



Interoperability for Automating Accounts Payable

Why an Open Business Network is Critical for Digital Transformation

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- » Current Market Trends in AP Management Among North American Organizations
- » The Value of Interoperable AP Automation for Maximizing Digital Transformation
- » Interoperable AP Software Features and Functionality

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The logo for CORTEX, featuring the word "CORTEX" in a bold, blue, sans-serif font. The letter "X" is stylized with a white diagonal line through it.

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Introduction

Across the entire spectrum of business processes, companies are turning to digital transformation strategies to streamline and enhance their back-office operations. With a successful digital transformation initiative, organizations can achieve significant efficiency gains, glean unprecedented insights into their transactional data, and unlock new opportunities for themselves and their partners.

One of the key ways to accomplish this transformation within Accounts Payable (AP) is to eliminate inefficient manual processes by adopting automated AP solutions. As companies must manage a significant number of both incoming and outgoing document processes, they are looking for versatile, interoperable solutions that can also handle Accounts Receivable (AR) invoices.

Because there is no one-size-fits-all solution, organizations use many different methods to achieve AP automation. Some choose to leverage their existing systems' tools, such as AP solutions built into their ERPs. Others leverage their internal technology teams to build new solutions, or new applications integrated into their existing solutions. Some companies choose to gain the benefits of leading cloud-based AP automation providers by embarking on a full-scale technology transformation with a multi-faceted technology suite.

As with any change initiative, businesses can face many challenges while integrating an automated AP solution. ERP-based or homegrown technologies are often ill-equipped to handle the complex needs of efficient AP management, and their customization and maintenance is cumbersome. Larger, full-scale software suites require significant investments in terms of time, money, and other resources that many companies cannot afford. Adopting a software suite also requires major overhauls of entire back-office processes that many companies do not have the resources to properly manage. Organizations may hesitate to begin integrating an automated AP solution for fear of the required investment, or because they have existing systems in place that they believe are sufficient for their purposes.



This white paper explores how successful digital transformation can be accomplished through an open business network, where solutions can be integrated easily with the current environment. Organizations that adopt an interoperable open business network can enhance their AP process without disrupting their current state or replacing their existing systems. This report examines the state of AP today, the benefits of automating invoice management, and the value of choosing an interoperable open business network.



The Current State of Procurement Management

Interoperable software integrates seamlessly into an existing system—whether that be an ERP or a homegrown solution—allowing information systems and applications to communicate, exchange data, and use the information to accomplish back-office processes. Within the AP space, interoperable solutions may focus on a particular part of the process, such as invoice management or payments, while being capable of working with other processes already established within the organization.

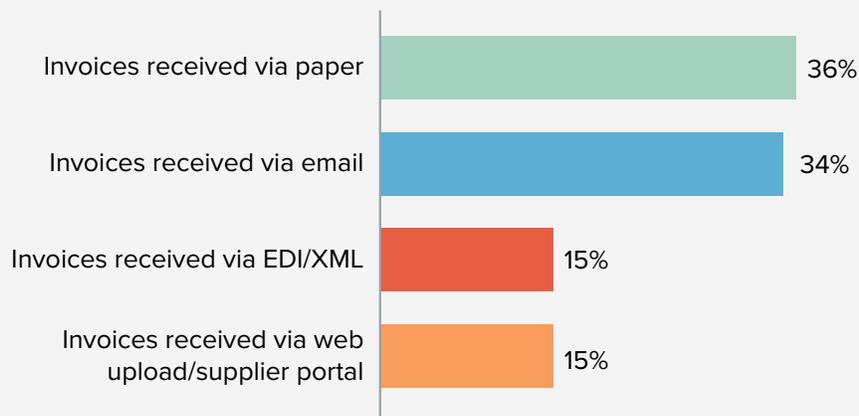
To explore the current use of AP automation technology among organizations, Levvel Research analyzed data from a payables survey conducted across over 400 North American organizations. Of the three steps within the payments lifecycle (invoice receipt and entry, invoice management, and payment), this report will focus on the steps directly involving invoices, and the value of automating these steps with cloud-based AP automation.

Invoice Receipt

Among North American organizations, invoices are most commonly received in unstructured formats. Structured invoice formats, such as electronic invoices (i.e., eInvoicing or EDI [Electronic Data Interchange]) and those submitted through a web portal, are less common. The most common forms of invoice are paper and email, see Figure 1.

FIGURE 1

Invoice Receipt Methods



Paper and Email Invoices Are the Most Commonly Received Invoice Forms

“Please allocate 100 percentage points on how your organization receives invoices.”



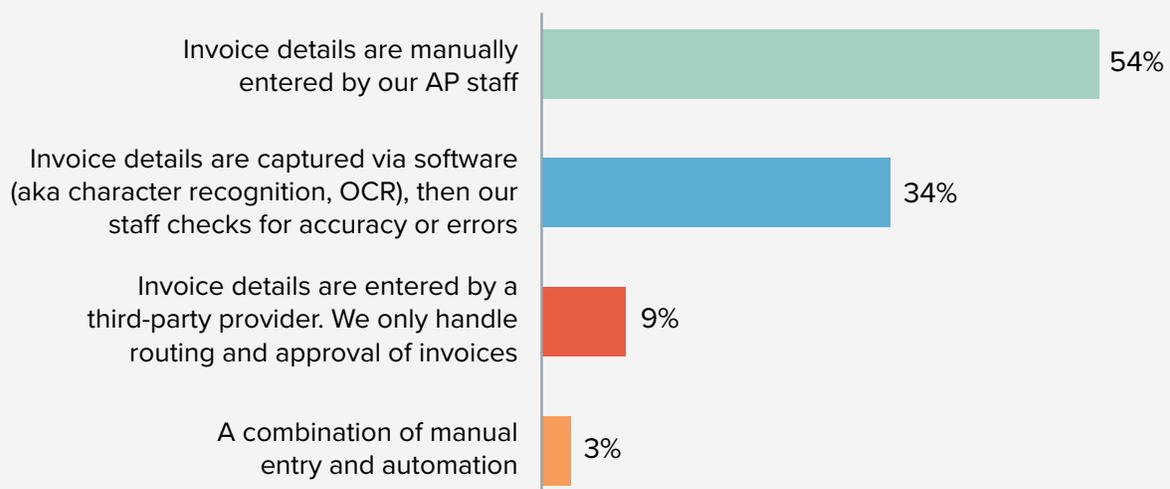
Unstructured invoice formats are much less efficient than structured formats. They typically require manual involvement, such as manual data entry into an ERP. Technology-enabled, structured formats can be used to automate much of the invoice receipt process. A company’s invoice processing efficiency can be determined by its ratio of manual-based invoices to electronic invoices.

The site of invoice processing is another important aspect of invoice receipt, as it can affect how quickly the invoice is put into the appropriate workflow and approved for payment. A centralized process sends all receipts to a single location, whereas a decentralized process may disperse invoices to various approvers based on location, invoice type, or department. There are also partly centralized processes that combine elements of both, with possible entry or routing done in various locations. Most companies have a centralized invoice receipt process to manage different geographic locations of personnel or high volumes of invoices. However, smaller companies are more likely to have a decentralized approach, as they are still adjusting their back-office processes to meet changing demand.

Once an invoice is received, its information must be entered into an organization’s accounting system method. Structured invoices are automatically entered into an integrated system. By contrast, unstructured invoices are most frequently entered manually by AP staff, see Figure 2.

FIGURE 2

Invoice Entry Methods



Most Organizations Manually Enter Invoice Data into Their Accounting Systems

“How is invoice information entered into your ERP, accounting software, or accounts payable software?”



Data capture methods such as optical character recognition (OCR) extract information from a scanned invoice or from a digital invoice sent via email. OCR technology has become more advanced, with artificial intelligence algorithms learning from an organization's input and then providing more educated transcriptions of invoices.

Level Research has found that the format of invoices and the level of automation used to input invoices into accounting systems are more important factors in AP efficiency than the centralization of invoice receipts. For example, decentralized processes paired with high volumes of EDI invoices can be more efficient than centralized processes where most invoices are received in paper format. Similarly, a company with decentralized processes that is leveraging data capture tools might have greater success in controlling AP efficiency than a company with a centralized invoice receipt process that is manually entering invoice data.

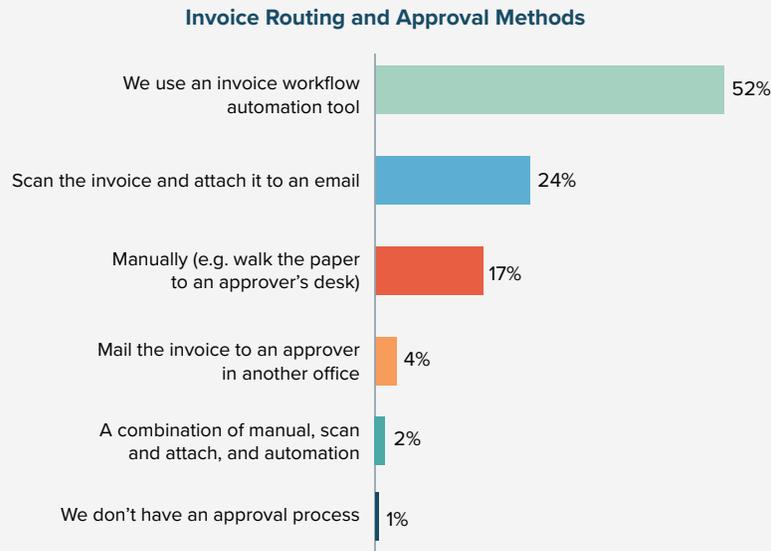
Invoice receipt process requirements differ across industries and revenue segments. Some industries, such as health care, have strict compliance regulations and high invoice volume, which results in a greater need for more controlled invoice processing. Industries such as manufacturing are often more unstructured due to direct goods purchasing and contract-based spending. Larger companies tend to receive a greater variety of invoice formats than smaller organizations. Smaller organizations are more likely to process email or paper invoices due to a scaling business environment, limited financial resources, and relative length of operations. The variation of invoice receipt types among organizations affects what they look for in an automation solution.



Invoice Routing and Approval

After an invoice is received and submitted, it must go through verification, validation, and approval workflows before a supplier’s payment is processed. The majority of survey respondents use an invoice workflow automation (IWA) tool, followed by email or manual handling, see Figure 3.

FIGURE 3



Organizations Without IWA Software Typically Route Invoices for Approval Via Email or Manually

“How do you typically route invoices for approval in your organization?”

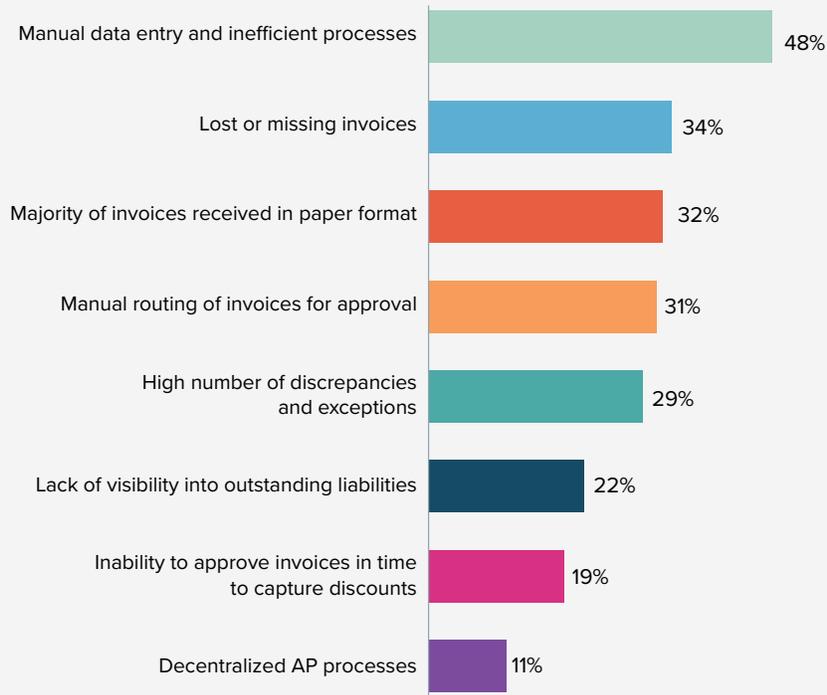
The complexity of an organization’s approval hierarchy affects its decision to automate an invoice workflow. Invoice workflows can entail a complex and varied set of actions, including multiple levels of approvals, different rules relating to different types of invoices, and a large number of “touches” (points at which the invoice is reviewed or changes hands). Workflows can be more or less complicated depending on their size and/or the industry of the company.



Companies that do not use an IWA solution face many invoice management challenges. The leading process challenges in a manual invoice workflow are manual data entry and inefficient processes, see Figure 4.

FIGURE 4

Top Workflow Process Challenges



Nearly Half of Organizations Using a Manual Invoice Workflow Deal with Manual Data Entry and Inefficient Processes

“What are the top three biggest pain points you experience in your workflow process? (Select top 3)”

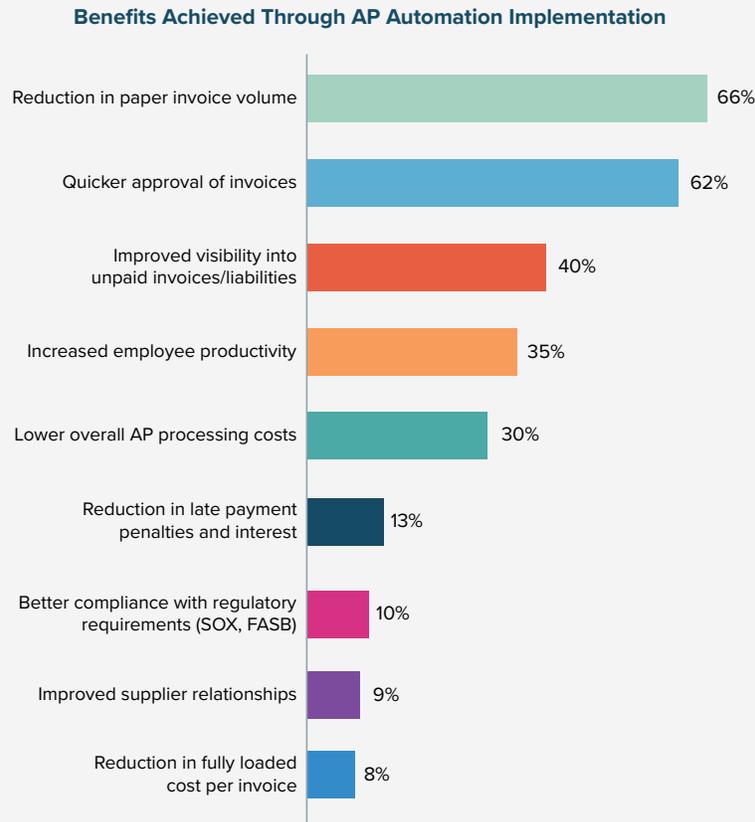
These issues are costly for organizations in terms of high processing costs, inefficient labor use, missed early payment discounts, and the risks that accompany poorly managed financial data. Manual invoice management can also lead to damaged supplier relationships and compromised cash flow.

Despite these potential ramifications, the adoption of a cloud-based invoice workflow tool is relatively low. Only about a quarter of organizations have this type of solution in place. Many companies may not prioritize an IWA solution as much as an eInvoicing solution.



The two greatest improvements reported by adopters of AP automation were a reduction in paper invoice volume and quicker approval of invoices. Both benefits greatly reduce processing costs and enable a company to capture more early payment discounts. Organizations also indicated a variety of other areas in which they experienced benefits from integrating AP automation, see Figure 5.

FIGURE 5



The Majority of Organizations List Reduction in Paper Invoice Volume and Quicker Approval of Invoices as Their Top Benefits from AP Automation

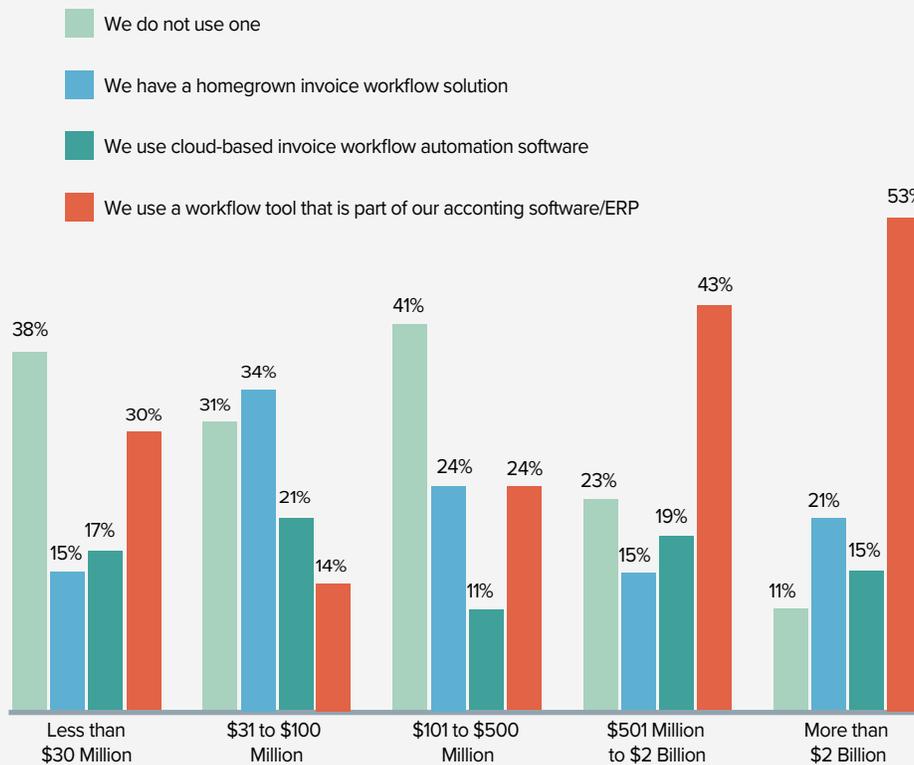
“What are the greatest improvements you have seen since implementing an AP management solution? (Select up to 3)”



AP trends indicate that adoption of cloud-based invoice workflow automation software is relatively similar across all revenue segments. However, adoption rates change according to company size. Larger organizations are more likely to have a workflow tool that is incorporated into their existing account software or ERP, while medium-sized companies are more likely to have manual processes or use a homegrown invoice workflow solution. Smaller organizations are more likely to have manual processes, relying on manual routing and hand-offs for invoice processing, see Figure 6.

FIGURE 6

Invoice Workflow Automation Tool



LMM¹ Organizations Are Least Likely to Use Cloud-Based Invoice Workflow Automation Software

“How do you typically route invoices for approval in your organization?”

and

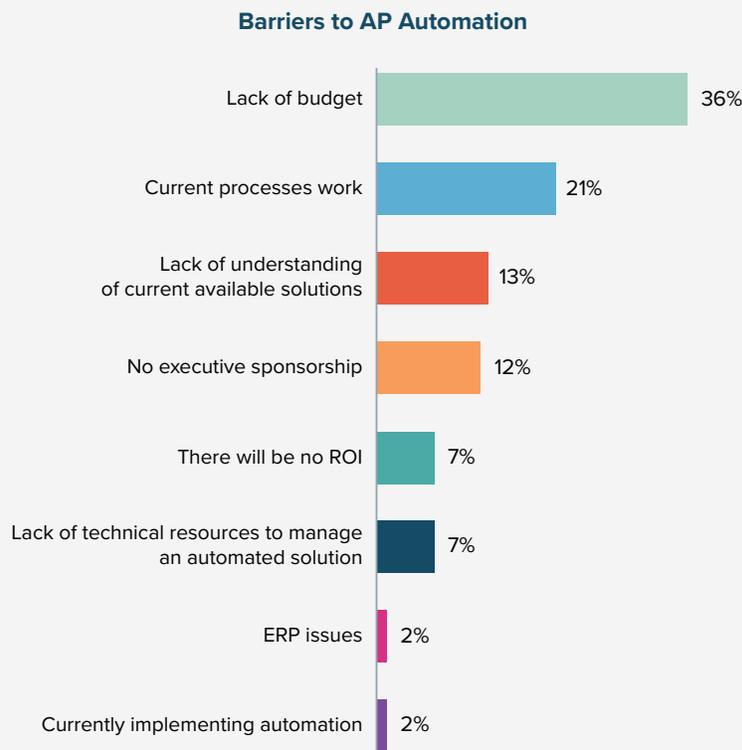
“What is your organization’s annual revenue in the most recent 12-month reporting period?”

¹Level Research defines organizations with revenue greater than \$2 billion as enterprises, organizations with revenue between \$501 million and \$2 billion as upper middle market (UMM), organizations with revenue between \$101 million and \$500 million as lower middle market (LMM), and organizations with revenue between \$30 million and \$100 million as small and medium enterprises (SMEs).



The prevalence of homegrown and ERP-based tools among organizations is in part due to the cost and complications of changing IT systems. For example, small companies tend to have smaller AP operations, which means that implementing large-scale software is neither a financially responsible investment nor particularly urgent. Medium-sized companies have a greater need for AP process automation, but the scaling nature of their operations often prohibit investments in expensive systems; these companies are more likely to leverage in-house IT resources to help improve processes until they have more resources. Large companies tend to have more complex, mature technology environments that are often dependent on several different ERPs. Therefore, leveraging tools built into existing systems can seem more advisable to this last group than an overhaul of current processes with an AP automation tool.

Research confirms that the most-cited barriers to adoption are a lack of resources and the perception that current processes are satisfactory, see Figure 7.

FIGURE 7


A Lack of Budget Is the Top Barrier to Adoption for Responding Organizations

“What do you perceive to be the greatest barrier to adopting a cloud-based AP automation solution in your organization?”



Citing a “lack of budget” or “current processes are working” could be a sign that an organization is not well-educated on the automation options available. For example, an increasing number of solutions accommodate the limited resources of smaller companies that may not be looking for a full-scale overhaul and transformation of their AP systems.

Other companies, concerned with both budget restraints and the complexity of their current environment and processes, are unaware that there are AP software tools that work with current processes, easily connecting with back-office systems via advanced integration capabilities and interoperable networks. These tools are built to support existing environments, and are designed specifically for certain organizations, such as those that have made heavy investments in homegrown technology development, or that are deeply reliant on complicated ERP-based systems.



Benefits of an Open Business Network for Digital Transformation

Embracing digital transformation and automation solutions is a long-term strategy for business success. Digital transformation is the use of technology to dramatically improve an organization's performance and reach, both internally and externally. It enables organizations to use technology to constantly monitor processes, inputs, and outputs, allowing decision makers to make continuous improvements.

When it comes to AP automation, and, more broadly, automating processes within the Procure-to-Pay space, software providers offer large-scale solutions for all back-office operations, or at least a large portion of those processes. These tools are often offered as a package deal on a closed business network. Closed business networks are sourced by a single software provider, with all components packaged into one system. In a closed business network, an organization is restricted to a single solution suite.

Other tools, however, allow companies to automate different parts of their back-office on an ad hoc basis; these are referred to as interoperable solutions. Interoperable solutions cooperating in a single ecosystem can be referred to as an open business network. Open business networks allow the user to add on or unplug tools for different processes.

The open business network concept has already been applied elsewhere. In communications, for example, open network architecture enables individuals to send emails to each other regardless of email client, or different phone networks to transmit calls and texts across different providers. When leveraging AP software built on an open business network, organizations enable interaction between that AP tool and existing systems, as well as other business partners using different systems. This limits disruptions for organizations' current processes and IT infrastructure.

While full-suite software tools are valuable, closed business network solutions offer features that buyers cannot or do not use. In fact, some buying organizations often do not realize that these additional components are included with their solution, because the components were not originally marketed towards them. Some extra features are unnecessary or are too complex for smaller organizations' current back-office processes.



For many companies, it can be more practical and cost-effective to use a solution that fulfills a specific need and can work alongside whatever technology is already in place (e.g., an existing ERP, invoice workflow, payment system, etc.). Preferred solutions plug into existing systems and enhance their capabilities, instead of replacing them with an entirely new structure. This approach leverages the open business network model, giving companies the flexibility to add or remove features on an as-needed basis. Companies can disconnect unnecessary tools, keeping only what offers value to their AP process.

Targeted, interoperable solutions target specific pain points and do not require the organization to purchase unnecessary features. Focused solutions may also be more appropriate to an organization's unique business structure, as a software provider concentrated on a specific back-office operation can offer a more niche solution than one that is aiming to transform an entire department. The versatility of these tools also comes through with the ability to handle multiple types of business documents, including AR documents. These solutions integrate easily with existing ERPs and other systems, do not demand a change in how an organization operates outside of the invoice receipt and management process, and still offer the benefits of automation.



Conclusion

The returns of digital transformation can be significant, and are in many cases fundamental to an organization's competitive standing in its market. Businesses can reap many benefits from automating their invoice management and accounts payable tasks, including increased savings, productivity, and employee morale.

When selecting an AP software solution, or any back-office automated tool, it is important to consider the current state of an organization's P2P processes and how a large, full-scale solution may effect change. For some organizations, interoperable solutions save money, are easier to implement, and do not have extraneous features that are not vital to that company's operations. An interoperable, open business network is a suitable choice for companies looking for a digital transformation within their AP operations, as its flexibility and scalability position a company well for future successful change.



About the Sponsor

Cortex is a service-centric digital transformation solutions provider focused on revolutionizing B2B document exchange. Cortex helps businesses save time and money by replacing manual paper-based systems with AP and AR invoice automation. Companies on the Cortex Network are positioned for success with services that offer the scalability and flexibility needed for their unique business needs. Cortex specializes in the development and delivery of integrated electronic document intake, routing and approval workflow, and management solutions using flexible connection methods that leverage existing Procure-to-Pay technologies and processes.

By adopting Cortex's open network solution that aligns with other Procure-to-Pay systems, customers can tailor a best-in-class solution for their invoicing needs to maximize efficiency and return on investment. The adoption of an automation solution that handles both AP and AR documents not only saves time and money, but also unlocks potential for new levels of cash flow management and data mining capabilities to empower business decisions.

Cortex has an established reputation as a dependable digital transformation partner for over 11,000 customers in industry segments including oil and gas, mining, manufacturing and sports and entertainment. Each of these markets has complex procurement cycles and is supported by costly, manual processes, all of which can be aided by Cortex's vertically agnostic system.

For more information, please visit www.cortex.net



About Level Research

Level Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Level Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Level Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Level Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Level Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

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