PayStream
A LEVVEL COMPANY

Pitching ROI for Accounts Payable

A Guide to Demonstrating the Value and ROI of AP Automation to Key Decision Makers

Q1 2017 | Featuring insights on...

» Current Market Trends in AP Management

» The Benefits of AP Automation for Organizations' Costs and Productivity

» A Guide to ROI with AP Automation

» ROI Calculators and Other Process Measurement Strategies

» A Leading AP Software Provider

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ARTSYL

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Introduction

When it comes to improving an organization's back office, AP automation is one of the most effective methods of streamlining inefficient processes, reducing processing costs, and providing more visibility into and control over supplier invoices and payments. Landmark AP automation tools like electronic invoicing, invoice approval workflow, and supplier management portals have helped many companies eliminate paper and reduce processing pains, including late payments, invoice errors, and missed discounts. With an automated AP process, organizations have the potential to save millions of dollars in processing costs each year.

However, this story of AP transformation, while true for many companies who have implemented a system, is not always effective in persuading key decision makers to adopt a solution. PayStream Advisors' research shows that the top barriers to invoice management software adoption include the belief that current processes are working, a belief that there will be no Return on Investment (ROI) from a solution, and a failure to gain internal buy-in. These three barriers often keep organizations operating with manual processes for many years. Instead, they continue to overspend on processing costs and miss out on potential savings from early-payment discounts.

This report is intended to help organizations understand the value of AP automation and communicate that value to key decision makers. This report includes several helpful tools for practitioners making the case for an investment in AP automation. It explores different scenarios of an AP state before and after automation, and includes calculators to help practitioners demonstrate ROI to any stakeholder.

Defining AP Processing Pains

When preparing to make the case for automation to company stakeholders and decision makers, the most important element to include is the metrics of the current state. This includes not only the current state of the organization's AP process, but also the current state of the market as a whole. It is important to understand how other organizations are faring in their back offices in order to build perspective—and show room for improvement.
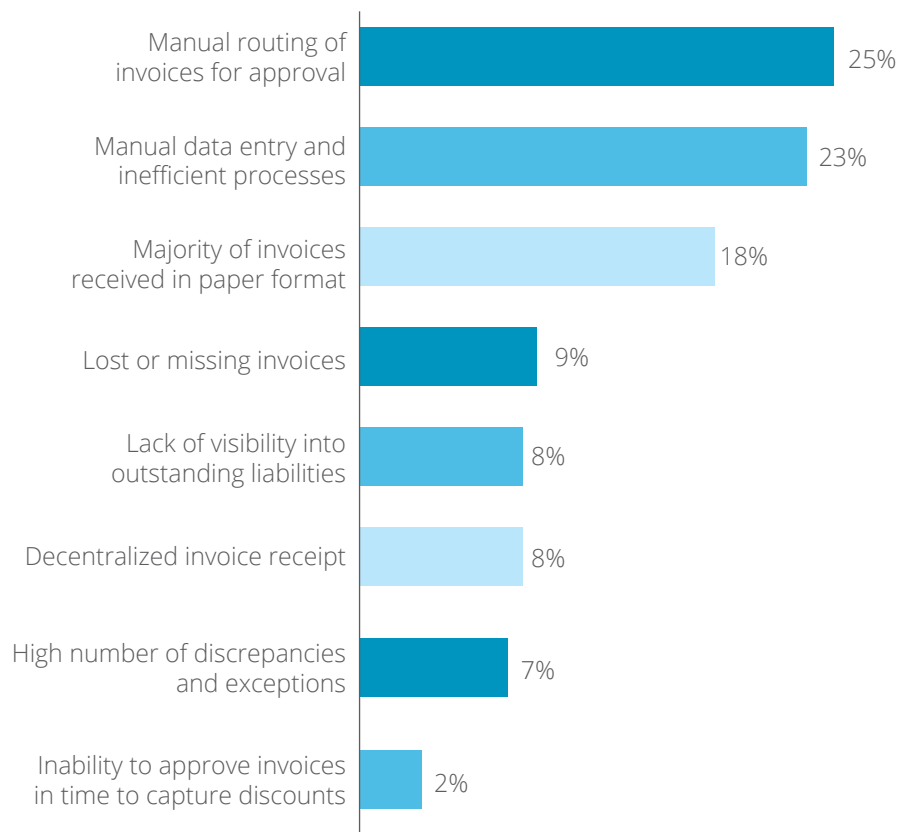
In order to identify invoice management trends among North American organizations, PayStream surveyed over 300 back-office employees across several industries and market segments. Research shows that organizations' top pains in their invoice management process include manual invoice routing, manual data entry, and high volumes of paper invoices, see Figure 1. These issues and others, such as lost invoices and a high number of invoice exceptions, are all common symptoms of a manual AP process.

Figure 1

Organizations' Top AP Pains Concern Manual Routing and Data Entry, and High Paper

"What are the top three biggest pain points you experience in your AP workflow process?"

TOP CHALLENGES IN THE AP PROCESS

Challenge	Percentage
Manual routing of invoices for approval	25%
Manual data entry and inefficient processes	23%
Majority of invoices received in paper format	18%
Lost or missing invoices	9%
Lack of visibility into outstanding liabilities	8%
Decentralized invoice receipt	8%
High number of discrepancies and exceptions	7%
Inability to approve invoices in time to capture discounts	2%

Another side effect of manual processes is a high volume of missed discounts, often due to the lack of visibility into invoice lifecycles and the resulting late payments. For many organizations, missing discounts is a familiar experience. When asked how often they were able to capture early payment discounts, most organizations reported "sometimes," see Figure 2.

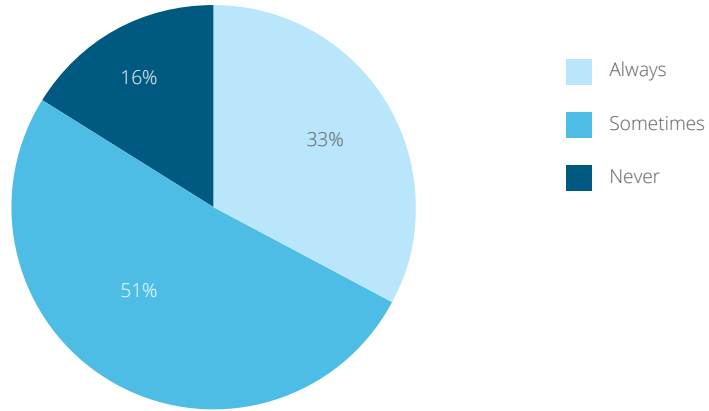**HOW OFTEN ORGANIZATIONS ARE ABLE TO CAPTURE EARLY PAYMENT DISCOUNTS**

Always
Sometimes
Never

Figure 2

One-Half of Organizations Only Capture Discounts Some of the Time

"How often is your organization able to capture early payment discounts on invoices?"

If an organization were to use an AP solution that sped up invoice lifecycles and offered an option for suppliers to designate discounts on their invoices, it could increase discount capture anywhere from 5 to 35 percent. This could result in millions of dollars in savings, depending on an organization's size and annual invoice volume. Organizations with manual AP processes often miss these savings.

Manual-based AP processes reduce an organization's profitability in other areas as well, such as in dispute management. With a manual process, organizations are more likely to experience invoice errors, duplicate invoices, late payments, and unhappy suppliers. The time required for AP staff to handle invoice and payment disputes can add up, and some organizations are spending thousands of dollars each year solely on damage control. Table 1 contains calculations of organizations' labor costs for dispute management, assuming an average annual salary of $45,000 per AP staff member, three weeks of PTO, two weeks of combined holiday and sick leave, and a 20 percent overhead calculation.

Table 1

Annual AP Issue Resolution Costs

Hours Spent Each Week	Annual Costs Per Employee
1-3	$1,350 – $4,050
4-8	$5,400 – $10,800
9-20	$12,150 – $27,000

These issues are the most common reasons why organizations adopt an AP automation solution. What happens with a fully automated invoice management process? Organizations see tremendous improvements in their ability to process invoices efficiently, on time, and with very few exceptions. Research shows that the top improvements organizations experience after automating AP processes are quicker invoice approvals, increased employee productivity, lower processing costs, and increased visibility, see Figure 3.
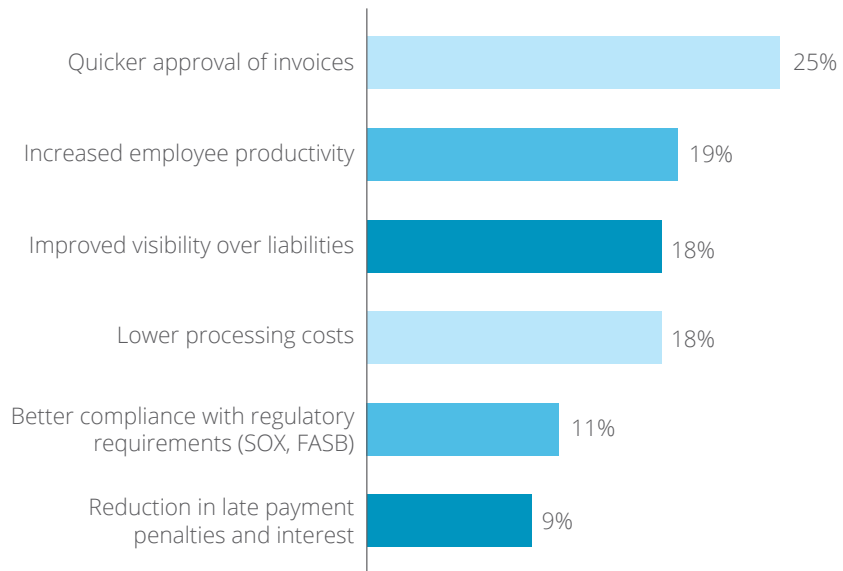
TOP IMPROVEMENTS GAINED THROUGH AP AUTOMATION

Improvement	Percentage
Quicker approval of invoices	25%
Increased employee productivity	19%
Improved visibility over liabilities	18%
Lower processing costs	18%
Better compliance with regulatory requirements (SOX, FASB)	11%
Reduction in late payment penalties and interest	9%

Figure 3

Organizations Experience Improvements in Cycle Times, Productivity, Costs, and Visibility

"What are the greatest improvements you have seen since implementing an invoice workflow solution?"

When practitioners make the case for automation, they should be sure to compare these market trends to their own company's processes, identifying any similar pains and lost savings opportunities. With a clear picture of its current, inefficient AP state, an organization's leadership can better imagine a future, optimized state—one in which it is reaping the benefits of an automated AP process.

Once decision makers understand the value of AP automation in general, it is important that they see the effects a solution can have on their company's specific business structure and AP department. The following section provides some real-world scenarios that organizations can use as a model to determine the costs and savings possible with an AP automation solution.

The True Cost of AP

When adopting AP automation, the success of a company's adoption initiative will often depend on its previous experience with AP automation—and back-office technology in general. In some cases, a practitioner could be making the case for software adoption to a company that has never automated any major back-office process with a software tool. In others, an organization could already have an AP software tool in place. It could be an outdated solution or one that was unsuccessful in improving processes, leading the practitioner to encourage the company to replace the tool.

An organization's experience with automation can vary based on many factors, including the company's size and age. For example, an organization that was founded over 40 years ago is much more likely to have several software tools implemented in back-office departments, whether an HR solution, a payroll system, or one or more ERPs. Older organizations are more likely to have adopted their ERP's on-premise financial automation tools, as these offerings were reaching prominence among ERP providers in the 1990s and early 2000s. Larger organizations are also more likely to have already adopted an AP system, as they have more financial resources to adopt a solution—and will feel fewer effects of a financial loss if the solution is not an successful fit.

There are advantages and disadvantages to automating an AP process completely from scratch. For example, if a company is not dependent on legacy-based AP automation, they typically lack an established relationship with the IT department, which can add more time to the adoption and implementation process. They will also more likely need to hire additional internal IT resources to assist with implementation. On the other hand, the company will have the ability to design and customize a completely new automation process without worrying about interacting with existing solutions and hardware.

There are also advantages and disadvantages when a company already has an ERP/legacy AP system in place. If the company decides to replace their system, they will have to sever their existing software contract, as well as reallocate IT roles that were monitoring the existing solution. They will also have to consider how to integrate the new solution with existing processes and hardware (e.g. scanners). However, the company will have the benefit of established personnel

to manage the implementation, which entails a team that already possesses local IT and process knowledge. In addition, the company will have a back-up solution in case implementation goes wrong.

No matter what experience a company has with financial process technology, the best tools that a practitioner can employ when making the case for AP automation are the numbers. From decades of consulting and market research, PayStream has been able to estimate general costs of implementation and the criteria to use when evaluating the potential ROI of a tool. The following items cover some of the potential costs—and savings—involved in software implementation and process changes, and are meant to help organizations estimate these cost areas in their own processes.

Initial Cost of Implementing Automation

» **Implementation Costs** – Most providers charge a certain percentage of their subscription fee up front, though this varies by provider. To predict implementation costs, organizations can reach out to a few providers to request estimates.

» **The Cost of Downtime and Evaluation** – In cases where organizations are replacing an existing AP automation system, they should consider the time during which they will have to take their current tool offline. This may result in some missed discounts or higher labor costs when the solution is not handling all processes, and these costs should be quantified and considered. Organizations implementing their first major AP tool or a replacement tool should factor in the cost of consultants, who usually bill at an hourly rate.
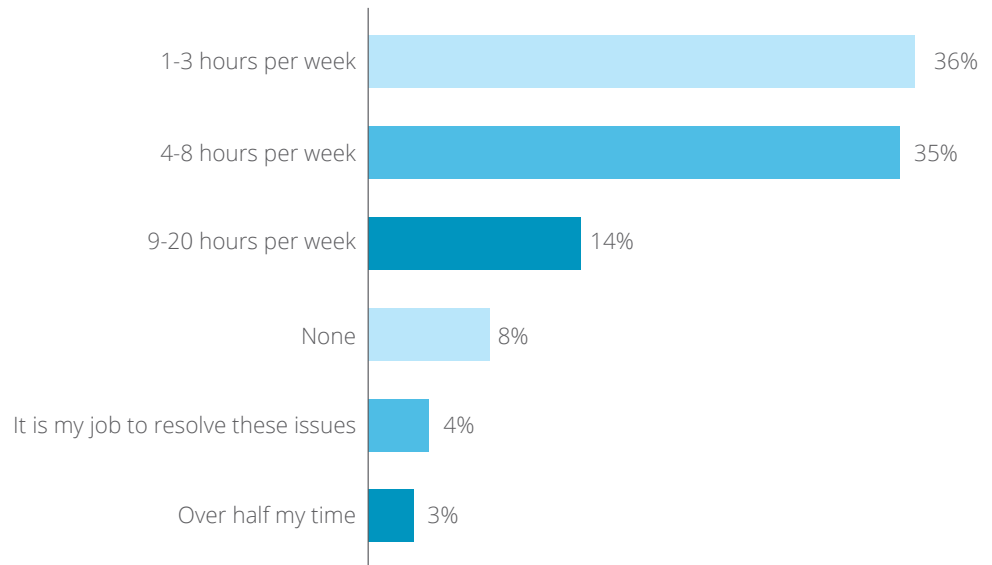
Potential Savings from Process Automation

» **Optimized Labor Costs** – AP automation allows many organizations to restructure their AP department. This entails reallocating staff members that normally take care of low-value tasks, such as manual data entry, to other, more strategic positions. Sometimes automation simply takes the pressure off of an over-burdened team; an inefficient AP process often forces an AP staff to spend their time fixing issues that should not have happened in the first place, such as tracking down missing paper invoices. Research shows that two-thirds of AP staff spend between 1 and 8 hours each week resolving AP issues, see Figure 4.

Figure 4

Many AP Professionals Spend Several Hours Each Week Resolving Process Issues

"How many hours each week do you estimate you spend on resolving AP process issues? (invoice errors, duplicate invoices/payments, supplier calls, etc.)"

TIME SPENT RESOLVING AP PROCESS ISSUES

Category	Percentage
1-3 hours per week	36%
4-8 hours per week	35%
9-20 hours per week	14%
None	8%
It is my job to resolve these issues	4%
Over half my time	3%

If these hours are reduced with an AP solution and employees can focus on more important activities, organizations gain much more value from each dollar of labor spent. Organizations should calculate the effects AP automation would have on their own resolution times and labor costs. Example 1 illustrates the savings in labor costs if an organization were to eliminate a few positions after automation.

Example 1

Assumption:	An organization employs 5 full-time AP clerks making an average of $38,000 per year. In a manual process, each clerk processes 20 invoices and handles 5 vendor inquiries per day.
Result:	With an AP solution, this workload is reduced to one vendor inquiry per day, and AP clerks only manage exceptions—an average of 2 exception invoices per day. This allows one person to handle the work of five people, enabling the organization to reassign 80 percent of their AP clerks, and saving a total of $152,000 a year in labor costs attributed to AP.

Many times, organizations can reallocate staff to more strategic, value-added activities. AP automation also brings the ability for a company to grow without needing to significantly expand their AP staff. For example, if a company with a mid-single-digits growth rate and spend growing at 80 percent of that rate were to expand, it should be able to calculate the annual savings of an AP solution across their labor costs.

» **Mailroom Processing** – Not all organizations have a designated mailroom, but for those that do, these operations can be very expensive in terms of labor. Eliminating paper invoices with an AP automation solution can reduce the staff hours needed to process the mail, but only to a certain degree. When evaluating these costs, the practitioner should assume that 30 percent of mail is AP-related, and factor this amount into the reduction of mailroom staff.

» **Data Entry Labor and Equipment** – Many organizations with high volumes of paper invoices must perform a great deal of manual data entry to input and process invoices. This is usually handled either by AP clerks or a separate department designated to AP data entry. In the latter case, professionals are typically fully allocated to AP and do not transfer across departments. This means that

when data entry is eliminated, the organization saves all of those costs (unlike with mailroom processing). The data entry process also requires the use of scanners, which can be very expensive at the industrial level. Example 2 shows what happens when an organization implements an AP automation solution with electronic invoicing and eliminates data entry entirely.

Example 2

Assumption:	An organization employs 4 full-time data entry clerks with an average annual salary of $33,000. The organization has three scanners, purchased at $5500 per scanner; the scanners have a 2-year lifespan.
Result:	If the organization eliminates the data entry department, also removing the labor costs and the need to repurchase scanners at the end of their lifespan, the company would save $693,000 in 5 years.

» **Increased Discount Capture** – With an AP automation system, processes are streamlined and invoice lifecycles are shortened, meaning that organizations have a much greater ability to pay invoices early and capture early payment discounts. The monetary savings depends on the number of invoices an organization receives and the percentage of those invoices that are eligible for discounts. PayStream has found that most companies are offered discounts on 20 percent of invoices (or 20 percent of spend).

Example 3

Assumption:	A middle-market organization has $300 million in annual spend. With a manual AP process, the company is offered discounts on 20 percent of their annual spend, and it is able to capture 5 percent of those discounts with average discount terms of 2/10 net 30. This results in approximately $60,000 in annual savings.*
Result:	After the company automates its AP process, the discount capture rate rises from 5 percent to 80 percent on eligible spend. This results in approximately $960,000 in annual savings.*

*Ceteris paribus to supplier segmentation and invoice size.

Other Potential Process Improvements

» **Cost of Capital** – An AP automation solution can dramatically improve many aspects of processes throughout an organization, including supply chain operations. Automation improves payment times and vendor relationships, and can also affect an organization's credit and eligibility for loans. While these benefits are harder to quantify than some other process improvements, organizations should still consider the effect a solution can have on their cost of capital when making an investment decision. For example, operating under a hypothetical credit rating improvement, how would a company's business plans change in the next 10 years?

» **Improved Month/Quarter/Year-End Close Processes** – This unavoidable, time-consuming process can be simplified and made far more efficient with an AP solution. With the automatic reconciliation and auditing capabilities provided by many AP solutions, accounting professionals gain much more visibility into the closing process. This reduces the stress of the process for the accounting department and could eliminate the need to hire outside help during these busier times.

» **Elimination of Outsourcing** – Not all organizations outsource, but many find it easier or more affordable to send their invoice processing, routing, and/or payments to outside teams. However, AP technology can completely eliminate many of the manual activities that organizations outsource, using technologies like electronic invoicing, online data capture tools, machine learning, and automatic approval workflows. This immediately and dramatically reduces annual AP costs.

» **Document Storage** – Many AP solutions allow organizations to store their invoices and other business documents in an electronic archive. This eliminates the need for physical storage containers. Depending on the size of the company and the volume of retained documents, this could free up considerable extra office space—it may even prevent or postpone a move for a growing company. Eliminating paper also reduces the risk of losing valuable business data in the case of unforeseen circumstances, such as theft or fire.

Measuring Success

When practitioners are preparing for their presentation, they should have as many measurements to consider as possible. Table 2 contains a few calculations they can use to determine real ROI results.

Table 2

ROI Calculators

Total Cost Per Invoice	(Number of AP Clerks * Average Annual Salary) / Number of Annual Invoices *(does not account for overhead or other soft costs)*
Perfect Payment Index Calculation	% electronic * % paid on-time * % discount achieved
First Year ROI (%)	Annual Savings / Total Cost of Implementation
Payback Period (Years)	Total Cost of Ownership (Annual Subscription* Number of Years + Implementation Cost) / Annual Savings
5-Year ROI	(Annual Savings * 5) / (Total Cost of Ownership + 5 Year Maintenance Costs)

In order for an automation overhaul to be successful, it is vital that senior management understand the value, need, and primary use of the software. When presenting their case for automation, practitioners should leverage all current-state and ROI metrics with a detailed plan for product implementation, highlighting the long-term benefits of the solution in both hard and soft costs. This will ensure that stakeholders are aware of their process needs, educated on the solutions to these needs, and optimistic and enthusiastic about implementing a new system.

The following profile highlights the features of a leading AP provider. This provider has a track record of helping clients optimize their AP processes to produce the highest possible ROI and long-term success.

Artsyl

Artsyl has offered software for intelligent document capture, workflow automation, and invoice management for over 15 years, releasing its invoice solution, InvoiceAction, in 2013. Artsyl offers InvoiceAction along with its flagship product, the docAlpha Smart Process Platform, to enterprises of all sizes in a variety of industries, including shared services providers. The company helps clients process millions of documents each year across a variety of types, including invoices, medical claims, and government documents.

Founded	2001
Headquarters	Toronto
Other Locations	Kiev, Tampa
Number of Employees	51
Number of Customers	500+
Target Verticals	Corporate Finance, Manufacturing, Financial Services, Healthcare
Partners / Resellers	SAP, docSTAR/Epicor, ReQlogic/UXC/CSC, Acumatica

Solution Overview

Artsyl partners with Microsoft, and its products are developed using Microsoft .NET and Services Oriented Architecture; Artsyl also has adopted and follows all standard security models from Microsoft. Artsyl's products leverage tight API-based integrations with major ERP systems such as SAP, Oracle/NetSuite, Microsoft Dynamics, Acumatica, and integrate with even more using web services. InvoiceAction is available in English, French, German, Spanish, and Russian. The product supports OCR data capture for over 100 languages including Arabic, Thai, Hebrew, and Vietnamese.

InvoiceAction and docAlpha automate many of the most painful steps in invoice processing—manual data entry, approval routing, matching, and GL coding. These solutions allow customers to scale their AP operations without adding staff, while significantly reducing processing cycle times. These customers gain better visibility into cash flow and control over the process, and higher early pay discount capture.

Artsyl's solutions use a transaction statistics server to collect and report on all facets of any transaction processed through the system. The solutions offer reports that can be configured to present all possible KPIs for a client. Artsyl's consulting staff works with all clients to map out the current processes and re-engineer them leveraging docAlpha and InvoiceAction's features.

Invoice Management

Artsyl's docAlpha solution can extract data from any digital and paper document with intelligent capture technology, and leverages InvoiceAction to handle a specific business document flow—vendor invoice processing. docAlpha validates captured invoice data using its own algorithms and by cross-referencing information against clients' ERPs or other business systems. docAlpha then applies business rules to extracted data to automate AP functions like approval routing and matching.

docAlpha allows for multi-channel submission of invoices via email, scanned paper, fax server, FTP site, WebDAV folders, and EDI. Artsyl can process both image-based and electronic supplier invoices, and the solution supports PDF and other image formats such as TIFF, JPEG, BMP, and PNG, or electronic invoice formats such as EDI, XML, TXT, CSV, Word, and Excel.

InvoiceAction extracts relevant header and line item data from invoices and related procurement documents, validating that data by cross-referencing existing ERP system records. InvoiceAction then relies on that data to provide 3- and 4-way matching with transactions within the ERP system, or automatic exception routing according to pre-defined business rules. InvoiceAction supports field-level matching based on business rules, and invoices can be routed back to suppliers with rejection explanations.

InvoiceAction is web-based, and can be accessed from any mobile device. Emails contain hyperlinks to launch the application and allow users to manage their invoices from any tablet or mobile device. Automatic email notifications alert staff to exceptions that need attention, and automatic escalations ensure that nothing remains in any individual's queue for too long. InvoiceAction also supports out-of-office forwarding, escalations and reminders, and workload balancing.

Artsyl can store invoices in file servers and ECM systems for later search and retrieval. The company also supports SharePoint and leverages CMIS for content connectivity with other major ECM systems.

Implementation and Pricing

A typical Artsyl implementation takes 60-90 days. Artsyl provides full operator and administrator training as part of the standard implementation. After implementation, Artsyl offers fulll technical support 24 hours per day, Monday through Friday.

InvoiceAction is currently priced per transaction and will be available as a subscription in Q2, 2017.

Case Study:

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Canac Inc. Reduces AP Invoice Cycle Times from Two Weeks to Two Days and Eliminates Manual Data Entry with docAlpha

Challenge

Canac is one of Canada's largest hardware retailers, with 24 branches across the country and more than 2,500 employees. The company offers over 20,000 products and personalized services to homeowners, home builders, and construction professionals.

Client: Canac Inc.

Industry: Retail

A few years ago, the company needed to find a better way to manage its vendor invoices. At the time, Canac handled paper invoices manually, sending the physical documents to department managers. AP team members wasted hours each week on document filing, data entry, routing, approval tracking, PO matching, and payment processing. The entire invoice approval lifecycle typically took as long as two weeks to complete.

Approach and Implementation

Canac's first step in improving their AP processes was to implement Laserfiche as the company's enterprise content management (ECM) system. Implementing Laserfiche allowed Canac to automate invoice routing and approval and to streamline the filing and retrieval of invoices, receipts, and orders. However, some gaps still existed in Canac's AP processes—manual document scanning and filing and manual data entry.

Canac tasked program analyst Sophie Maltais to analyze existing processes and recommend improvements. Maltais' determined the need to apply intelligent capture technology to Canac's document management processes. She ultimately worked with Artsyl Technologies to apply the company's docAlpha platform to capture data from scanned paper and digital vendor invoices.

Case Study:

ARTSYL

docAlpha helped remove the bottlenecks of sorting, filing, and data entry that were keeping Canac's AP processes from full efficiency. Now, Canac's AP team only needs to scan their paper documents or upload electronic invoices to the docAlpha system for automatic data capture. That data is used to inform Canac's business rules within the Laserfiche ECM to determine who must code an invoice and review it prior to approval and payment. Laserfiche captures invoice payment approvals digitally, either via email or the Laserfiche interface, then passes the data along to the company's ERP system.

Results

Today, docAlpha sorts, files, and indexes up to 120,000 vendor invoices annually for Canac. According to Maltais, automating Canac's AP processes with docAlpha has allowed Canac to reduce vendor invoice processing and approval from two weeks to two days.

With docAlpha, Maltais has been able to configure docAlpha to eliminate 95 percent of the data entry that used to be required to process invoices. Canac has reduced payment cycle times, and has been able to scale without adding staff to handle invoices. Canac's AP staff is also able to focus more of their energy on managing and optimizing cash flow while strengthening relationships with partners and suppliers.

About PayStream Advisors

PayStream Advisors is a research and advisory firm focused on business process automation in sourcing, supply chain management, procurement, accounts payable, payments, and expense management. PayStream's team of experts provide targeted research and consulting services to address the changing needs of finance and procurement professionals. In short, PayStream is dedicated to maximizing returns and minimizing risks associated with technology investment. PayStream's research reports, white papers, webinars, and tools are available free of charge at www.paystreamadvisors.com. PayStream Advisors is a division of Levvel, an IT consulting firm specializing in technology strategy, design, architecture, and DevOps.