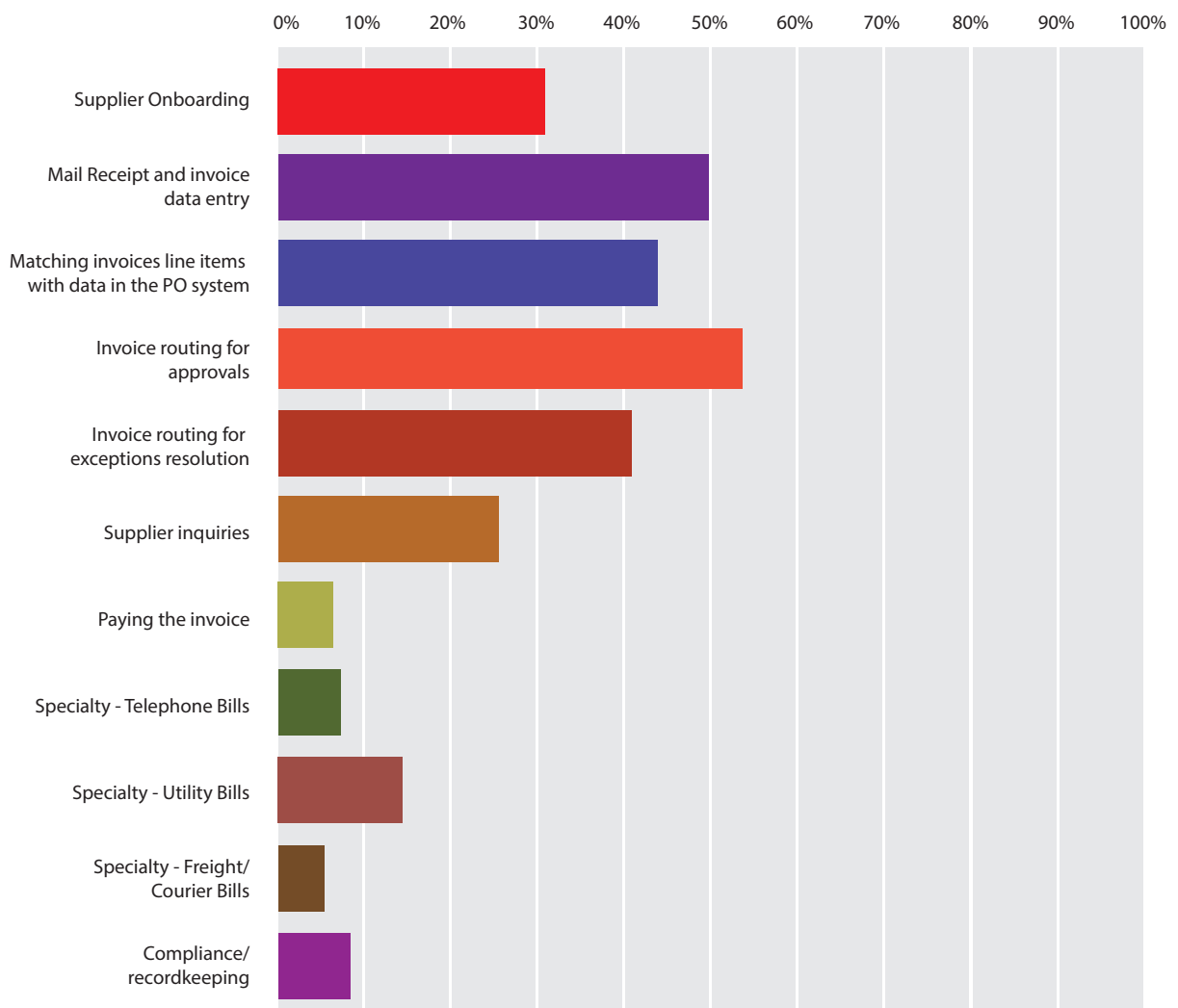
of survey respondents identified the time required to process paper invoices. Similarly, nearly half of the survey respondents (45.7 percent) cited invoice routing for approvals among their top challenges with processing paper invoices – clearly related to the issue of the time required for paper processing.

Some 39.5 percent of respondents identified lost or misplaced invoices as the top paper challenge.

Considering the time and manual handling required for paper invoice processing, it should come as no surprise that more than one-third of respondents (37 percent) identified the cost of paper invoice processing among their top three challenges. Other top challenges of processing paper invoices cited by survey respondents included invoice routing for exceptions resolutions (cited by 27.2 percent of respondents), storing paper invoices (23.5 percent), and resolving supplier inquiries (22.2 percent).

In a result that might surprise some auditors, survey respondents indicated that compliance, control and security concerns were the least of the challenges they face in processing paper invoices.

**16. Please select the top three AP activities that cause your department the greatest pain.**



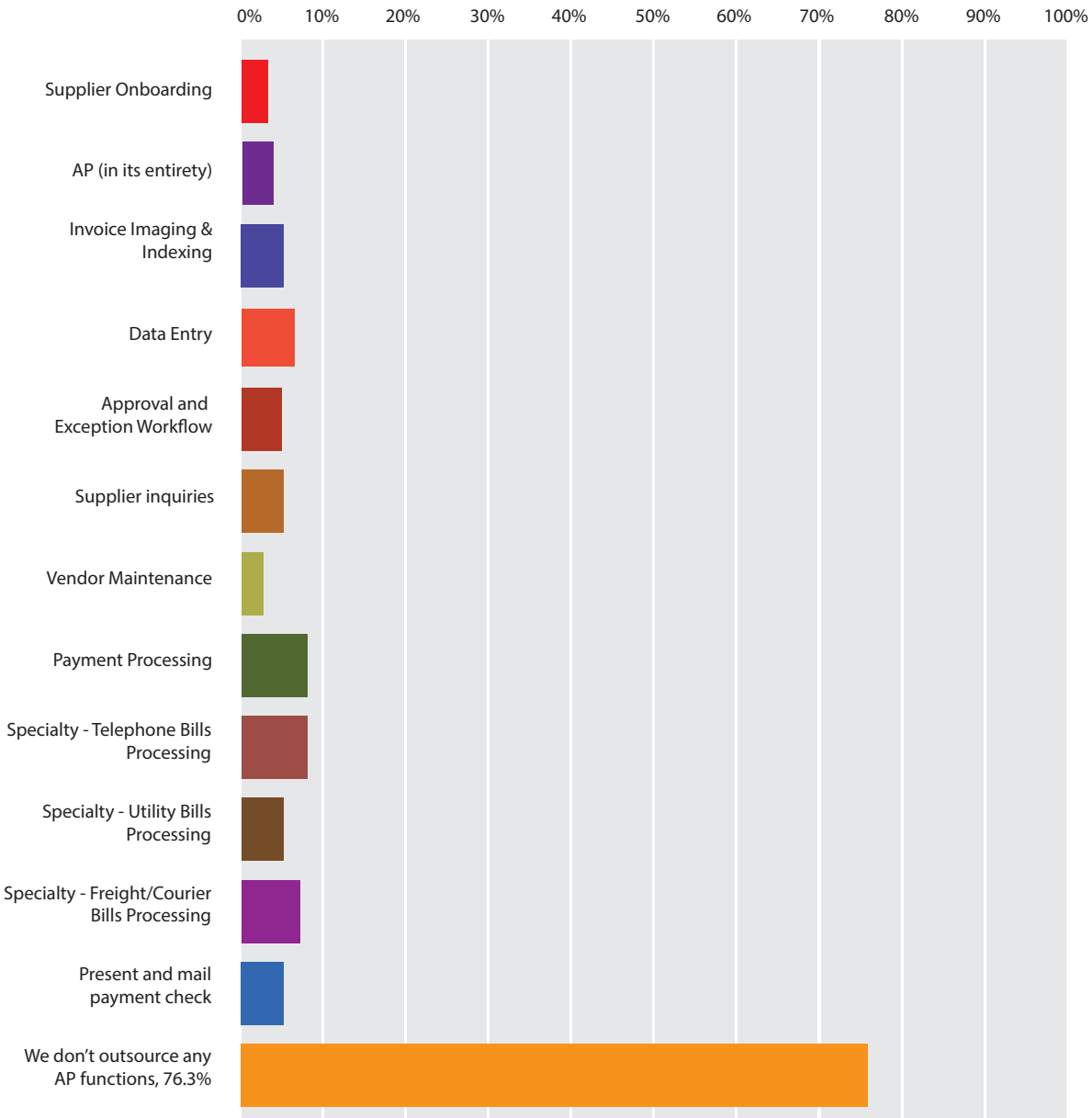
Invoice approval routing, mail receipt and invoice data entry, and invoice matching are the activities inflicting the greatest pain on AP departments, reinforcing the need for invoice automation.

When asked to name the three AP activities that cause their department the greatest pain, the majority of respondents (53.8 percent) cited invoice approval routing. Similarly, 41 percent of respondents identified invoice routing for exceptions resolution among their department's most painful activities.

Fifty percent of survey respondents cited mail receipt and invoice data entry among the activities that cause their AP department the greatest pain. Some 43.6 percent of respondents identified matching invoice line-items to data in their ERP system among their AP department's most painful activities, while 30.8 percent of respondents named supplier onboarding as one of their most painful activities.

Other AP activities that respondents identified as causing their department pain include supplier inquiries (identified by 25.6 percent of respondents), utility bills (14.1 percent), compliance and recordkeeping (9 percent), telephone bills (7.7 percent), and freight and courier bills (5.1 percent).

**17. Which of the following activities, if any, does your company currently outsource? Check all that apply.**



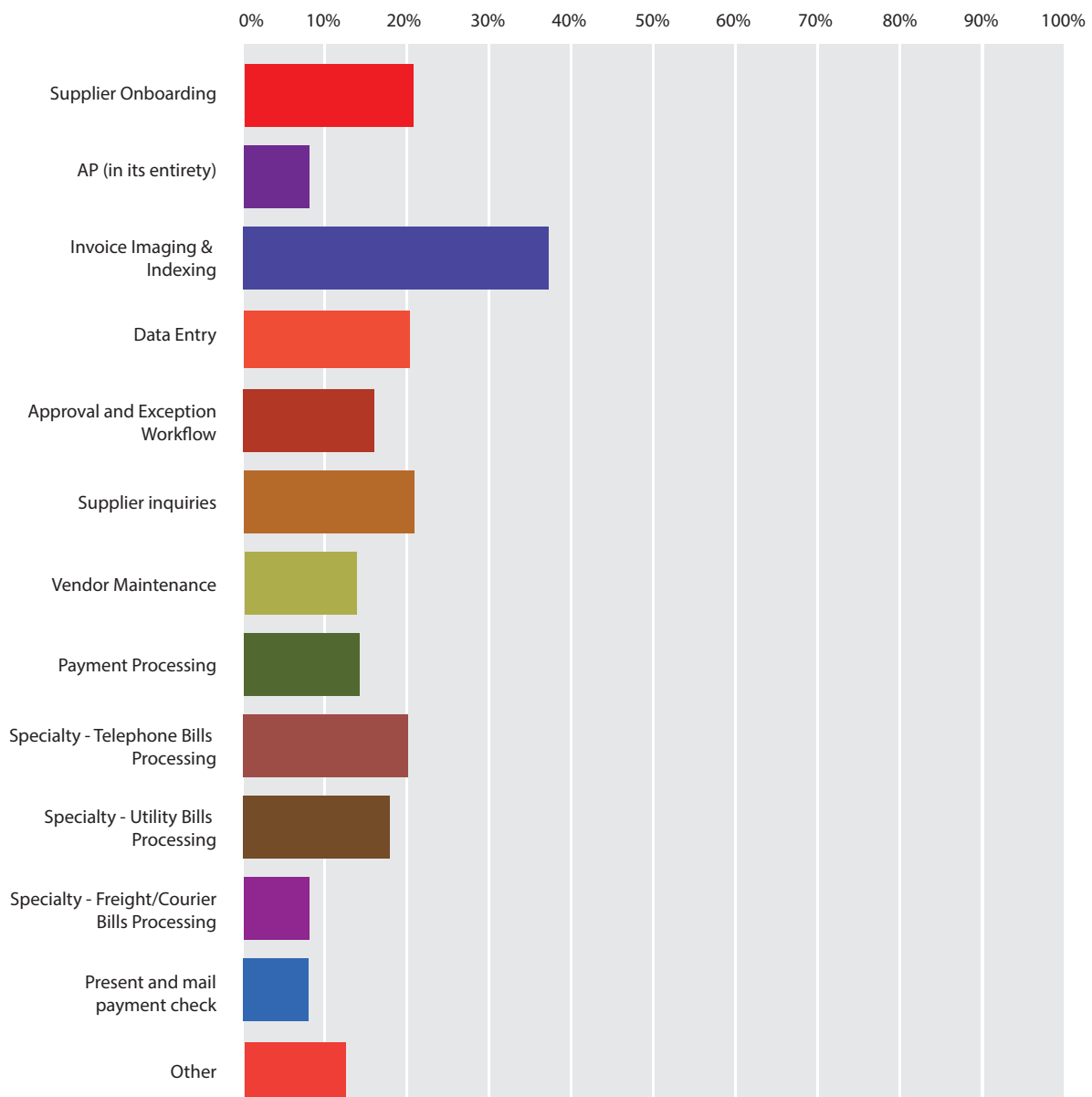
The processing of disbursements, telephone bills and courier or freight bills are the most commonly outsourced AP activities – not surprising considering the large number of banks and third-parties that offer outsourced payment processing, as well as the third-parties that process specialized bills such as those for freight. Some 7.9 percent of respondents said their organization outsources these activities. An additional 6.6 percent of respondents said their organization outsources utility bill processing.

Other commonly outsourced AP activities among respondents included invoice data-entry (identified by 6.6 percent of survey respondents), invoice imaging and indexing (5.3 percent), check printing and mailing (5.3 percent), supplier inquiries (3.9 percent), and workflow processing (3.9 percent).

Some 3.9 percent of respondents indicated that their organization outsources all of its AP activities.

Conversely, 76.3 percent of respondents stated that their organization does not outsource any of its AP activities. Outsourcing enables AP departments to leverage the benefits of invoice automation while avoiding the significant hardware and software capital investments, ongoing maintenance expenses, and IT burden required for in-house solutions. Cost savings is the top reason companies have outsourced their imaging and capture processes, according to a 2010 AIIM study, "Capture and Business Process: Drivers and Experiences of Content-Driven Processes." Outsourcing also helps organizations manage fluctuating invoice volumes, and take advantage of an outsourcer's expertise.

**18. Please select the top three AP activities that you would be most interested in outsourcing.**

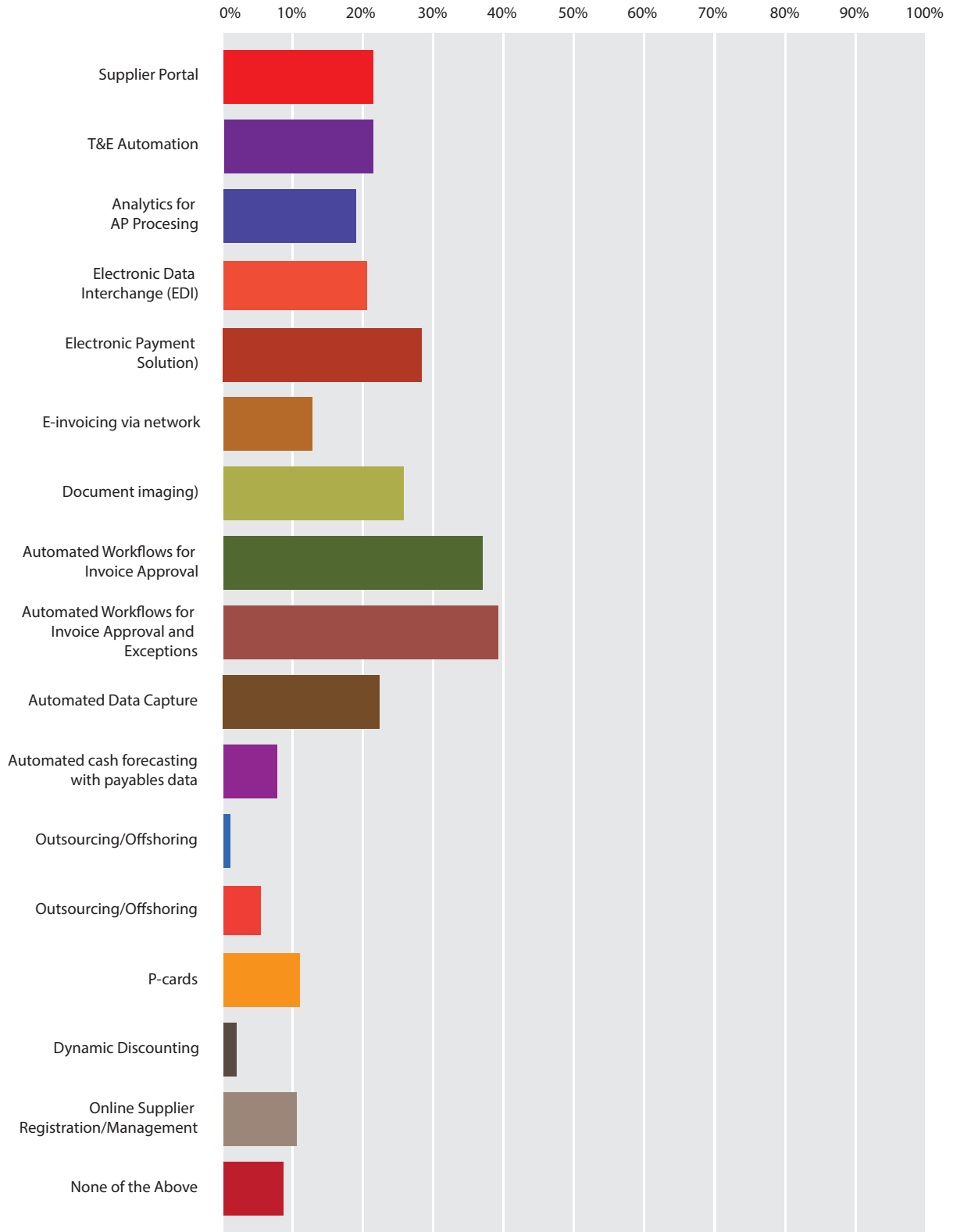


Invoice imaging and indexing is far and away the task that survey respondents are most interested in outsourcing – identified by 37.3 percent of survey respondents. Supplier onboarding, invoice data entry, supplier inquiries, and telephone bill processing are the other AP activities that respondents would be most interested in outsourcing – each identified by 20.3 percent of survey respondents.

Some 18.6 percent of survey respondents indicated that they would be interested in outsourcing utility bill processing, while 16.9 percent of respondents stated that they would be interested in outsourcing invoice approval and exceptions workflow management or vendor maintenance.

Payment processing rounds out the list of the top payables activities that organizations would be most interested in outsourcing, identified by 15.3 percent of the respondents to our survey.

**19. Which of the following are the top three improvement priorities for your organization in the next 12 months?**



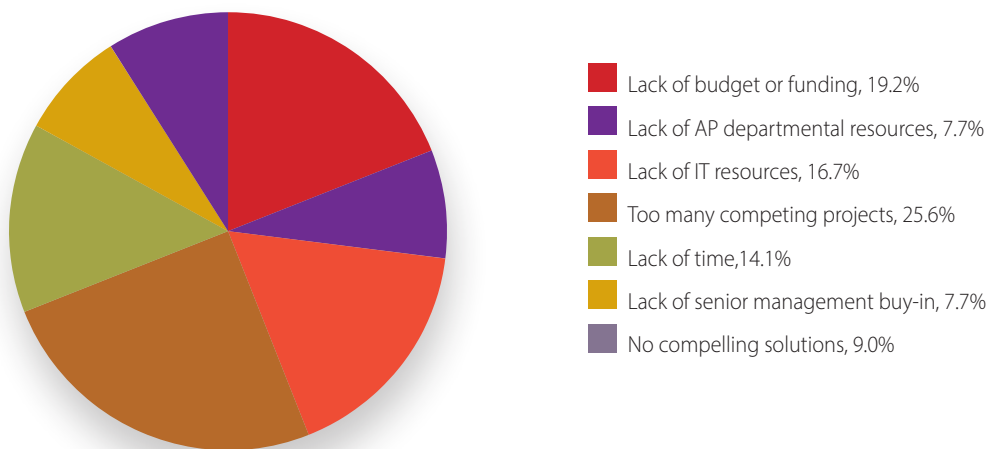
Considering that respondents cited invoice routing as the activity that caused their AP department the greatest pain, it is no surprise that the plurality of respondents (39.2 percent) identified automated workflows for approvals and exceptions as a top improvement priority for the next 12 months.

Approximately one-quarter of survey respondents (27.8 percent) identified electronic payments among their top improvements priorities for the next 12 months. Compared to paper checks, electronic payments are cheaper, reduce fraud-related losses, and provide enhanced reporting.

Document imaging was among the top improvement priorities of 26.6 percent of respondents. Other improvement priorities for the next 12 months included implementation of automated data capture (cited by 22.8 percent of respondents), deployment of a supplier portal (21.5 percent), travel and entertainment expense automation (21.5 percent), EDI (20.3 percent), and AP analytics (19 percent).

Despite the tremendous industry hype regarding discount capture, only 2.5 percent of respondents identified dynamic discounting among their top improvement priorities for the next 12 months.

## 20. What is the biggest obstacle to implementing your top AP improvement priority?

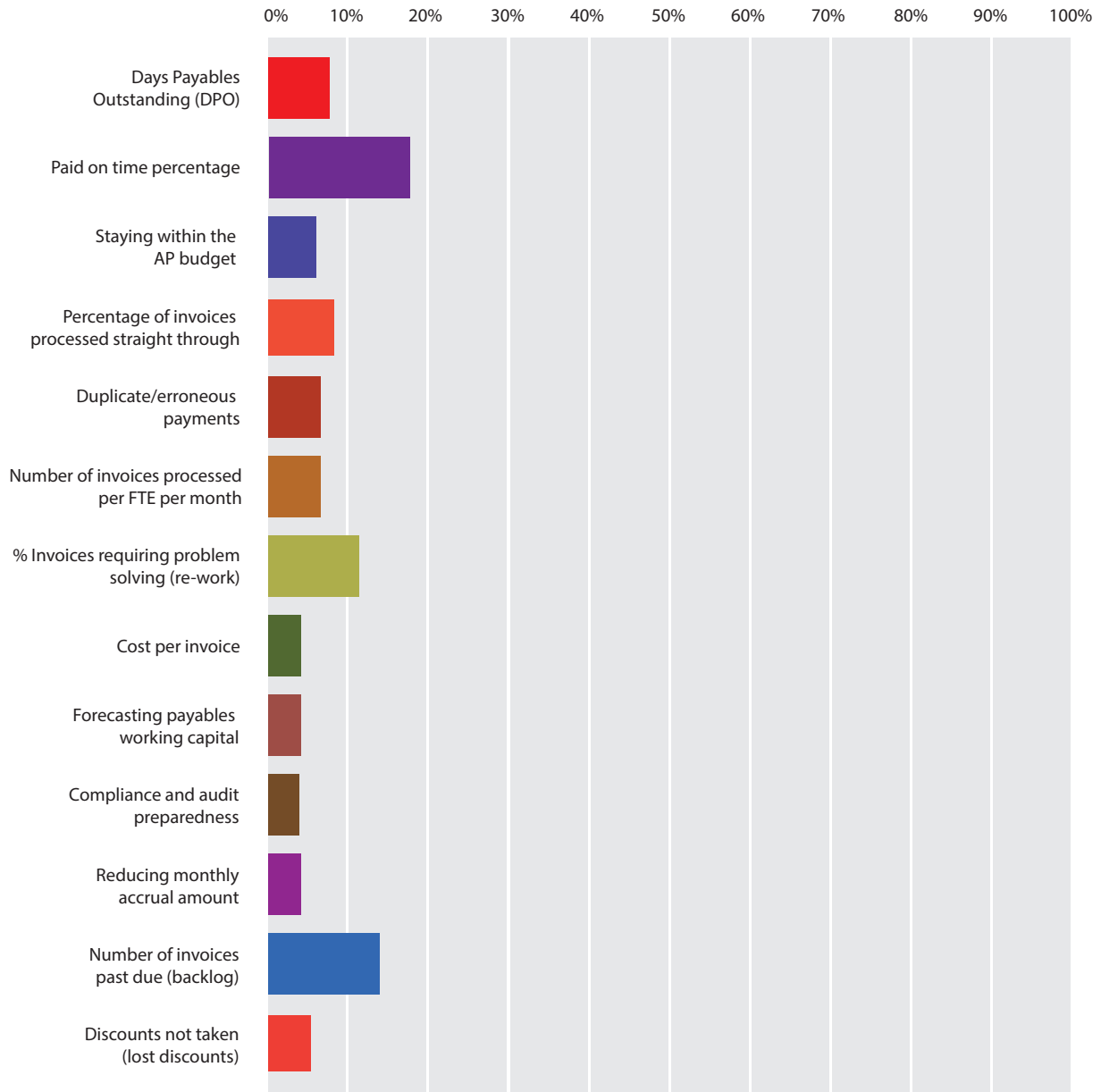


One-quarter of respondents (25.6 percent) said an overflow of competing projects was the biggest obstacle to implementing their top AP improvement priority. Similarly, a lack of IT resources was identified as the biggest obstacle to implementing AP improvements by a 16.7 percent of respondents, while 7.7 percent of respondents blamed a lack of AP departmental resources as the biggest obstacle.

Some 19.2 percent of survey respondents identified a lack of budget or funding as their biggest obstacle to implementing AP improvement projects. Surveys show that capital budgets for AP projects have remained flat over the past several years. Other obstacles to implementing top AP improvement priorities included lack of time (cited by 14.1 percent of survey respondents), lack of compelling solutions (9 percent), and a lack of senior management buy-in (7.7 percent).



**21. Which of the following is the most important to your AP department?**



The percentage of invoices paid on-time is the most important metric to AP departments.

A plurality of survey respondents (17.5 percent) identified paid-on-time percentage as the most important metric to their AP department. Similarly, 13.8 percent of survey respondents cited the number of invoices past-due (their backlog) as the most important metric to their AP department. On-time payment of invoices eliminates late-payment penalties, creates opportunities for early-payment discounts, eliminates supplier inquiries, and enhances relationships with suppliers.

Some 12.5 percent of survey respondents identified the percentage of invoices that require problem solving (re-work) as the most important metric to their AP department. Other AP metrics that were identified as being most important to AP departments included the percentage of invoices processed straight-through (cited by 8.8 percent of respondents), duplicate or erroneous payments (7.5 percent), number of invoices processed per full-time equivalent (FTE) per month (7.5 percent), Days Payables Outstanding (6.3 percent), missed discounts (6.3 percent), and managing the AP budget (5 percent).

## Summary

Paper invoice processing remains a fact of life for AP departments. And that reality includes a lot of manual keying of invoice data, burdensome physical routing of invoices, and lost and misplaced invoices. All of these challenges are major obstacles to AP departments paying invoices on-time – their most important metric. Deploying document imaging and migrating to electronic payments are helping AP departments eliminate inefficient processes. But even bigger payoffs may be available from automated data capture and electronic invoicing – two technologies that have experienced slow adoption. Outsourcing is an option for departments with too little money and time to deploy these technologies in their operations. Regardless of whether AP departments automate their own systems or leverage an outsourced provider to deliver automation, there is no time to waste. Companies that delay automating AP processes will soon find themselves at a competitive disadvantage to peers that have automated and achieved better business outcomes and improved working capital management.

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## Sponsor Perspective

### Canon Business Process Services: Survey Insights

Reviewing key findings of the survey, a story emerges about optimizing the accounts payable process. On one hand, survey respondents say they expect paper invoice volumes to significantly decline in the next three years. Yet respondents also indicate that they don't expect their suppliers to adopt electronic invoicing any time soon. At the very least, according to these findings we can surmise that the paper-to-digital conversion in invoice processing will not occur as rapidly as some might project. Our own analysis of the relatively small decrease in paper usage over the past four years supports this view. The survey findings also beg the question: How can paper invoice volume decrease without a corresponding growth in electronic invoicing?

### Ending the Paper Chase

One answer is to end the “paper chase” by outsourcing—particularly the “receipt-to-ERP” phase of invoice processing that executives indicate cause their AP department a major pain. It's a phase that comprises such activities as receiving paper (or paper equivalent) invoices via mail, fax and email attachments and converting the information into ERP-formatted data. This stage of the process also includes prepping, scanning, indexing and extracting data from the invoices.

Because the receipt-to-ERP phase is an acknowledged pain that requires data conversion, special expertise and technology, we agree with survey respondents: outsource it. In fact, respondents assert that the receipt-to-ERP process (particularly invoice imaging, indexing and data entry) is the number one

activity that they are most interested in outsourcing. For an organization on the verge of taking this initial outsourcing step, however, there might be an overlooked opportunity. This is the second part of the story.

### **Automating Invoice Validation**

Many companies outsourcing front-end AP processes may not ask their service provider to also automate “pre-approval validation” activities. Here, a service provider with the right tools can automate procedures driven by business rules that, compared to a manual process, more quickly and cost-effectively filter, check and prepare invoices for acceptance into the next workflow phase. Pre-approval validation tasks include identifying duplicate invoices and correcting data such as price calculations and vendor names and addresses. Outsourcing these and other activities that fall in the pre-approval validation phase can save significant time and money. This brings us to the third part of the story.

### **Leveraging Another Untapped Opportunity**

For organizations that might be leveraging (or considering) a service provider’s expertise to improve efficiency and lower costs in the receipt-to-ERP and pre-approval validation phases, there is another potential untapped opportunity to consider. This is related to what we see as the third major step in AP workflow, the “approval and exception processing” phase. Purchase order and non-purchase order line item matching, approval routing, exception resolution and GL coding are some activities comprising this phase of the AP process.

Again, if an enterprise is working with a service provider that has the workflow automation capability to streamline the first two phases, why not include the third phase as part of a bundled, more comprehensive outsourced program? This approach provides the opportunity to outsource the AP process from invoice receipt all the way to the point at which the invoice is ingested into the company’s ERP system for payment. Most importantly, by teaming with the right provider, a company outsourcing all three phases can ultimately create a more efficient, lower cost AP function than if one or two of the phases were managed internally.

These are opportunities within the accounts payable workflow where outsourcing can help AP departments end the paper chase, eliminate manual, low value activities and finally evolve into automated, high-performance operations. Such business process improvements can help hone a company’s competitive edge and better prepare it for continued success in the days ahead.