ASCEND

Overpaying to Pay Invoices

What causes exponential spending in Accounts Payable organizations and how process automation can fix it

Introduction

From the outside, accounts payable (AP) processes can seem opaque and mysterious. Often, the manual for this essential function appears to exist solely in the minds of certain AP team members.

Only they possess the full understanding of the microtasks and processes that make up AP invoice processing.

But, there's no reason for this information to only exist in a few brains.

AP is not new. And, its processes, whether manual or automated, are not mysterious. So, your AP processes shouldn't be either. In fact, these processes—more so, their performance—should be as clear, immediate, and accessible as the meters and warnings on your car's dashboard.

Just as you'd want an alert for a low tank of gas, you need an alert for a stack of invoices about to incur late payment fees.

Sticking to our car analogy, you might not know whether premium or regular motor oil is right for your vehicle. So, in a pinch, you err on the side of caution and pay the extra $10 for the premium. In AP, you're probably unnecessarily spending money to process invoices; for example, by overpaying some vendors in the form of duplicate payments.

The impact of one overpayment—like the impact of buying the premium motor oil one time—is negligible. But as your company grows these "oversights" often multiply exponentially.

Tracking Your AP Spend

Do you know what duplicate payments are costing your organization over the course of year? Do you know how many hours it takes per week for your AP team to fix errors on your incoming invoices or how many hours it takes to get approvals? How about early payment discounts? Do you know how many you're missing out on each month?

Some would say that those losses are the cost of doing business. But they don't have to be. And, in 2021, they shouldn't be. Utilizing statistical data, we created this three-part eBook to uncover the hidden costs and strenuous obstacles to AP processing efficiency, and to provide a solution for avoiding them.
In part one, we'll explore the factors that make AP processing inefficient and costly. In part two, we'll point out the events that cause your business to lose money unnecessarily. Finally, in part three, we'll show how AP automation through machine learning solutions greatly increase processing speed, eliminate mistakes, and process a high number of invoices automatically without ever being touched by a human.

Part One: Measuring The (Real) Costs of Accounts Payable

Your costs are... costly. It's interesting to consider that the function of processing and paying invoices has significant costs associated with it. Maybe "interesting" is the wrong word.

But as a central function to your company's financial operations, the amount of time spent on AP processing without automation is significant. However, even with standard features of an automation strategy such as document scanning and automated approvals, the lack of additional Procure to Payment (P2P) solutions to augment your process can further stagnate an AP team's productivity.

Factors that affect invoice processing cost include:

1. **Data entry for all incoming invoices**
2. **Checking against the purchase order (PO) for verification**
3. **Verifying non-PO invoices**
4. **Payment processing**

Within those major tasks are smaller tasks that make processing possible. But they take up a considerable amount of time to handle alone. Moreover, most AP teams field a variety of other tasks, such as supplier inquiries, outside of the more crucial functions they should be spending more of their time on.

This chapter will explore the hidden and not-so-hidden costs of AP, explain how they got so high, and introduce a simple solution for getting them under control.

PO Invoices and Their Cost

Purchase order (PO) invoices are part of a traditional processing method familiar to any business. After all, POs are pre-approved and sent to the supplier for fulfillment. All the AP team needs to do is match the order against the PO when it arrives. Seems straightforward, right?

That PO-based invoice still requires data entry, which could be helped with an easy-toaccess method that automates tasks like searching for the PO itself to verify.

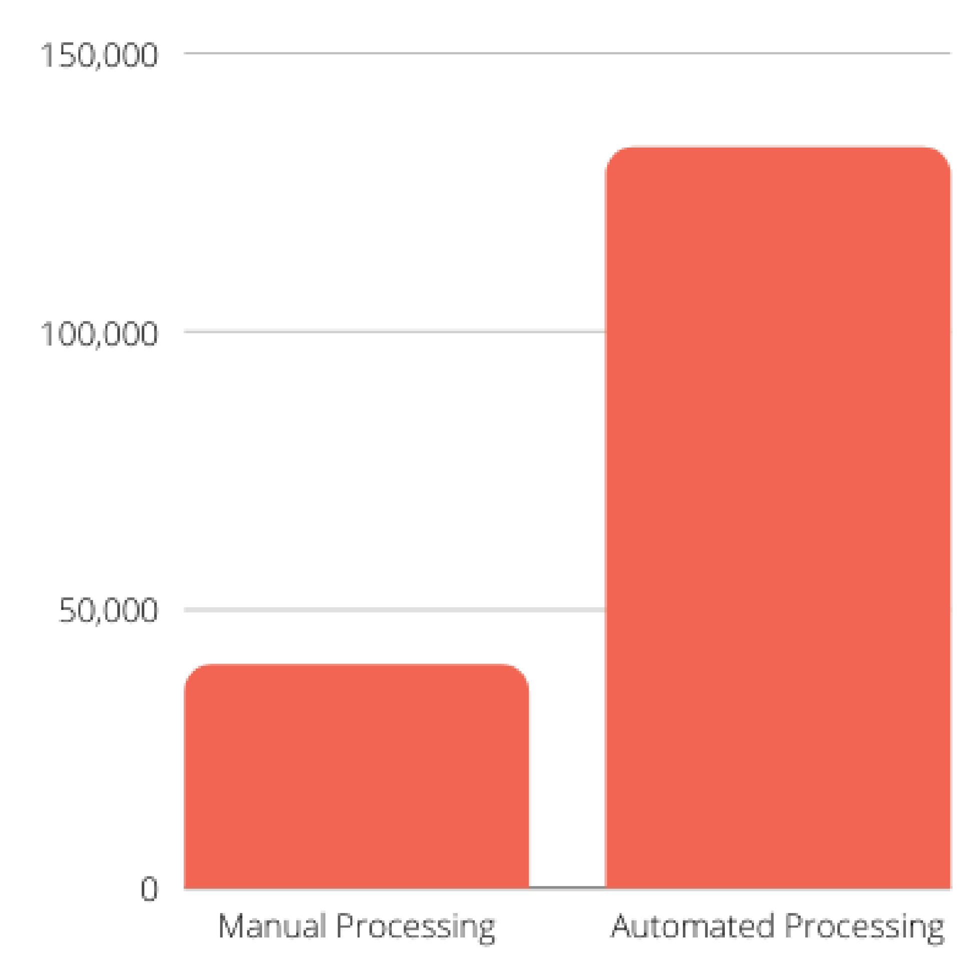
On average, 60.5% of invoices processed are PO invoices that should enable a straightthrough process. But, without an automated system with tight integration to an ERP, the AP team will likely jump back and forth through verification and entry hoops to get simple PO invoices processed.

Why the Seconds Matter – Processing PO Invoices:

At Ascend, our Validation Services team provides the perfect case study in how seconds matter when it comes to AP processing. Normally, this team specializes in processing troublesome invoices—those that stall up automation solutions and can't be processed straight through to an ERP system. The point is: these are invoice processing pros, as fast as they come. They can process a PO invoice manually (without automation software) in about three minutes.

Using that number and considering the roughly 250 working days in a year, one of our pro processors could get through about 40,000 PO invoices each year—if all they did was process invoices for 8 hours a day and with zero mistakes. Of course, these conditions don't exist in the real world, but for the purposes of this example, just stay with us.

Annual Output of one AP specialist: manual v. automated processing.



Now, consider that it takes our same pros 54 seconds to process an invoice using Ascend's AP Automation solution. Again, under perfect conditions (if all they did was process invoices for 250 days/year and never made mistakes), that translates to 133,333 PO invoices per specialist each year.

Let’s flip the example and look at the hours saved. A company processing 100,000 PO invoices each year would save 3,500 hours by leveraging automation. That’s 3,500 hours that their AP team could use on higher value tasks—and that’s just the PO invoices. The savings with non-PO invoices are far more significant.

Non-PO Invoices and Their Cost

If PO invoices are enough to keep an AP team busy, non-PO invoices monopolize even more of an AP team’s time.

Non-PO invoices, or invoices without a purchase order, can send your team onto a paper trail and approval chase for hours or days. One of the major challenges AP teams face is with invoice approval time. The time required to search for the origin of a non-PO invoice, determine proper coding, and confirm approvers significantly increases standard processing time and draws a team away from more considerable tasks. Without an intelligent integration that can access information, perform lookups, and kickoff approvals in real-time, an AP team faces stagnated processing and increased risk of errors.

Non-PO invoices: Where Automation Really Earns its Stripes

Let’s return to the invoice processing pros. Our Validation Services AP team can process a non-PO invoice manually (no automation) in 6 mins—twice the time it takes to process PO invoices.

But, using Ascend AP Automation, they can process those same invoices in 1 minute and 48 seconds.

76% Faster Processing

Imagine a company that receives 100,000 non-PO invoices each year. Assume their AP team is perfect; they make zero mistakes and spend 100% of their time processing. By moving to an automated system, they could save 7,000 processing hours (10,000 manual v. 3,000 automated). And, that’s assuming that none of their invoices are passed to their ERP automatically.

In reality, we have Ascend customers auto-passing 90%+ of their invoices to their ERP. Applied to the example above, that would mean processing just 10k of their 100k nonPO invoices annually and moving from 10k hours of processing to just 300.

Invoices Processed with Errors

Errors on invoices are costly. Errors on invoices that are processed and not caught are much more harmful.

The **invoice exception rate is 23.2%** among AP teams (source). That's a significant amount of time spent by AP team members correcting and managing invoice exceptions, which significantly increases the cost and time to process invoices.

Aside from data entry, coding, and processing errors, businesses risk spending more than necessary. That means potential overpayment—made before a receipt is received and double payments, which we'll discuss in the next section.

Duplicate Invoices: The Biggest Avoidable Cost in AP

Companies told the American Productivity and Quality Center (APQC) that 1.5% of their total annual disbursements were duplicate or erroneous That's a huge number! For most Ascend clients, the savings from reducing that number from 1.5% to .5% is enough to pay for our automation suite many times over each year.

The progenitor of duplicate payments is typically duplicate invoices.
The duplicate invoice issue commonly stems from two sources:
(1) A system that can't correctly recognize a duplicate of the same invoice.
(2) Suppliers needing to submit their invoices again due to delayed payment, non-payment, or error.

Whatever the reason, the responsibility of spotting duplicate invoices typically falls on +the AP team member in a manual process—leaning on their knowledge and intuition to spot it. Suffice to say, that's not sustainable or cost-effective.

Instead of relying on a flawed process or no process, software can be used to spot and capture duplicate invoices automatically. That stops the entry into the AP processing mechanism as well as the dual payment, and it returns valuable hours back to the AP team.

Disjointed Invoice Approvals

if only it were easier to corral approvers, better yet, to not require a flurry of approvals in order to process one invoice...

– Every AP Manager ever

Slow approval times are a top concern of AP teams and they cost companies money in late payment penalties, missed pre-payments, and additional processing time. The problem (and the solution) doesn't rest solely with the AP team itself though. It also has a lot to do with the approving managers. That's why it's essential and cost-effective to have an AP automation solution with tight integration to your ERP that quickly and simply sends approvals across the platform in real-time.

Fielding Supplier Inquiries

As the front-facing contacts for suppliers, AP teams spend a significant amount of time fielding calls and inquiries from their suppliers. In fact, Invoiceinfo.com said that, on average, 11% of invoices will eventually require an 8 minute supplier inquiry (source).

Normally, these inquiries have to do with payment and its fulfillment status—which is a serious problem if suppliers aren't being paid on time. They also create extra hours of work for an AP team to track down an invoice, update the supplier, and manage concerns—especially if invoice retention is paper-based and in file cabinets.

It Costs too Much to Pay

Only in the business world do we understand the extraordinary costs involved with building bridges for essential tasks—such as paying an organization's bills.

When you receive over a thousand invoices a month, all of which need to be matched with a PO or approved after a lengthy search process, a cost-effective, streamlined intelligent solution is a must. Certified and scalable integration from Procure to Pay solutions to the ERP is essential.

The thousands of hours of extra time it takes to manually receive and pay a company's bills are only part of the overall cost. The lack of a smart, automated solution can lead to detrimental effects to an organization's balance sheet and missed opportunities, which we'll explain in the next part of this eBook.

Part Two: Payment & Accounting Costs

Not only is money lost on the AP processing side, missed opportunities to save money, and costly penalties are also a problem.

All processes require time and efficiency. Unfortunately, one side is often disproportionately affected, leading to errors and extra costs.

In this section, we'll explore those missed opportunities to save and the potential disasters that await your accounting team due to a faulty AP strategy.

Duplicate Payments

Double invoices present double pain for businesses and are incredibly costly. In the previous section, we touched on processing duplicate invoices and how it steals valuable time from AP personnel. But then, when the duplicate invoice is later paid, the business also loses money.

$140,000 yearly loss in duplicate payments for a midsized business

A midsize business sees an invoice duplication rate of about six invoices per month and the value of those invoices received is $2,034. That means those businesses are losing about $144,000 per year.

Now consider an organization that processes 5,000 invoices per month. In their survey, companies told APQC that about 1.5% of their invoices were duplicates. Using the same number of $2,034 per invoice, that's more than $18M each year in potential duplicate payments – let alone the processing costs. If large companies are paying even a fraction of those invoices, there are enormous sums of money to be saved by shoring up duplicate payments via AP automation.

To figure out how much you could save by catching and eliminating duplicate invoices, get your free AP Automation Assessment and ROI calculator from Ascend. It takes less than a minute to request.

Lost or Missing Invoices

If tracking down approvals is a loathsome task for an AP team, then locating missing invoices or receipts takes the top spot on the unwanted jobs list.

AP team members spend an excessive amount of time following up on missing documents. The lack of documentation can also count against company taxes, causing the organization to owe more. Additionally, the more expenses are miscategorized due to missing invoices, the more misrepresentation pops up in a company's financial data.

And, nobody wants to explain those mistakes to investors.

Late Payment Fees

No one likes a late payment fee, but with a bogged down AP team and standard system, they are inevitable.

Besides the obvious costs in fees, there are two other very harmful results that stem from late payments, making them a sort of exponential cost to companies:

1. Late payments lead to increased inquiries from suppliers—wanting to know when they'll be paid. These inquiries take up the time of the AP department. Recall in part one of this book that Invoiceinfo.com said, on average, 11% of invoices require an 8-minute supplier inquiry. Many of these inquiries from suppliers checking up on late payments.
2. Late Payments lead to more duplicate invoices being sent, which lead to more duplicate payments.

When an AP team is overloaded and navigating the process without a smart processing solution, invoices slip through the cracks. Late payments don't just cost you lots of time and money, they also cost you suppliers.

Missed Early Payment Discounts

Businesses across the board are giving their payment methods a second look. 52% of B2B payments are made electronically compared to the 41% made manually. The rise of electronic payment options through an online portal has helped AP teams stay on top of payments.

Yet only 19% of early payment discounts are captured (Ardent Partners). That's a significant amount of money an organization could retain. But a high volume of invoices and a mismatched AP process likely creates a bottleneck that prevents an organization from taking advantage of this option.

Measuring the opportunity: The value of early payment discounts varies widely by company. But, for companies with the highest number of suppliers offering significant discounts, it represents a massive savings opportunity. Let's explore that group.

In their Early Pay Discount Benchmarks report, IOFM saw that around 10% of their respondents were offered discounts on 20% or more of their invoices. A larger company in this scenario with $300M in annual disbursements could save $1.2M annually if they captured all their early pay discounts. Consider that Ardent Partners reported that only 19% of discounts are captured, and the opportunity is clear.

$1.2 Million could be saved annually in Early Pay Discounts

Monthly Close & Audit: Risk and Cost

In a company's financial activity, AP teams sit in a critical position. As a result, their work directly affects the company's monthly financial closeout.

An automated process that includes detailed organization and accessibility is also crucial for audits.

56% of AP teams believe that access to technology that provides deeper, more accurate analytics and reporting is essential (Ardent Partners). Without that technology, AP teams scramble at the end of the month to close out invoices.

Auditor time spent tracking down paper approvals can be costly. Worse, penalties can occur from misinformation found in an audit.

The Cost of AP Personnel Support

AP Teams See High Turnover

Suffice to say, as an enterprise grows, so too does the volume of work and, subsequently, the stress put on AP team members.

It’s no wonder that with a severe lack of smart, automated processes, AP teams experience high turnover rates.

Once a team member is burned out and moves on professionally, the organization foots the bill to re-hire personnel for that position, train them, and repeat the cycle when necessary. Not to mention that too often, this hiring and training process equates to recreating the wheel because AP process knowledge existed only in the head of the departing employee.

Over time, that team carousel churn creates a significant cost.

Staff Augmented for Volume Spikes

Most businesses experience a volume spike in invoices at the beginning of each month. Organizations might need AP processing staff for those days of increased invoice volumes, but that doesn’t mean they only pay those processors for the seven days.

Sufficient staffing for volume fluctuations usually means overstaffing, and organizations pay accordingly.

Or, the workload creeps over, requiring reassignment of in-house team members or temporary new hires to manage the flow of invoices. Obviously, reassigning in-house staff causes stagnation in the workplace, as other critical tasks are abandoned. In addition, temporary hires negatively boost hiring and training costs Over time, that team carousel churn creates a significant cost.

Missed Opportunities

The duality of loss on both the AP processing side and Payment & Accounting side is significant. Not only can a company lose money through duplicate payments, late fees, and lack of invoices, businesses are missing out on opportunities to retain what might be lost through early payment discounts, clear organized financial data for audits, and improved cash flow and forecasting.

Apart from opportunities, businesses still need a ready and capable staff to keep the central cog of their financial engine running.

Part Three: How to Boost AP Capabilities: Benchmark, Measure, and Implement

While the first two parts of this e-book may have been a bit hard to stomach for some, there is some good news. Accounts Payable processing solutions are getting smarter.

AP is changing for the better with automated systems that go beyond data entry and approvals to provide AP teams with more strategic functions that impact the highest level of business operations.

But, how do you know if your current AP automation process is helping you to capitalize on your total ERP investment?

Ascend's approach to optimizing your AP process (and removing the mysteries behind it), includes three crucial steps to understanding your process as it is now and what needs to be done to elevate it.

1. Benchmark

Measure where you are today in terms of your AP productivity investment.

Leverage your annual AP spend with your hourly AP staff rate. Identify how many PO and non-PO invoices are processed annually as well.

Not sure how to calculate productivity from that information? Don't worry. Ascend has figured this out, so you don't have to. Click here to access Ascend's AP Automation ROI calculator and benchmark your organization's progress.

2. Measure

Monitor your AP team's performance by calculating hours spent on significant AP processes.

Include PO, non-PO, and duplicate invoice processing. Combine that with the cost of responding to supplier inquiries, the time it takes to rectify an invoice error, as well as the hourly cost of an auditor.

By measuring performance and leveraging it with invoice churn, you'll get a clearer picture of your productivity.

If you don't have a solution in place that gives you a real-time view into processing metrics, supplier information, daily pass through and error monitoring, consider SmartTouch AP. With a robust real-time reporting suite, it will take all the hard work out of this crucial step.

3. Implement

This step is essential. Yet, it can be the hardest to do. After you've gained a complete picture of your AP automation strategy in practice, it's time to make the necessary changes.

Fortunately, with benchmark data and an understanding of your AP team's performance, you'll have the ability to augment your ERP investment with a certified AP automation solution and boost your enterprise.

Put These Learnings to Use

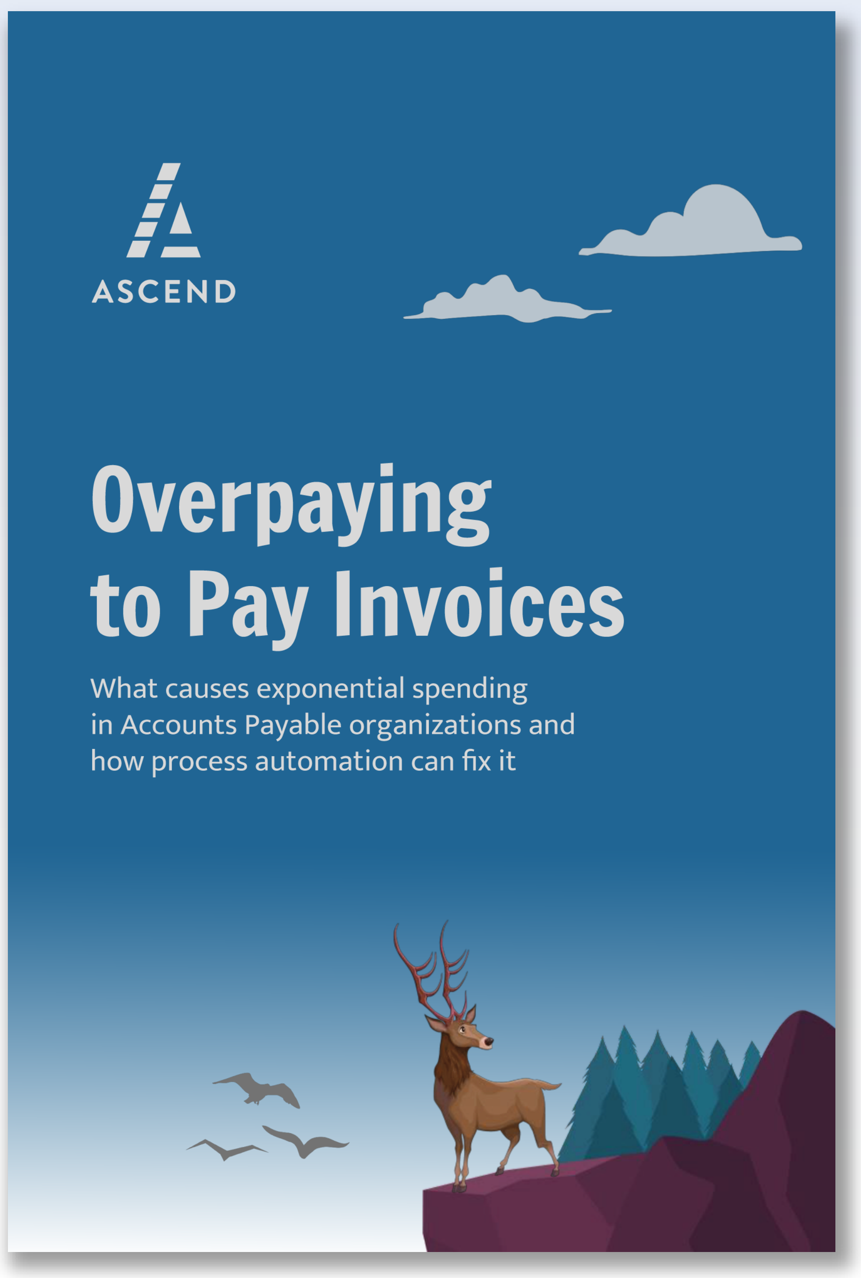
Access the AP Automation Guide today to see how much you could be saving on your AP Automation Process. Each Guide comes with a ROI Calculator and Accounts Payable Scorecard highly customized to your business.

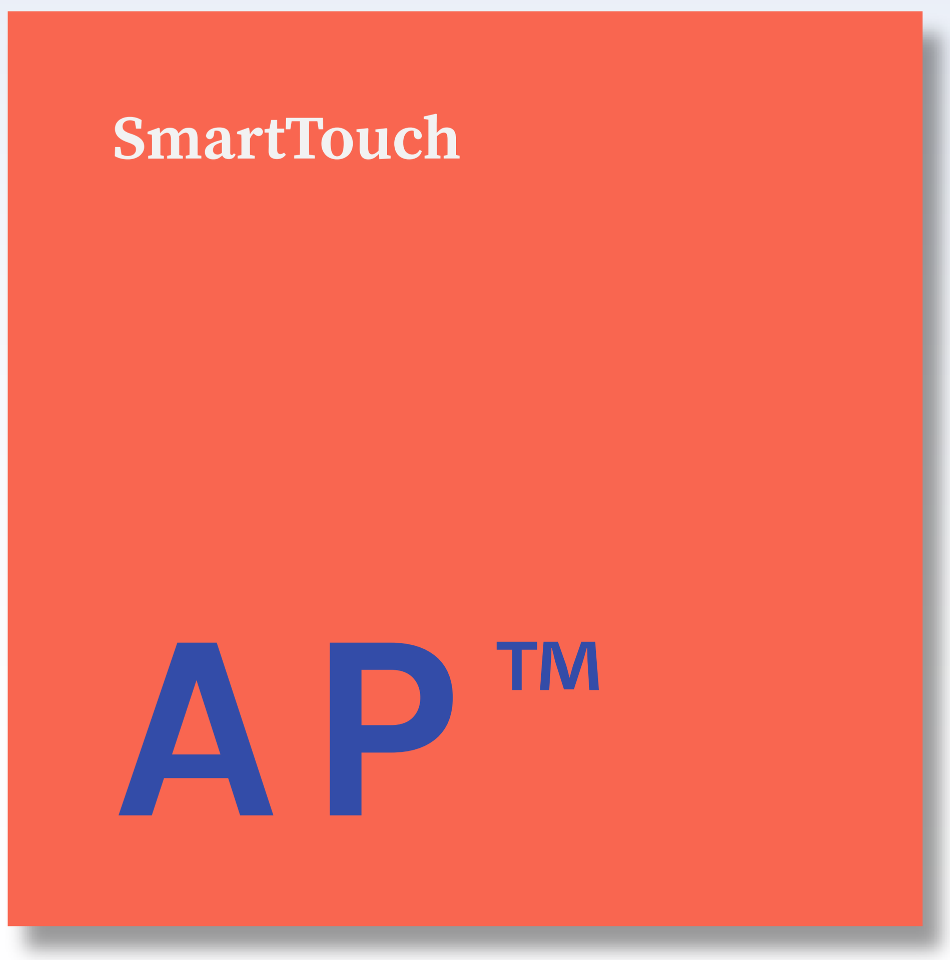
SmartTouch AP: Powerful AP Automation Built for Workday Financials.

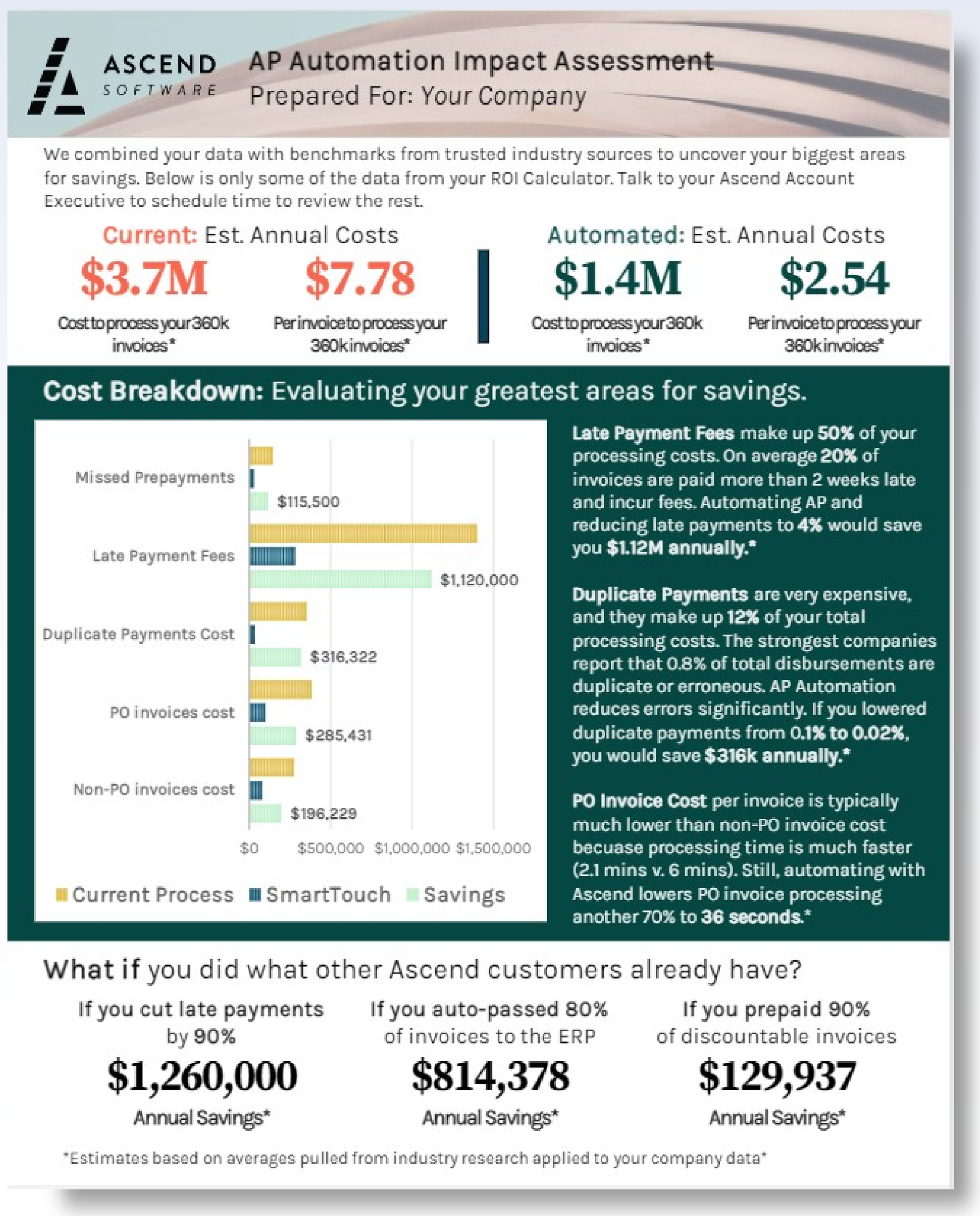
AP automation processing is a critical function for a business. But an AP automation solution for Workday needs to go beyond with a seamless and certified integration to improve the return on your investment.

Ascend's SmartTouch AP™ eliminates manual processing tasks, automatically checks for duplicates, automates invoice coding, and more, all while integrating with Workday in real-time. Ascend users process invoices 4 to 5 times faster and pass through 80 to 90 percent of invoices to Workday automatically.

Ascend became the first Certified Solution Partner for AP imaging and automation for Workday's Financial Management Platform in 2016 and since then 75+ Workday enterprises have chosen SmartTouch AP, more than any other provider. Our partnership ensures coordinated product version releases and up-to-date fine-tuning, so your AP team won't have to contend with downtime or system interruptions.







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