

High-Performance Accounts Payable

Three Key Drivers to Success



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Introduction

There's been a shift in how companies compete. Market competition, which used to be driven largely by sales and pricing strategies, has expanded to include an organization's operational prowess, its financial agility and its supply chain performance. As a result, finance and accounting operations have doubled down their focus to become brutally efficient while better supporting the business leaving no stone unturned. The accounts payable (AP) function has entered the age of high performance.

The AP function plays an increasingly important role within a company's financial operations. Its activities can impact payables working capital, the efficiency and cost of the procure-to-pay process, and relationships with strategic suppliers. Until recently, AP groups were, by and large, a model of inefficiency, driving processes with outdated technology and inefficient methodologies such as manual data entry and snail mail or email invoice routing. More often than not, these methods were a huge drag on AP's performance, resulting in high processing costs, a perpetual backlog of overdue invoices irritating suppliers, excessive errors, missed early payment discounts, late payment fees and other first-order challenges.

Of course, there were a select set of AP groups that broke from the crowd and achieved best-in-class levels of performance. These top performers were the ones who understood the value of high-performance and made the necessary changes. As a result, it has been these early few who raised the performance bar for AP operations by proving that bottom-line value can be driven from within AP. The source of value in a high-performance AP operation stems from its impact on process and business operations.

With this in mind, what exactly defines "high performance," how is it measured and what are the drivers that lead to best-in-class performance? In this report, Canon Business Process Services (Canon) examines three drivers responsible for the efficiency and performance success in high-performing AP departments. We also look at how the best-in-class AP functions differ from the average through six operating metrics.

Our insights are based on the analysis of the latest AP survey data⁽¹⁾ we sourced and our experience managing the entire AP process or portions of it, such as invoice conversion for leading organizations.

Key Metrics for High-Performance AP

There is a saying that “what gets measured gets improved.” In AP, metrics matter because the process activities can be easily measured, allowing the organization to understand its “current state” while laying the groundwork for its desired “future state.”

AP metrics can be organized into three groups: operational, financial and supplier. Operational metrics are important, and if tracked, they can be a powerful way to engage the larger finance team. While this research paper is centered on the operational metrics, financial metrics help drive AP performance by optimizing AP-related working capital that can have tangible benefits to the bottom line. Supplier metrics are invaluable to procurement for sourcing strategy. The AP paid history database is an ideal source for mining detail-level data about purchases and supplier profiles.

Within AP, there are several underlying “operating performance metrics” that drive core efficiency improvements and ultimately lower the total cost to process an invoice from receipt to payment. By tracking these metrics and developing strategies to improve them, AP groups have an ability to streamline the

process and improve performance. For example, a standard metric is the number of invoices processed per full-time employee (FTE). In a manual, paper-based environment, this number is fairly low due to the hands-on tasks. However, in an automated or semiautomated

process, most, if not all, of the tasks are greatly reduced requiring significantly fewer staff. The metrics shown in *Table 1* are many of the key metrics that AP groups should consider tracking in order to establish a baseline and improve overall performance.

TABLE 1: ACCOUNTS PAYABLE METRICS

Operational Metrics: <i>AP process-related metrics</i>	Cost Per Invoice
	Invoice Cycle Time (receipt to ready-to-pay)
	Invoices Processed Per FTE/Month
	Invoices Processed Straight Through
	Suppliers Converted to eInvoicing
	Exception Rate

Best-in-class Performance

There can be a dramatic difference in performance between a high-performance and the average AP department as shown in *Table 2*. While the data is based on this surveyed group of organizations, Canon believes that it accurately depicts the performance gap between the high-performing AP departments and the average. Based on our experience all six metrics are impacted by the three forces: centralized receipt and format of invoices, use of automation, and optimization of labor cost.

Organizations that have achieved best-in-class status are able to process invoices at a cost of \$2.20 per invoice, 88% lower than the average AP department. We believe factors contributing to lower cost include centralized invoice receipt and scanning/data capture, high percent of eInvoices, use of workflow technology and high use of offshore labor.

Best-in-class AP operations process an invoice 4.5 times faster than average organizations. The average time to process an invoice (cycle time) is an important metric to keep an eye on. It impacts

cost, supplier relations, late payment fees and labor necessary to deal with supplier calls and duplicate invoices. By gaining 10 days in the payment window, the AP function should be able to dig itself out of the overdue backlog hole and keep suppliers at bay. Our experience suggests centralized invoice receipt coupled with scanning and automated data extraction lead to a shorter cycle time quickly.

On average, best-in-class organizations are processing in excess of 2,000 invoices more per FTE per month than

the average AP operations. Canon's experience suggests this advantage is realistic. Three to five thousand invoices per FTE per month are not unheard of. Best-in-class AP groups typically utilize a more efficient process such as centralized receipt, and more automation, such as scanning with automated extraction, workflow for discrepancy resolution matching and approval, as well as reporting and analytics to help manage the invoice pipeline.

In the best-in-class organizations, 44.2% of invoices reach ready-to-pay

TABLE 2: BEST-IN-CLASS AP DEPARTMENT VS. AVERAGE, PERFORMANCE ⁽²⁾

	Performance Metrics	Average ⁽¹⁾	Best-in-Class ⁽¹⁾	Best-in-Class Advantage
1	Cost Per Invoice	\$19.10	\$2.20	88.48%
2	Invoice Cycle Time (receipt to ready-to-pay)	13.5 Days	3.3 Days	75.56%
3	Invoices Processed Per FTE/Month	1,335	3,559	166.59%
4	Invoices Processed Straight Through	18.40%	44.20%	140.22%
5	Suppliers Converted to eInvoicing	14.50%	41.80%	188.28%
6	Exception Rate	16.10%	7.70%	52.17%

status without AP human intervention more than two times that of the average AP function. We believe this will increase with more use of business rules, invoice standardization and eInvoice. Automated data validation, business rules and digital workflow can perfect data, fill data gaps, check math or drive approval workflow. Consistency, accuracy, compliance and audit trails are built-in so organizations are more comfortable with not having to touch all invoices.

While EDI (electronic data interchange) has not gained traction as it was expected, more organizations are adopting eInvoice acceptance. Best-in-class AP functions have 41.8% of suppliers submitting eInvoices almost three times that of the Average AP function.

Supplier portal, through which large suppliers may upload invoices and small suppliers may enter the invoice and check on payment status is an attractive feature we believe is driving this metric.

The exception rate (invoices with at least one discrepancy) among best-in-class AP functions is half that of the average AP function. While many factors could account for this, we see the exception rate high among organizations operating in manual mode, least use of eInvoices, least control of supplier standards and least coordination between AP and procurement. Invoice discrepancy rate can be reduced using automated data capture and validation to automatically test validity and return invalid invoices to the supplier electronically with an explanation.

Our experience suggests centralized invoice receipt coupled with scanning and automated data extraction leads to a shorter cycle time quickly.

Three Drivers of High-Performance AP

Although achieving best-in-class performance is not easy, it is possible for any organization. The source of high AP performance can come from a variety of factors. Sometimes low cost per invoice could be the result of low offshore labor, sometimes from high degree of automation and sometimes from a well-designed process such as centralized invoice receipt. To better understand how high performance within an AP department is achieved, Canon analyzed three AP scenarios:

1 Organizational structure – Do centralized AP functions where suppliers send the invoice directly to AP perform at a higher level than decentralized AP ones where the invoices are received by the buyers and then routed to AP?

2 Process automation – Do AP functions that use more automation perform at a higher level than the ones that do not?

3 Outsourced or managed services – Do organizations that have outsourced part of the process, such as invoice conversion, or the entire process achieve a higher performance level than in-house AP functions?

TABLE 3: THE IMPACT OF CENTRALIZATION ⁽³⁾

	Performance Metrics	Decentralized	Centralized	Centralized Advantage
1	Cost Per Invoice	\$14.88	\$11.81	20.63%
2	Invoice Cycle Time (receipt to ready-to-pay)	14 Days	7.9 Days	43.57%
3	Invoices Processed Per FTE/Month	1,559	2,325	49.13%
4	Invoices Processed Straight Through	21.00%	37.00%	76.19%
5	Suppliers Converted to eInvoicing	16.30%	25.85%	58.60%
6	Exception Rate	12.00%	11.30%	6.19%

1. AP ORGANIZATIONAL STRUCTURE —TO CENTRALIZE OR NOT?

A centralized approach to the invoice receipt has a variety of benefits, such as shorter cycle time, elimination of hand-offs, fewer fragmented systems and the ability to have a more holistic view of AP. Analyzing the six operational metrics using the survey data from the Ardent Partners study, we clearly see in *Table 3* that the benefits of a centralized AP process are impactful and in many cases, significant. Centralization of invoice receipt is a key step in improving AP performance. A centralized structure with standardized and automated processes is the foundation upon which the next level of efficiency and visibility within AP is realized. Providing timely and accurate visibility into payables data is a capability that adds tremendous value to the organization and should be a goal for every AP department.

This research shows that with a centralized structure, the cost and time taken to process an invoice is reduced 20% and 43% respectively, while the efficiency with which invoices are processed increases by almost 50%, as does the percentage of invoices that are processed in a touch-less manner. Centralization of invoice receipt adds a layer of control that is an important first step on the path to higher performance. Organizations that took a centralized approach:

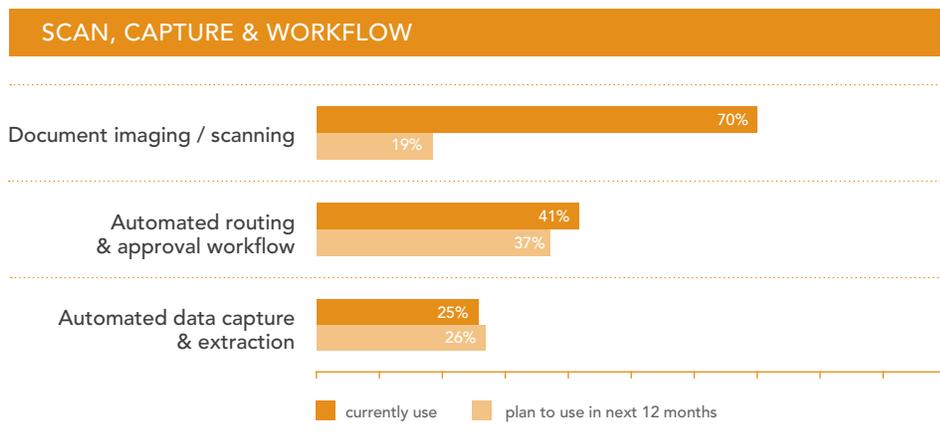
2. PROCESS AUTOMATION

Advancements in workflow automation coupled with data capture, supplier portal and an easier implementation effort with ERP and content management systems leapfrog AP from a manual to a leading-edge function.

+ **Imaging, Capture and Workflow** –

The primary role of imaging and data capture solutions is to transform the invoice data into a digital format that can be processed in a more efficient manner. The three solutions discussed here are often used together as they are complementary to each other, and when used in concert, add greater value to the AP process.

+ **Invoice Imaging** – In the context of AP, document imaging solutions convert paper invoices into digital images. The purpose is to replace paper with digital documents, archive and enable processing from anywhere, such as in offshore locations. According to Ardent’s research, this solution is the most widely used today (by 70% of all companies). Since document imaging solutions fail to address invoice processing, they are increasingly used in combination with one or both of the technologies that follow.



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Fig. 1

+ Data Capture and Extraction –

Data capture and extraction use OCR (optical character recognition) and self-learning algorithms to conduct document classification, separation and data extraction. This process virtually eliminates manual data entry. It converts invoice header-level and line-item-level data into a digital format and sends it into the ERP. Additionally, these solutions can perform validation and matching against ERP data and often include business rules capabilities. As shown in *Figure 1*, one quarter of the market currently uses data capture solutions.

+ **Invoice Automation** – Today’s invoice automation extends across the invoice life from purchase (PO) origination that can be flipped to approval collection and payment. The ability to route invoices for approval, match invoice data and catch discrepancies is critical for improving efficiency within the AP process. Business rules drive the invoice workflow for both PO and non-PO invoices. Invoices for which data is matched within tolerance levels are processed “straight through” to payment without any human intervention. Similarly, non-PO invoice approval and coding are collected by routing, prompting and escalating. Complete audit trail and status reporting provides visibility into the invoice queue.

There is a marked difference in the level of performance for companies that utilize imaging, capture and AP automation solutions versus those that do not, as shown in *Table 4*. First, the cost per invoice is almost \$5 lower when automation is used, which can translate into significant savings depending on the number of invoices processed. Invoice cycle time is 3.5 days shorter, and in an automated process, the average staff can process 117% more invoices in the same time.

TABLE 4: THE IMPACT OF AUTOMATION – IMAGING, CAPTURE, WORKFLOW ⁽⁴⁾

	Performance Metrics	Do Not Utilize Automation	Utilize Automation	Automation Advantage
1	Cost Per Invoice	\$15.38	\$10.91	29.06%
2	Invoice Cycle Time (receipt to ready-to-pay)	11.2 Days	7.7 Days	31.25%
3	Invoices Processed Per FTE/Month	1,176	2,562	117.86%
4	Invoices Processed Straight Through	35.01%	35.60%	1.69%
5	Suppliers Converted to eInvoicing	20.60%	26.40%	27.84%
6	Exception Rate	14.00%	10.00%	28.57%

3. OUTSOURCED OR MANAGED SERVICES

Canon also analyzed how the performance of the AP functions that were outsourced compared to the performance of the average AP function. In AP processing, one of the most widely adopted services is the outsourcing of front-end invoice imaging and data conversion, where invoices are received centrally by the service provider (managed mailbox, email account or FTP queue) and then scanned and uploaded into the appropriate document capture or back-end solution. Today, as a best practice the service provider also captures the data from the scanned invoice using OCR/intelligent capture, validates and deposits the data into the ERP without manual data entry. Double-blind data entry is necessary to enter the data in the ERP if capture is not used.

Table 5 summarizes the performance metrics. Clearly, organizations that outsource the invoice from receipt to ERP and/or exception and approval processing fare better. The cost per invoice is about 25% lower. Cycle time is 27% shorter. Number of invoices per FTE is double or at a best-in-class level. Based on Canon experience just the act of outsourcing an AP activity has a synergistic effect on higher AP performance. For example, when outsourcing invoice conversion two things happen: invoice receipt is centralized and scanning is implemented. Both have a huge impact on cycle time, cost and labor requirements. Finally, the exception rate is 32% better.

Based on Canon experience just the act of outsourcing an AP activity has a synergistic effect on higher AP performance.

TABLE 5: THE IMPACT OF OUTSOURCED/MANAGED SERVICES ⁽⁵⁾

	Performance Metrics	Do Not Outsource	Partially Outsource	Outsourcing Advantage
1	Cost Per Invoice	\$12.49	\$9.42	24.58%
2	Invoice Cycle Time (receipt to ready-to-pay)	9.4 Days	6.8 Days	27.66%
3	Invoices Processed Per FTE/Month	1,971	4,060	105.99%
4	Invoices Processed Straight Through	35.20%	36.50%	3.69%
5	Suppliers Converted to eInvoicing	25.09%	29.10%	15.78%
6	Exception Rate	13.60%	9.20%	32.35%

Canon's Recommendations for Reaching High AP Performance

Transforming an AP department from the majority paper invoices and manual processing to an automated high-performance one requires several steps that address process, labor and technology requirements. We think of the transformation in several stages — each building on the previous.

Before embarking on transforming the AP process, however, we begin with an assessment to establish a performance baseline. Typically, we map the invoice workflow, study the process end to end, taking into account invoice origination and processing challenges, and then analyze existing technology and resources. A “future state” vision is designed, taking into account all business requirements.

CENTRALIZE AND DIGITIZE

The first stage is to centralize the receipt of invoices and convert them into ERP-formatted data, which we refer to as the “receipt-to-ERP segment.” This is crucial because it alone can provide up to 60 % of the benefits expected from a fully

automated process. It quickly impacts cycle time, cost, supplier inquiries and processing time. It also creates the foundation for process automation and labor optimization downstream.

The invoice intake can be easily outsourced. Canon can set up the scan and data conversion process onsite or offsite in our processing center. The finance and accounting department avoids having to operate another process and all the new technology while assuring a high-quality and reliable process governed by contract service-level performance.

The next two stages can be sequential or in parallel depending on various factors typically present in a client environment.

OPTIMIZE LABOR COST

Once the intake process is firmly laid down, we recommend the next step should focus on minimizing labor cost in processing — approval, discrepancy resolution, supplier inquiries, reporting,

compliance, recordkeeping, etc. This cost can be reduced by moving some of the matching, discrepancy and supplier workload upfront so invoices may be validated and either accepted or rejected at the door before entering workflow, thus reducing workload. Another option is to use some offshore labor for the most basic processing. Canon can provide onsite and offshore processing staff so you have one point of accountability without a break in the process.

AUTOMATE INVOICE WORKFLOW

The third step is automate the discrepancy resolution and approval workflow. The goal is straight through processing where the majority (>75%) of invoices are processed from receipt to release to payment without human intervention. The challenge, however, is implementing a system that can work for all invoices – PO, non-PO and travel and expense – and across all ERP systems. Another challenge is integrating the invoice processing application with the various systems it needs to interface. Beyond that, line item matching, a vendor portal, an

easy-to-customize workflow, mobile approval, spend analytics and migrating suppliers to eInvoice are among the top must-have capabilities.

The good news for organizations is that all this is available in one package from Canon with cloud or on-premise installation and integration. Rather than embarking on a one- to two-year AP automation project, a CFO can tap into a best-in-class high-performance AP platform built with the latest capabilities. No technology to source and select. Integration with your ERP(s) is done for you in a matter of months.

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Case Study: Biopharmaceutical Company Teams with Canon to Transform Accounts Payable Process

A leading biopharmaceutical company discovers, develops and markets innovative medicines that help improve the care of patients suffering from life-threatening diseases. The company's accounts payable operation, however, was ailing due to inefficient processes that resulted in very late payments. This strained vendor relationships, which in turn threatened to disrupt the company's manufacturing production schedule and delivery of medicine. The company – convinced that Canon Business Process Services had the right expertise and approach – tapped Canon to turn the situation around.

THE CHALLENGE

The main challenge the pharmaceutical company faced was paying suppliers on time accurately. The severity of the problem led the company's manufacturing production managers to raise concerns that the AP department's late and inaccurate supplier payments were jeopardizing manufacturing production commitments because suppliers began asking for advance payment before material shipment due to unpaid invoices.

The company, needing to bring its AP operation back to peak health quickly, reached outside for expert help. After an in-depth assessment of the AP process by Canon, the pharmaceutical company was convinced Canon could get the job done. A major factor in the company's conclusion was Canon's proposed methodical, comprehensive approach to transforming the AP process. This approach included mapping out the AP process and identifying the changes and best practices needed to bring the operation into the high-performance range. Canon would then implement the changes, continually monitoring results, providing detailed reports and taking action to ensure ongoing process improvement. With the Canon plan and team in place, it was time to take action.

THE SOLUTION

Canon's first phase solution for this AP situation focused on reducing cycle time, arresting supplier calls and internal complaints about payments, and eliminating the perpetual three thousand-invoice backlog. Primary actions involved centralizing invoice receipt and automating data capture. The second

part involved increasing the processing throughput significantly without increasing the cost.

The Canon team centralized invoice receipt and automated the paper-to-digital invoice conversion using the Canon processing center. Canon placed one AP manager and five specialists at the client site to run the AP department and additional support of up to 15 FTEs at one of its processing centers in the Philippines.

Canon's offshore Philippines Shared Processing Center accesses invoices remotely by VPN and completes the data transfer to ERP and ECM systems. Canon uses a pre-process validation review to quickly sort out invalid invoices from entering workflow. This may include checking PO number, supplier identity, etc.

Then, Canon follows the client's policy to process exceptions and collect approvals. The team codes and routes non-PO invoices for approval. The Canon team located at the pharmaceutical company's main facility is dedicated to handling PO-related exceptions which impact production. Canon recently assigned a global manager to the team in response to the client's plans to expand Canon's AP services in European locations.

In the first year, phase one semiautomated and stabilized the AP process. The next phase will focus on adding more process automation to increase performance and reduce costs further.

The pharmaceutical company is committed to improving the care and lives of patients around the world. Canon's AP outsourcing services ensure its suppliers are paid on time, accurately, and within policy and controls.

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THE RESULTS

- + Supplier calls for payment went away as the monthly backlog decreased from 3,000 to 50 invoices at 25,000 invoices per month, the average number of invoices processed per FTE per month is 4,167, which is above the average best-in-class operation
- + 22% increase in on-time payment
- + Reduced average exception invoice cycle time 50% from 15 to 7.5 days and average non-exception invoice cycle time decreased from 5 to a best-in-class level of 1.5 days

FOOTNOTES

- (1) Ardent Partners, ePayables 2013: AP's New Dawn
- (2) Ibid.
- (3) Ibid.
- (4) Ibid.
- (5) Ibid.



CANON BUSINESS PROCESS SERVICES, INC.

Advancing Business Performance to a Higher Level

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 and follow us on Twitter @CanonBPO.