



The Case for Outsourcing Accounts Payable

Featuring Insights on ...

Why companies outsource AP

What AP functions should be outsourced

Benefits of outsourcing AP

Underwritten in part by

Canon

CANON BUSINESS PROCESS SERVICES, INC.



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Executive Summary

In today's quest for higher performance, there are many options for businesses wanting to create efficient and streamlined Accounts Payable (AP) departments. Software providers are creating intuitive tools that can truly automate and optimize repetitive and error-prone activities such as data entry, verification, matching, and documentation. In AP, the results of automation are cost savings, efficiency, better customer service, stronger controls, and greater visibility into business activities. AP automation can be achieved through an expansive solution implemented in-house, or it can be obtained through outsourced services.

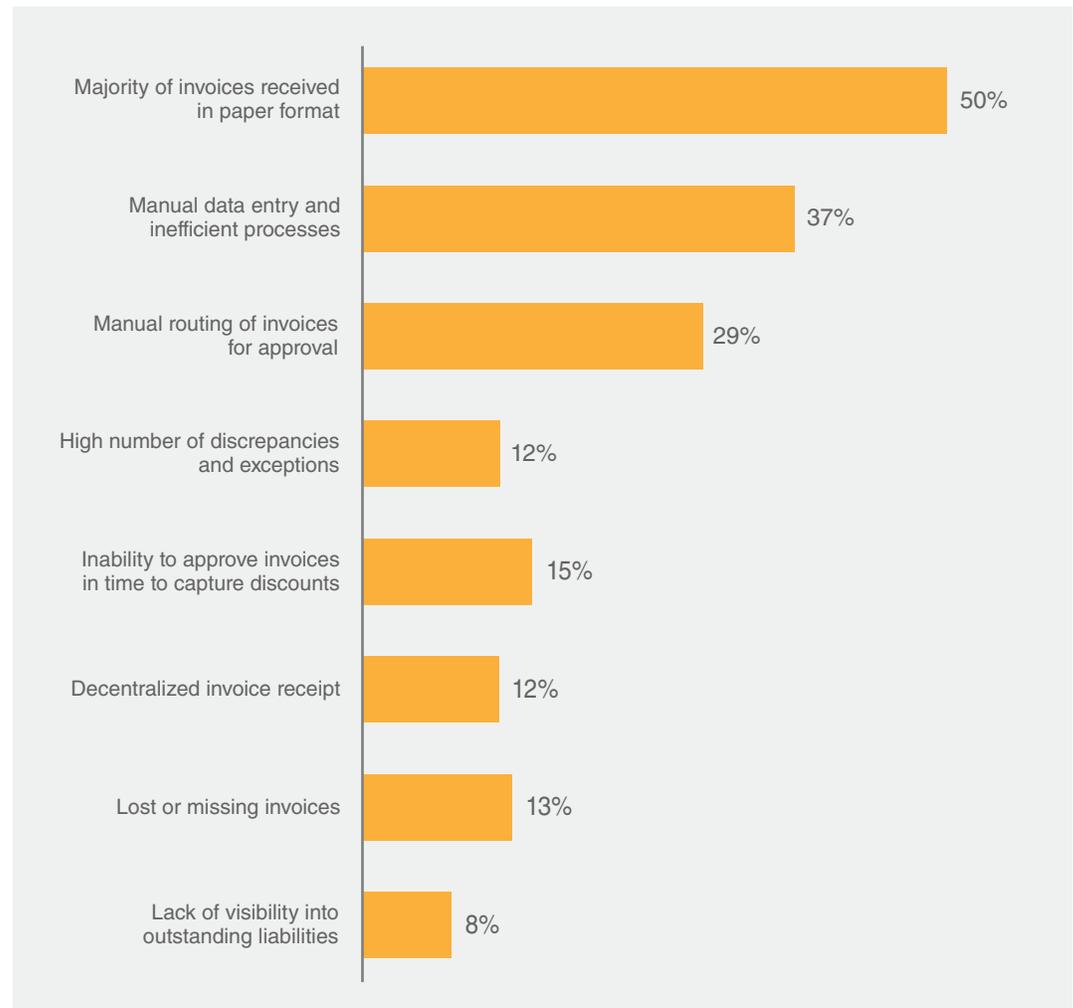
While some organizations may prefer an in-house invoice process and AP automation, accounts payable outsourcing (APO) is often a better alternative because it relieves organizations of the burden of long-term liabilities and commitments to technology ownership. Unlike an in-house AP operation, an outsourced service is guided by competitive forces that drive operational, financial, and customer service excellence. This is why today's buyers of AP services have so many options—if paper and manual data entry creates a bottleneck, they can outsource the invoice receipt-to-ERP process; if cost or productivity is a problem, they can outsource processing and gain automation for less expense.

Ultimately, CFOs are faced with a critical decision concerning AP automation: Should they continue to process invoices internally and invest in an in-house system, or should they outsource the non-strategic AP activities to a provider and gain automation that way? In this report, PayStream Advisors hopes to answer that question by illustrating how an organization can leverage outsourcing to partially or fully optimize their AP business process. This report will discuss what drives organizations to choose outsourcing over an in-house operation and technology, as well as the various segments of the AP process that organizations can and should outsource. This report will also explore the benefits outsourcing can bring to organizations. Finally, this report will profile an innovative leader that is transforming the APO model with a new approach.

Why Organizations Outsource the AP Process

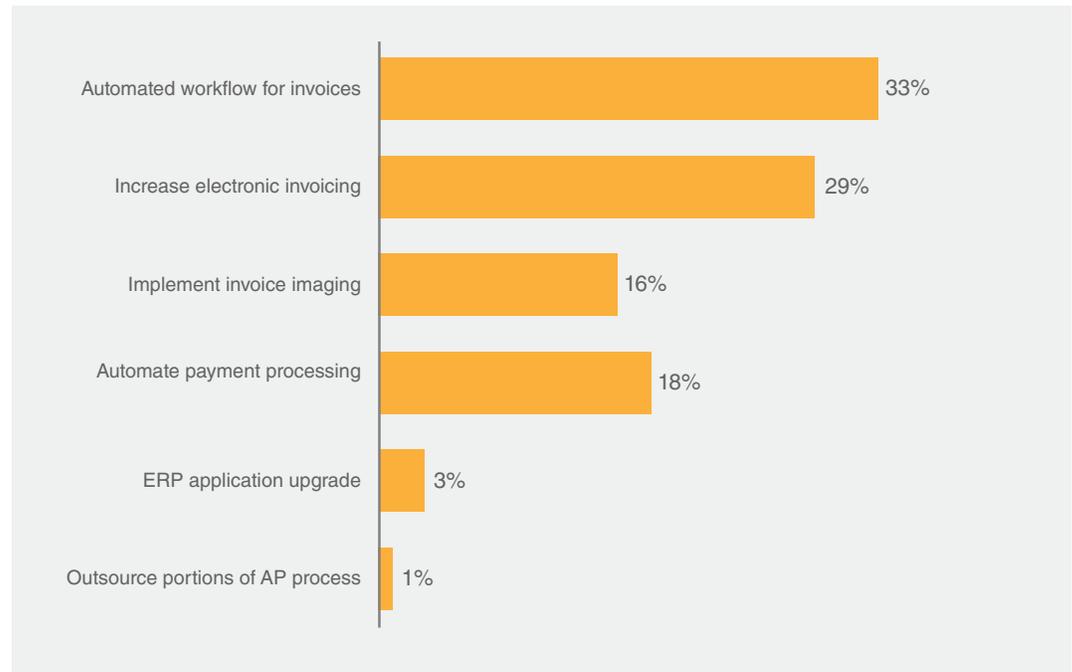
The AP function is the most frequently outsourced process within finance & accounting. The structure of AP, with discrete activities—receipt-to-ERP, approval and discrepancy resolution, AP administration, and payment—lends itself to an outsourcing approach because it is transactional and rules-driven, entails high costs, and requires extensive supervision to prevent errors and ensure efficiency (see Figure 1).

Figure 1
Challenges in the Invoice Management Process



However, outsourcing the entire AP department may not be practical for some organizations. Outsourcing non-critical AP tasks while keeping the important control functions in-house can enhance the productivity of the entire AP operation. Some of the biggest factors that motivate outsourcing accounts payable are the pains from receipt to invoice processing, a quest for higher performance, and a desire to strategically optimize technology, see Figure 2.

Figure 2
Improving AP Management and Efficiency Motivates Companies to Automate



Receipt to ERP Is Not Strategic for AP

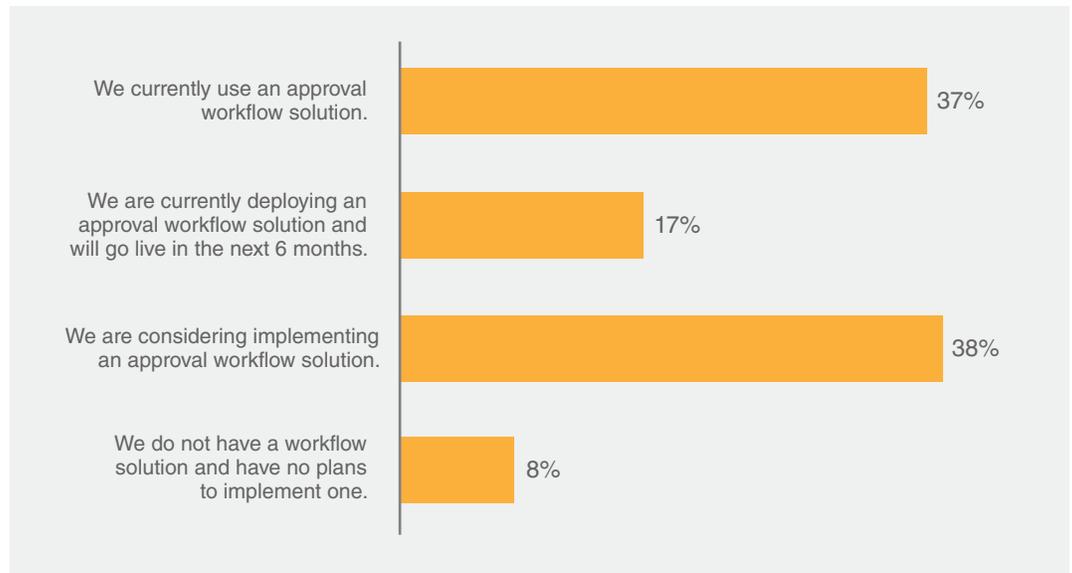
The front end of AP—the invoice receipt and conversion to ERP-formatted data—is usually the first part of the AP process that organizations choose to outsource. Receipt to ERP is a universal and significant pain for all organizations, but it is a critical phase of AP processing—one that requires scanning, OCR (optical character recognition), data extraction, and digital workflow expertise.

Although critical, the front end of AP is seen as a non-value-added activity, and organizations often want to find a way to achieve a best-in-class level of invoice data conversion while avoiding significant investment in labor, technology, and facilities. Outsourcing the invoice receipt to ERP phase to a specialist eliminates the data entry burden and provides a more efficient paperless process for the approval and discrepancy resolution phase. Invoices can be processed at a significantly faster pace and lower cost compared to an internal manual process, and the internal data entry labor can be reallocated to more valuable AP tasks, making APO a strategic best practice for optimized processes.

AP Outsourcing Is Critical for Cost Control and High Performance

The use of AP automation technology is growing throughout the business sphere (see Figure 3). This is due in large part to its ability to bring many performance benefits to companies—through strategic outsourcing, the AP process is streamlined, the focus is on productivity, the process is managed by the numbers, and performance is constantly improving. The combination of a transformative automation solution with the dynamic strategy of APO results in a dramatic increase in productivity, cost reduction, and company success.

Figure 3
*AP Automation Adoption
Growing Among
Organizations*



Investment in AP Automation Technology May Be Avoidable

Organizations are accustomed to processing invoices using their existing ERP and P2P systems with varying levels of workflow capability. However, even if these systems run less efficiently than new systems on the market, companies do not always see the benefits or have the resources to retire or upgrade their current system, and may ignore many systematic problems.

When using an outsourced AP service, organizations do not have to tie up capital and IT resources in the purchase, implementation, and maintenance of AP automation. Instead, they can use the APO provider’s system in a pay-per-use fee structure and turn a fixed cost into a variable one. Moreover, today’s outsourced SaaS AP automation systems usually come with advanced capabilities and can standardize AP workflow across multiple ERP systems.

What Companies Outsource

When an organization outsources its AP process, it is likely to do it in a step-by-step manner. From an outsourcing perspective, the AP process can be segmented into three phases: 1) the front-end or receipt-to-ERP; 2) approval, discrepancy resolution, and AP administration; and 3) invoice automation (see Figure 4). Organizations will typically outsource in this same order.

Figure 4
The APO Universe

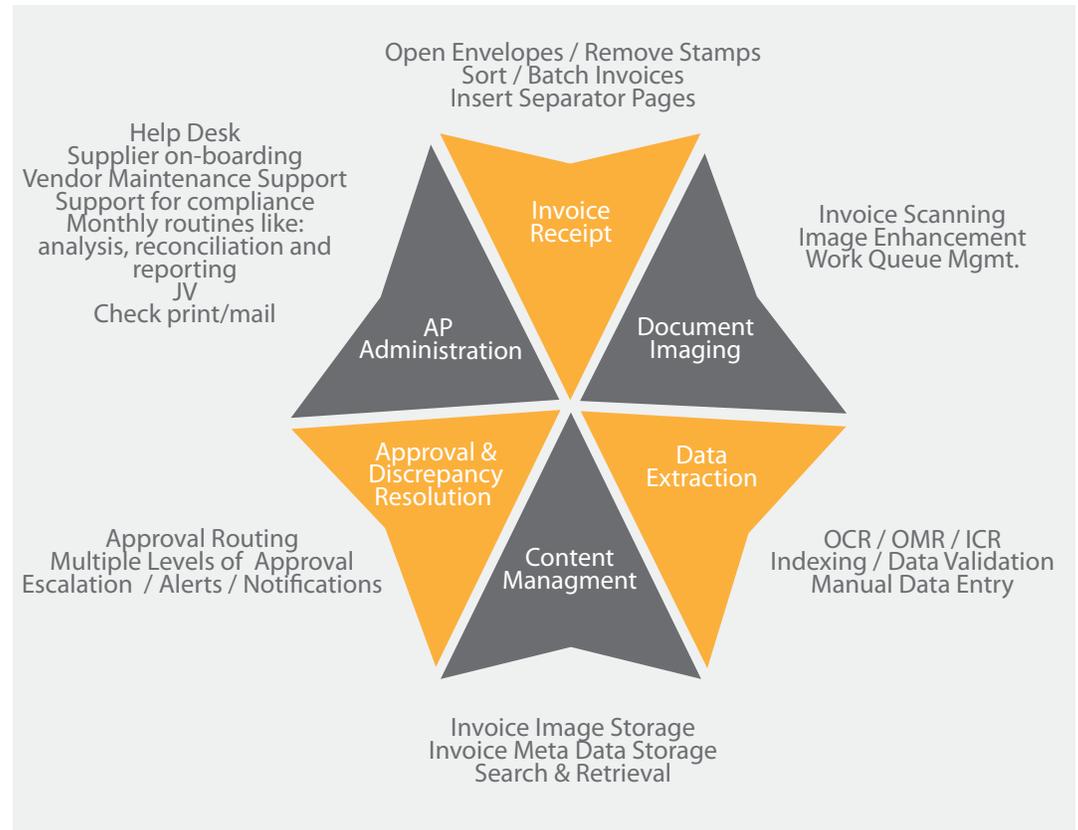
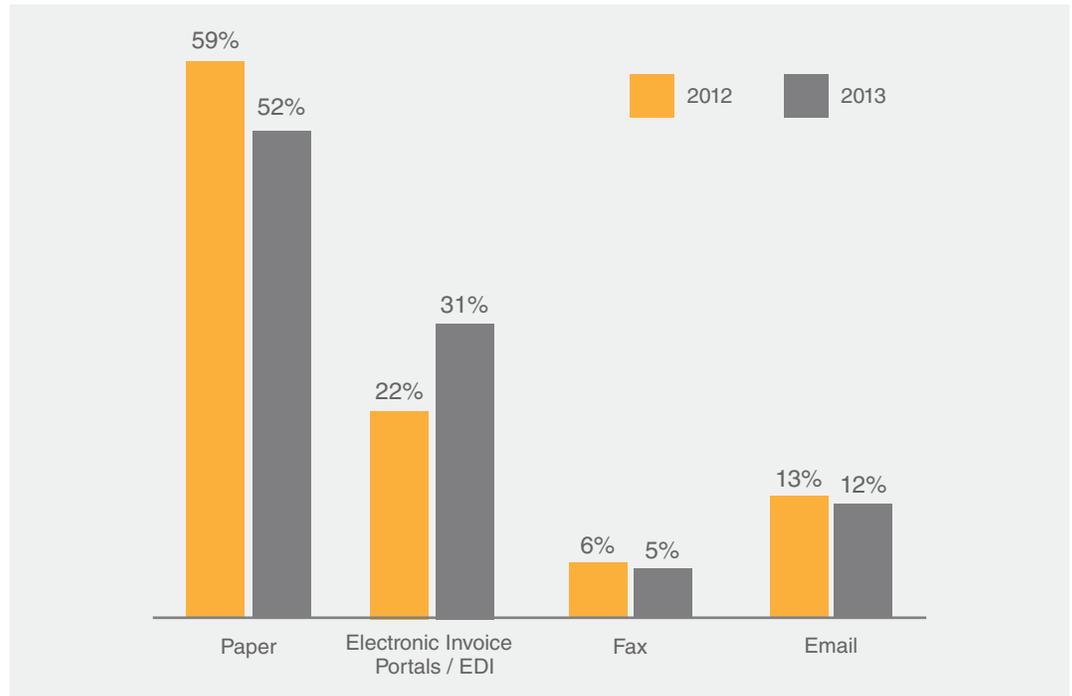


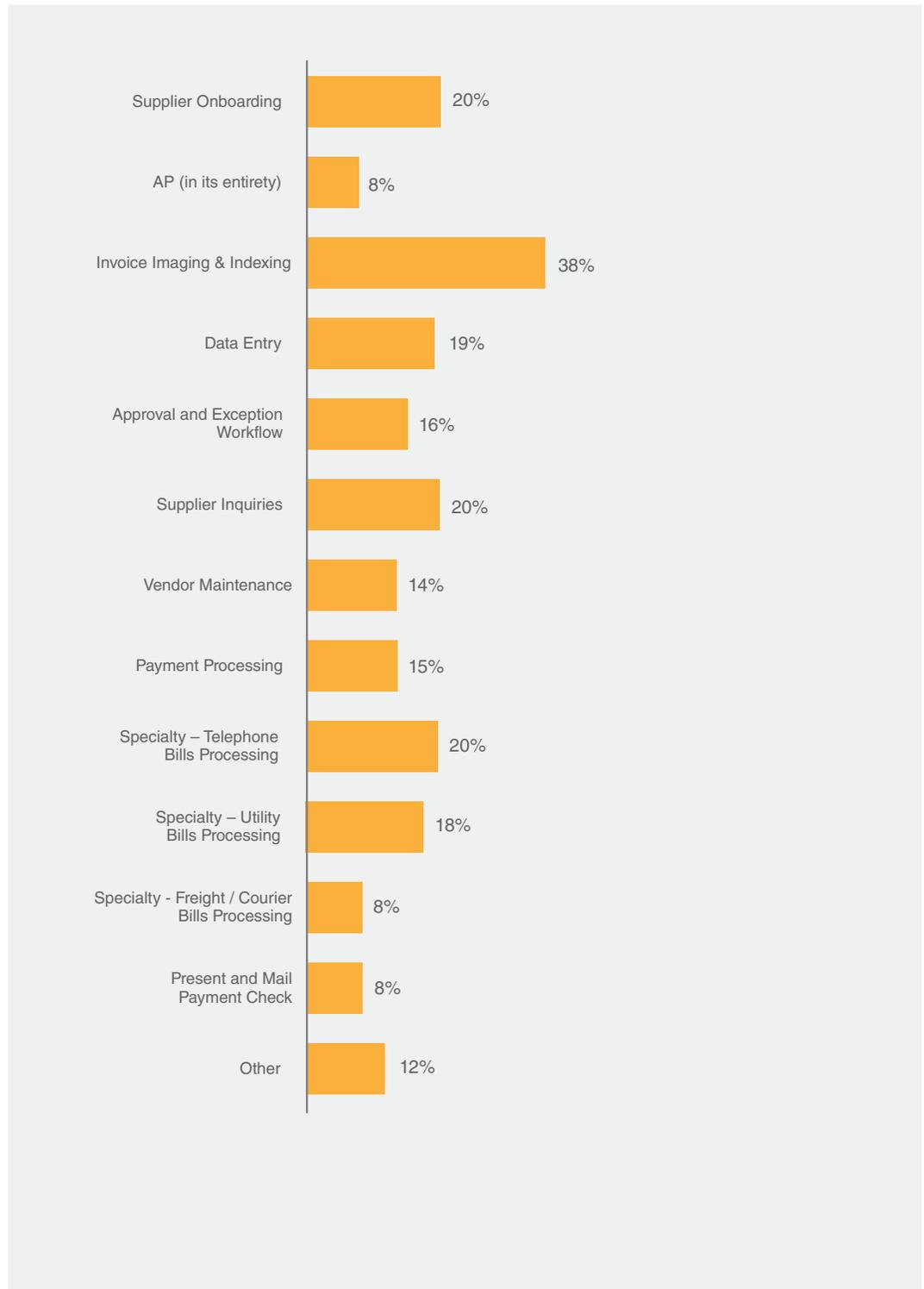
Figure 5
*Primary Methods of
B2B Invoices*



Outsourcing the Invoice Front-End Process

PayStream research shows that although invoices requiring manual data conversion from paper, fax, and email still dominate the AP landscape (see Figure 5), the movement towards automated processes is growing. Studies also show that as AP departments move towards automation, many plan to outsource paper and labor-intensive parts of the process to avoid tedious, error-prone, manual data entry (see Figure 6).

Fig 6
Which activities does your organization currently outsource?¹



Despite the benefits AP automation can have for organizations, the struggles of transitioning to an AP system can prevent many companies from implementation. AP Outsourcing (APO) providers recognize both the pains and the benefits of eInvoicing adoption. In response, they remove the burden of invoice handling and the hassle of technology adoption from their client's entire process. The APO provider takes on the task of automating the paper-to-digital conversion and even assists with enrolling suppliers in eInvoicing.

In all, the invoice conversion activity and the complexity of the necessary advanced tools make it appealing for organizations to leverage the expertise of a service provider. Important elements of this process are centralizing receipt of all invoice formats (paper and electronic), document imaging and indexing, data extraction, content management, pre-process validation, workflow approval, and discrepancy resolution automation.

Invoice Receipt, Automated Data Extraction, and Document Management

The greatest advantage of outsourcing the invoice receipt-to-ERP conversion process is the centralization and automated data conversion for both paper and digital invoices. By centralizing the receipt of invoices, AP receives invoices first through the outsourced process, saving time and guaranteeing that all the invoices reach the AP processing queue in one common format within an agreed time period after receipt. Generally, outsourced invoice processing providers offer mailroom services for accepting paper invoices, managing PO boxes, and providing fax lines, along with handling invoice sorting and preparation. Providers also accept invoices via electronic channels including email attachments, file transfer protocol (FTP), eInvoices, and electronic data interchange (EDI). Some providers may have a supplier portal to allow suppliers to input or upload invoices.

Most providers use OCR or intelligent capture software to automatically convert and extract invoice data for verification, while some will manually enter the data to ensure business-critical accuracy. They may employ such techniques as double blind keying, or two-pass verification, to deliver higher accuracy levels. Post data extraction, a pre-process validation workflow uses matching and business rules to prevent duplicate or otherwise invalid invoices from entering workflow. Also, content management systems are tightly integrated with the client's ERP or accounting application, so the user can send for and access invoice images from a single interface.

Workflow and Administrative Support

Some APO providers will handle the AP department's non-PO approval, PO matching, travel and expense, special invoice processing, discrepancy resolution, and even administrative support needs. Outsourcing these tasks allows internal AP staff to focus on more important and productive areas and gives them the security that comes from knowing these essential tasks are being handled according to their policy and service level.

AP administrative tasks may include vendor/supplier inquiries, assisting with vendor maintenance, and assisting with regulatory compliance, month-end and year-end routines, tax support, account reconciliation, and special projects. Providers cover reporting and analysis through the generation of standard and ad-hoc reports. Providers also handle supplier enrollment in the eInvoice submission process, which relieves AP departments of this major pressure. To maintain consistent support, APO providers commonly feature an AP help desk for clients.

Implementation

Outsourced systems are deployed much faster and with less cost than internally-deployed systems, which can take over two years to evaluate, select, and install. APO automation does not require intensive testing and training, since the system is already in use across many clients, and it can go live immediately. APO technology is quick and virtually painless, and buyers are not left responsible for maintenance, training, or upgrade costs.

Benefits of Outsourcing

AP outsourcing brings many benefits to an organization besides a paperless process and eliminated data entry—it also brings consistent performance. An outsourcing service provider is driven by competitive market forces, meaning its work is structured according to a Service Level Agreement (SLA). SLAs enforce consistent performance and management by agreed upon metrics, such as entering all invoices into workflow within 24 hours of receipt. These guidelines ensure that APO providers offer process management practices that enhance overall performance as measured by time, cost, error rate, quality of work, and internal control metrics.

For those considering outsourcing AP processing, it is important to distinguish between the various outsourcing options in the market. Companies can outsource invoice conversion, which will eliminate the paper and data entry in processing, or they can outsource invoice processing, which will provide invoice conversion as well as simple rules-driven approval processing for some of the invoices.

The most robust and complete outsourcing option is AP Process Outsourcing. It is the most customized and flexible option, including centralization and digitization of invoices, approval and discrepancy resolution processing, and AP administration. The scanning and processing work can be done on the client's site or in the provider's shared service centers, and the service provider may use the client's systems or its own invoice automation platform, depending on client needs. The client's processing work load is usually transferred to the provider though the client may retain AP managers and skilled analysts to oversee and govern the operation.

AP Process Outsourcing is the best choice when a company's vision for AP shifts from tactical invoice processing to strategic AP management. It is perfect for organizations looking for consistently high performance over longer periods of time (contracted SLA), lower costs (shared service center efficiency), paperless processes (no data entry), straight-through touchless processing (invoice automation), and no commitment to technology and long-term liabilities.

For the benefit of financial professionals seeking the rewards of an outsourced AP service, the following is a profile of a leading APO services provider.

Canon Business Process Services, Inc.

Canon Accounts Payable Service (Canon AP) combines technology and process improvement to help manage all types of payables on time, at a significantly lower cost, and at a best-in-class performance level. The service is designed to centralize the receipt of invoices and processes payables from receipt to ready-to-pay in compliance with client policy and procedures. The services are customized and delivered through a hybrid on-site, off-site, and off-shore model, along with AP automation enhancements. The Canon AP outsourcing service can take clients from current performance levels to best-in-class performance in under a year.

Canon Business Process Services (Canon) has been providing invoice conversion and data extraction since 2000, and AP process outsourcing since 2011. Canon clients can benefit from a paperless and transparent workflow, elimination of manual data entry, ability to pay all invoices before due date, ability to capture more early payment discounts, and overall lower AP costs. Canon’s AP services can also be extended to procurement activities and mail and scanning services to process documents for many other business processes.

Website	www.cbps.canon.com
Founded	1959 (as Archer Inc.)
Headquarters	New York City
Locations	850 client service sites in the US and Canada; processing centers in partnership with Canon Inc. throughout the globe, including the Philippines, US, and Europe.
Clients	Broad range of organizations including, 19 of the top 100 Forbes 2000, 64 of the Am Law 200, and 9.6 percent of the Fortune 500
Industries Served	All industries
Solution Name	Canon Accounts Payable Service
Awards / Recognitions	IAOP Global 100 Outsource Service Provider 10 years in a row (2007 to 2016)

Canon Accounts Payable Service

The Canon AP service consists of Invoice Centralize & Digitize, AP Processing, and AP Technology Enhancements. With this approach, Canon can manage the entire AP function, from invoice receipt to payment, either on the client’s site or from Canon processing centers.

Invoice Centralize & Digitize and Pre-Process Validation

Invoice Centralize and Digitize automates the receipt to ERP activity, creating a paperless workflow that increases efficiency in every corner of the AP process. It may reduce the cycle time by five or more days, and it eliminates about 98 percent of manual data entry. AP helpdesk costs may be reduced by up to 75 percent. Canon also helps clients enroll suppliers in eInvoice submittal as part of this service.

Canon centralizes the receipt of all invoices in any format, including paper, fax, email attachment, and eInvoice/EDI. Canon takes care of setup and maintenance of all receiving channels—mail, email, FTP, EDI, etc. With expertise in document process management, Canon can flawlessly implement the centralized process, taking care of change management, training, and outreach to suppliers and internal staff.

Invoices are scanned and automatically indexed. The images are sent into the client's ECM or workflow system, or if one is not available, Canon can provide one. After Canon applies OCR/intelligent capture to extract the data, paper invoices are disposed of according to client policy. Generally, 99 percent of invoices reach the client's ERP system within 24 hours of receipt.

Pre-Process Validation, a significant Canon value-add capability, screens invoices at the earliest point to prevent duplicate or invalid invoices from entering workflow, and repairs and helps perfect data before it enters the workflow. This workflow involves nightly file transfer and business rules. It performs a number of routines on header and line-item data such as vendor resolution, identification of approvers and business units, PO line-item matching, calculations, paid invoices, and more. Invoices that fail pre-process validation are routed to the supplier, procurement department, or a work queue depending on client specification. In addition to reducing cycle time, errors, and cost, Canon's pre-process validation workflow helps address supplier invoice quality issues and reduces repeat exceptions.

Canon can also take responsibility for onboarding new suppliers to eInvoice submittal upon setup, or can periodically reach out to the largest group of suppliers with education and training in an effort to enroll them.

Canon AP Process Outsourcing

Canon processes transactional and recurring invoices and T&E reports as per client policy, and provides administrative support to operate the AP function. Canon can integrate with client systems for workflow, or can recommend, select, and implement AP automation enhancements and systems as needed.

Canon also provides AP administrative support such as helpdesk, vendor maintenance, month and year-end routines, reporting, account reconciliation, payment assistance, analysis, and AP records maintenance. These services are delivered on location or at Canon's shared service centers. Canon offers

managerial support for each client, along with strong contract governance.

AP Workflow Automation

Canon helps clients with AP automation even beyond invoice conversion and pre-process matching and validation. Due to ever-changing technology and some clients' use of multiple ERP/P2P/ECM systems, it is not always practical to implement an AP workflow automation system outside the ERP. Canon understands client situations and is prepared to help select enhancements and integrate them with existing systems, as well as select and install new workflow automation solutions outside the ERP. Unbiased Canon AP experts continuously monitor the market and evaluate new technologies. They maintain relationships with analysts and proven vendors, and they know which features deliver the most value and which do not. This approach helps save time and money, ensures the best fit, and should result in avoiding capital investment.

Implementation & Customer Support

Canon generally performs a client assessment to establish the starting baseline and validate AP performance, as well as to ensure that business requirements, goals, limitations, and systems are understood.

Canon usually introduces its AP Services with the Invoice Centralize & Digitize stage. This part of the transition generally takes one to three months, and it involves change management and data integration expertise. In the next three months, Process and Cost Optimization is put into effect, and Canon takes responsibility for processing invoices. The process is mapped and shadowed, procedures are documented, and the client AP staff is transitioned to Canon. With the invoice receipt to ERP activity and workflow processing fully under control, Canon begins to address automation needs with recommendations and implementation support. Users and suppliers are trained and adequately supported as new features such as supplier portal, are introduced. Minimal IT support is required from the client, as IT systems support is provided by Canon. Canon provides customer support at the operational, technical, and account management levels. The support typically includes dedicated client managers to ensure that the client connection remains strong.

For more information about Canon Business Process Services Accounts Payable call 1-888-623-2668 or visit www.cbps.canon.com



About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com.

*¹Institute of Financial Management and Canon Business Process Services (2014)
"Challenges and Benefits of AP Workflow Automation"*