



# WHITEPAPER | THE 5 KEY VALUE DRIVERS OF ACCOUNTS PAYABLE AUTOMATION

Visualize an accounts payable department where the purchase invoices are managed automatically, end-to-end, with high control and a minimum of manual labor. Touchless invoice processing is the objective for many corporations, but only a few have actually managed to achieve it. A majority of businesses are still struggling to turn their accounts payable around due to gaps in knowledge and execution throughout the purchase-to-pay process.

## INTRODUCTION

This white paper will provide valuable insights for any company aiming for world-class efficiency within their accounts payable function. It offers essential perspectives to consider when transforming the traditional departmental approach to accounts payable, into a modern cross-functional approach.

In this paper, we are highlighting some of the key complexities faced when trying to increase invoice automation, and to combine various types of purchases into one unified model for invoice processing. An important aspect is that the work to increase invoice automation is not a one-off implementation project but rather an activity which should be incorporated into the daily operations.

## FIVE VALUE DRIVERS FOR SUCCESSFUL INVOICE AUTOMATION

As OpusCapita has been supporting buyer and seller organizations with services for more than 30 years we have developed a thorough end-to-end understanding and competence in the purchase-to-pay process.

Based on our experience, we have summarized five key points that affect an organization's ability to achieve a high-level of transactional efficiency through the usage of invoice automation, described in picture 1.



Picture 1: The 5 keys to transactional efficiency

These five key points are generic, and apply to all companies regardless of the size of the business, type of industry, geographical footprint and organizational structure.

Naturally there are differences in the approach, but in general the underlying key points to consider when aiming to increase invoice automation remain the same.

Next, we will examine each key point in detail. We will also give examples of different variables, which will impact

what approach you should consider when aiming to improve invoice automation.

We want to emphasize the importance of taking as transparent an approach as possible when reviewing your organization's purchase-to-pay process. Otherwise, it is easy to end up sub-optimizing and unintentionally adding the workload to another area of the purchase-to-pay process.

# THE 5 KEY VALUE DRIVERS OF ACCOUNTS PAYABLE AUTOMATION

## QUALITY OF PROCUREMENT

Since the invoice process most often is initiated with a purchase or a business agreement, the procurement department should be invited when starting an improvement program for invoice automation. This will ultimately increase the cross-functional knowledge and should provide the finance department with an enhanced understanding of the starting point for the tactical and operational purchasing elements, such as an inquiry, requisition or order.

### The PO-approach

For large corporations, a winning method to improve the ratio of invoice automation has been to internally boost the usage of purchase orders (PO) and thereby match the details of a received invoice against a purchase order and goods receipt. But even though the strict usage of purchase orders have many advantages such as spend avoidance and spend reduction, it can consequently prove to be ineffi-

cient and time consuming if, for example, the usage of free text orders explodes or the use of a purchase order is inadequate for the type of purchase, such as for subscriptions, blanket orders, contracted service orders and consignments. Thus, the PO-approach may fall short when the goal is to automate all, or at least the vast majority of the received purchase invoices.

### Ability to manage different types of purchases within the technical landscape

If we take a look at the as-is situation for many corporations, we find that the ERP systems are generally well-suited to manage the purchasing of direct material such as production related spend, resource planning and warehousing, but are often insufficient when trying to control and harmonize other significant areas affecting the total spend e.g. tail-, indirect- and maverick- spend. To target this imperfection within ERP-systems, large corporations have often invested in special-

ized tools supporting capabilities such as requisition, catalog management, segregation of duties and approval workflow.

Different approaches to processing and matching purchase invoices are described in the table 1.

It is easy to understand that the activity to streamline the different purchasing processes can be almost overwhelming for anyone aiming for the “perfect process” at once. But through cooperation between the purchasing and the accounts payable department, this feeling is possible to overcome.

It is all about practical collaboration such as jointly reviewing the different purchases and what affect they have to invoice automation and by implementing KPIs which are cross-functionally shared.

TYPE OF PURCHASE	BLANKET ORDER OR CONTRACTS	PO-BASED	CONTRACT-BASED	NON-PO BASED
DIRECT MATERIAL	Typically ERP-driven in manufacturing	Common depending on the type of industry and the size of company	Used in Infrastructure e.g. IT-services	Not common
INDIRECT MATERIAL	Not common but used e.g. in construction industry	Increasingly common with the use of catalogs and “guided buying”	Used in e.g. telecommunication rents, leasing	Tail spend and one off projects, services, consultants and support

Table 1: Types of purchasing and their relation to invoice processing

# THE 5 KEY VALUE DRIVERS OF ACCOUNTS PAYABLE AUTOMATION

## QUALITY OF THE INVOICE

As every company has a constant and natural fluctuation of suppliers, the activity to improve invoice quality is a never-ending task. Nevertheless, because of its vital impact to touchless invoice processing it should be taken very seriously. The urge to increase the invoice quality has historically been a driver for why corporations and governments continuously have tried to boost the usage of electronic invoices by launching supplier connectivity programs.

### Covering your basics

Before starting a project aiming to increase invoice quality, you should examine the state of readiness for electronic invoicing throughout your suppliers and within your industry in general.

A reasonable question to ask is whether all of your suppliers are willing to adapt to an electronic invoicing standard they don't already use and support? Another question which is worth considering is how to address your "local suppliers"? For example, a local electrician who is urgently needed to repair a critical malfunction in your factory. Would it be wise to enforce electronic invoicing to this supplier as a prerequisite for make a service request? Probably not, since in some situations the supplier can be of a higher value for the buyer than vice versa.

Even though this is a well-known fact within the department for strategic purchasing (sourcing) and thoroughly has been portrayed by thought leaders such as Peter Kralijc and Arjan van Weele, this value driver (invoice quality) has often been disregarded when programs to boost electronic invoicing have launched.

A good starting point is to review the existing electronic standards in your supplier base. Based on our experience, this review often reveals that the suppliers are using different electronic standards depending on the type of purchasing (e.g. direct material vs. indirect material), as shown in table 2.

Investigating the readiness and any potential special requirements for electronic invoicing within your industry and the targeted geographical region is, as we have already described, crucial before you evaluate how much resources should be allocated to the task of boosting the use of electronic invoicing. Also worth considering is if you have the required competence to manage the technical discussions which will arise by implementing a solution for electronic invoicing.

### Don't forget to improve the quality of the traditional invoice

Even though electronic invoicing has an important role to play in enhancing the invoice quality, other types of

invoices such as paper invoices or PDF invoices should not be ignored. OCR (Optical Character Recognition) verification can help to improve the usability of the invoice, and even relatively effortless actions (e.g. identifying the customer reference number on an invoice) can do wonders for automated posting and rule-based validations.

A popular and easy method for improving the invoice quality is to push for PDF-invoices instead of paper invoices. PDF-invoices means less manual sorting and preparation of documents and generally eliminates the most common quality issues, such as poor print- and paper quality.

The distribution (sending and receiving) of a PDF-invoice through e-mail, is also quicker than having a paper distributed by postal services. But more importantly it can constitute a prerequisite for companies who want to increase the invoice quality by harmonizing their working methods throughout country units into a centralized operating model.

PDF invoices with embedded XML-data are currently gaining ground in relation to the other alternatives within the electronic invoicing communities. As the PDF invoices with XML have the same characteristics as the network driven standards, they are highly suitable to be used in indirect purchasing.

Type of purchase	ELECTRONIC STANDARD		
	Network driven standards	Industry specific standards	Traditional point-to-point
Indirect material	Primary		Secondary
Direct material	Secondary	Primary	Primary

Typically used within governmental purchasing based on e.g. PEPPOL, Sve-Faktura, Finvoice, OIOIXML, ZugFerd or EHF.

Traditional point-to-point connections have often been adopted as a basis for the creation of a collective, industry-specific standard through the cooperation of multiple leading corporations.

Typically used as part of a business scenario driven by a specific corporation. E.g. proprietary format based on Odette, EDIFACT or ANSI X12. These standards often enforce a high level of business compliance for the supplier to address the systems for business automation such as Just-In-Time and Kanban.

Table 2: Electronic standards depending on the type of purchase

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## MASTER DATA MANAGEMENT

One of the most critical areas to consider when aiming for touchless invoice processing is the internal data quality in the master data. The master data is generally managed within the corporations ERP-systems, and the quality of the data is influenced by cross-functional access to the data and by changes in the supplier base and users.

As you might expect, the master data continuously needs to be reviewed and updated by e.g. eliminating inactive suppliers, updating payment methods, updating payment terms, registering newly added suppliers and deciding how to manage “one-off” purchases from specific suppliers.

Master data management is also influenced by the organizational set-up, and has a strong cross reference to user rights and power of authority. This quite often is a complex field, because of the many dependencies between a specific user and the different business units he or she should manage invoices for.

Over the past decade it has been popular among corporations to launch programs e.g. “ONE Finance” aiming to harmonize the use of different cost centers and posting dimensions which is used throughout a group of companies. These programs can be very beneficial for invoice processing and improve consolidated controlling but can also lead to challenges for local businesses managers, claiming inflexibility and lack of transparency.

This situation can to some extent be avoided by using a modern system for advanced invoice automation which generally can manage different charts of accounts and several layers of posting dimensions without any notable consequences for the matching ratio or controlling.

## INVOICE AUTOMATION CAPABILITIES (MATCHING)

It is probably self-explanatory that the different capabilities of invoice automation within a system are crucial when trying to establish a touchless invoice process. At the end of the day, the system should be flexible yet rigid, and guide the user to only manage exceptions.

When evaluating whether a system is suitable for invoice automation, the functionalities and features to look for are automated posting, posting templates, contract matching (including subscriptions), header and line level matching together with automation for surcharges (e.g. extra costs for freights).

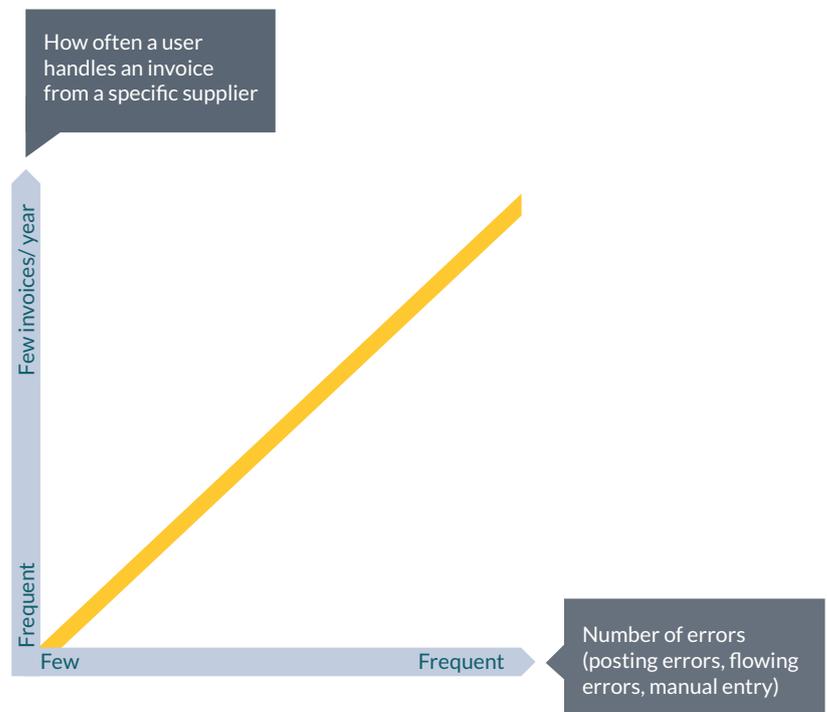
### The challenge of conflicting interests

These kind of features are pivotal to reach a high level of invoice automation, but at the same time they present a clear challenge. The challenge to manage the conflict between – finding

and correcting inaccuracies in purchase orders and invoices vs, the urge to minimize exception handling.

A typical example is the strict rule-based automation, where a purchase invoice is matched against a purchase order and a goods receipt. In this case, close attention should be paid to the tolerance levels in the automation rules in order not to end up with neither “too flexible” nor “too strict” tolerances. Too flexible, can result in accepting inaccuracies while “too strict” tolerances can result in unnecessary exception handling for the users.

A general vulnerability in the process is the situation where a user receives an invoice from a specific supplier relatively infrequently. As visualized in picture 2, this increases the occurrence of errors in the processing and wrongful postings. This in turn leads to unnecessary manual work for the accounts payables department or financial controlling having to correct the errors.



Picture 2: Number of errors vs. the supplier invoice frequency

# THE 5 KEY VALUE DRIVERS OF ACCOUNTS PAYABLE AUTOMATION

## ... INVOICE AUTOMATION CAPABILITIES (MATCHING)

### Artificial intelligence

To address this imperfection in the current automation capabilities, some of the advanced suppliers have started to investigate the possibility of leveraging artificial intelligence and machine learning within purchase-to-pay.

A special algorithm makes the system follow the initially set rules for invoice processing, but also allows the system to learn by constantly monitoring the outcome of the deviations, managed by the users. This triggers an extensive learning process in the invoice circulation. The algorithm observes all the invoices passing through the system, and is thereby able to identify patterns for the infrequent invoices which is overseen by ordinary users.

For instance, an individual user may only handle a purchase invoice from a specific supplier once a year, but the AI is able to create a rule for the processing of the invoice in question by following e.g. 500 other users who also manage separate invoices from the same supplier.

## ORGANIZATION MATURITY AND BUSINESS DRIVERS

As many business professionals have experienced, the constant need to improve profitability and increase growth can cause friction between different departments within a corporation.

Purchase-to-pay is by no means an exception and a typical example of friction is the often contradictory needs of the procurement department and the finance department. Purchasing requires flexibility in the sourcing strategy to be able to manage a variety of suppliers and different spend categories spanning indirect and direct purchase categories. At the same time the finance department has the urge to manage all of the invoices within a streamlined and standardized way regardless of what spend category it is based on.

In addition, corporate policies concerning e.g. security, IT as well as CSR (Corporate Social Responsibility), might have an impact on how effectively the invoice circulation process can be managed.

All the different issues influencing your corporation's capability of achieving

world-class efficiency in accounts payables can be clearly identified in two major categories: issues related to your organizational maturity and the business drivers. An example is described in the table 3.

### Align your targets

In order to decrease the friction between different departments, shared targets with aligned KPIs is highly recommended. One suggestion can be to agree on different KPIs for invoice automation depending on what type of purchase the invoice is based on such as described in table 1.

This way you increase your transparency and can easily analyze how effective your process is related to different purchases. Also a general recommendation is to not choose too many KPIs.

Rather than having many, choose fewer and deepen your understanding of the result of the KPI. To give you an example, instead of stating you want 60% electronic invoices, decide how high the percentage of electronic invoices you should have based on the type of purchase. For this activity you can use the model in table 2 as a basis for your internal discussions.

ORGANIZATIONAL MATURITY	BUSINESS DRIVERS
KPIs and governance	Direct cost savings
Policies	Operational efficiency
SAAS vs. on-premise	Spend management
Harminization of internal practices	Economies of scale (shared service centers)
Transparency	Control
LEAN-principles	Fraud management and compliance
Knowledge and know-how (resources)	Cash flow mgmt. e.g. dynamic discounting
Security	Improve DPO (days payable outstanding)

Table 3: Issues influencing the development possibilities of account payables efficiency.

## CONCLUSION

Electronic invoice management during the past 20 years has revolutionized the way to manage purchase invoices throughout corporations all over the world. But as the easy wins were reaped with a minimum of investments, world class efficiency requires corporations to improve the cross functional cooperation between different functional areas and departments to target improvements throughout the end-to-end process of purchase-to-pay.

As systems are evolving, the usage of artificial intelligence and machine learning is predicted to automate many of the operative activities which previously were handled by accountants and operative purchasing. competences within the traditional departments. Finance, accountants will become specialists in electronic invoicing management instead of continuously correcting wrongfully posted invoices.

Still the urge to change has a built in conservatism which gives the corporations with a progressive business culture a potentially long lasting competitive edge. In this respect the area of purchase-to-pay is still a so called, blue ocean, with tremendous potential just waiting to be realized.



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Rowan has more than 10 years of experience in the purchase-to-pay arena. During this time, he has managed the go-to-market for a diverse set of portfolios including Accounts Payable Automation, B2B Networks, Financing Services, eProcurement and Product Information Management.

Learn more about OpusCapita Invoice Process Automation

<https://www.opuscapita.com/solutions/source-to-pay/invoice-automation>

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