



Mature Accounts Payable for the Small and Mid-Size Enterprise

Adopting Automation to Achieve Accounts Payable (AP) Maturity and Optimization

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Introduction

Automating Accounts Payable (AP) is a simple yet effective way of driving down back-office costs. Historically the tools needed to optimize and automate AP have been designed for the challenges and goals of larger enterprises, leaving small to mid-sized enterprises (or SMEs, defined as organizations between \$1 million - \$100 million in annual revenue) with limited options—often reducing them to patching together a series of disparate tools to address their problems. Outcomes of these efforts vary, with most organizations settling for a tool that targets a specific pain point, such as reducing data entry labor. However, the true benefits of a fully optimized and automated AP system go far beyond more efficient data entry. AP automation solutions offer tighter controls, streamlined approvals, strategic payments, and real-time access to transactional data, all of which allow finance professionals to make better and smarter decisions for their organization's bottom line.

Today, automation technology has finally caught up to the specific needs of SMEs, so they no longer need to feel deprived of a more efficient and mature AP state. Robust AP applications and platforms are now available with cost-reducing and control-enhancing features designed for the requirements of a mid-sized company.

This whitepaper will weigh the effectiveness of various AP management strategies implemented by SMEs, drill into common pre-automation pain points, and analyze the cost, efficiency, and sophistication of AP automation processes. This paper's goal is to help the finance teams of SMEs identify their organization's "AP maturity" level and direct their attention to areas of the most impactful gains.



The Journey to the Mid-Market

Level Research assesses AP management maturity using three key benchmark levels: Innovator, Mainstream, and Novice.

Innovators have a high percentage of digital invoice formats (i.e., structured formats such as EDI / electronic invoices) and overall low paper invoice volume. They use cloud-based AP automation tools, such as automated approval workflows, which results in low instances of late payments and grant high visibility into spend. With Innovators' advanced solutions, they have access to a strategy-enabling perspective, stronger financial reporting, reduced risk of fraud, and a high early payment discount capture rate.

Mainstream organizations, by contrast, have a more even mix of digital and paper invoices. They have some AP automation in place that enables efficiency. This technology might include a data capture tool to eliminate manual rekeying of invoice data, an electronic payments tool to enable faster payments and lower payment risk, but rarely have automated invoice workflow to expedite approvals. Their lack of full adoption keeps organizations at the Mainstream level, limiting their access to the benefits experienced by Innovators using more comprehensive solutions.

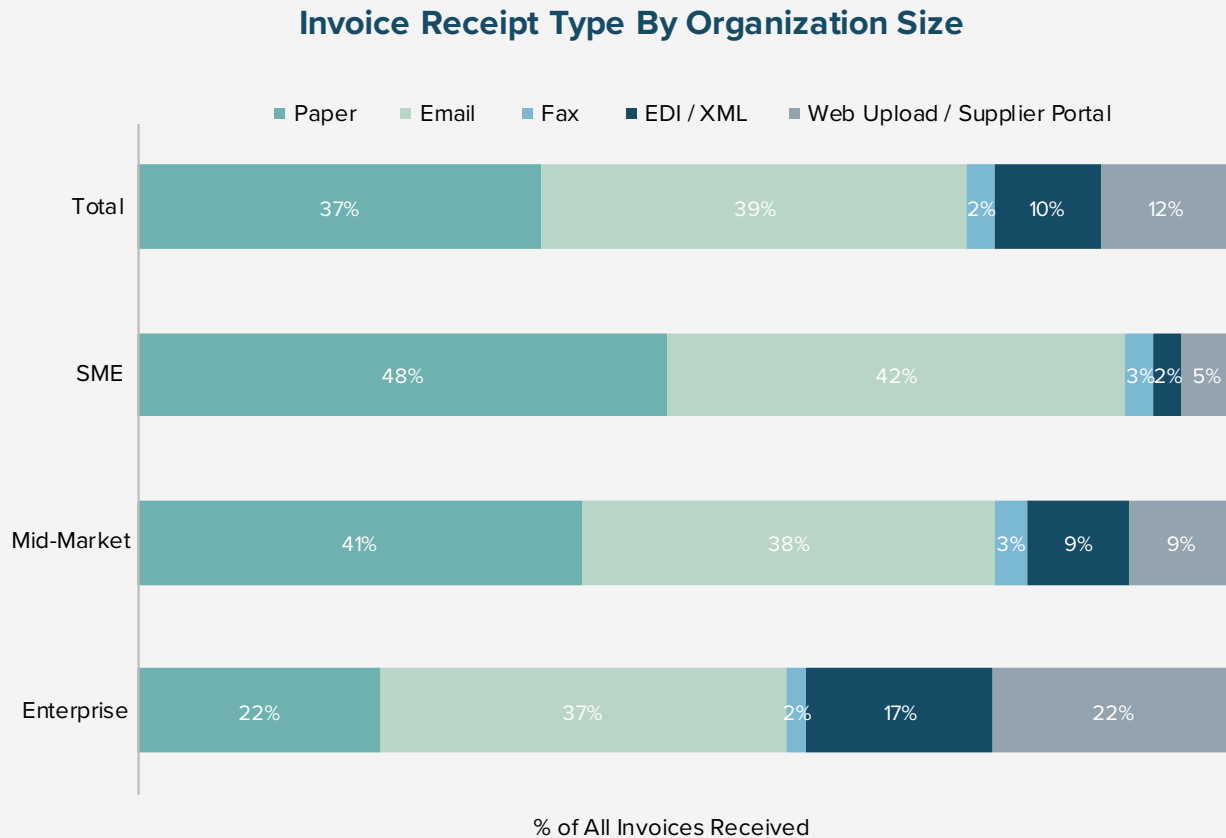
Novice organizations are the most manual category. They experience high paper invoice volume while mostly using manual data entry, invoice coding, and manual routing processes. Novice organizations are unlikely to have cloud-based AP automation adoption. Because of their manual-based processes, they have poor visibility into invoice workflows, data, supplier queries, and risk, and suffer from late payments and low early payment discount capture rates. Ultimately, novice organizations have the most tactical issues, and the scope of their goals is restricted to resolving their largest pain points.

Using this scale of AP automation maturity, it is possible for SMEs to identify as a Novice, Mainstream, or Innovator organization. The following figures examine how typical North American SMEs measure up in terms of efficiency in different segments of the AP process.



Figure 1 shows invoice receipt type by organization revenue size. SMEs are the most likely to accept paper invoices—more than both larger organizations and the total average.

FIGURE 1



SMEs Report the Highest Volume of Paper Invoices

*Please allocate 100 percentage points to indicate the methods in which your organization receives invoices.
n = variable*

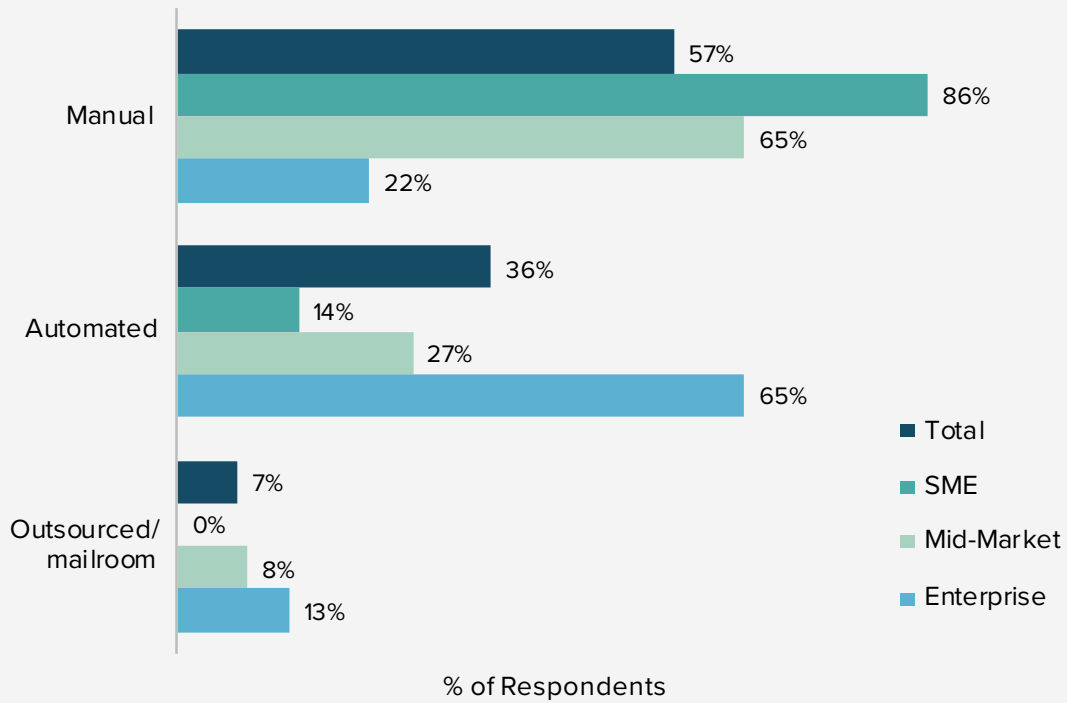
* For the purposes of this report, “SME” is characterized as organizations with annual revenue of \$1 million–\$100 million; “mid-market” is characterized as organizations with annual revenue of \$100 million–\$2.5 billion; and “enterprise” is characterized as organizations with annual revenue of over \$2.5 billion.



SMEs fall into a similar pattern with invoice data entry, mostly inputting data manually (see Figure 2). Manual rekeying of invoice information (entering it into accounting systems from paper or digital formats) by AP clerks is time consuming and tedious, and results in more errors. Few organizations employ outsourced labor; those with the budget (i.e., larger organizations) are able to afford such choices or have a high enough invoice volume to warrant this option, whereas SMEs limit their AP operations to in-house.

FIGURE 2

Invoice Data Entry Method By Organization Size



SMEs Are Most Likely to Manually Enter Invoice Data

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

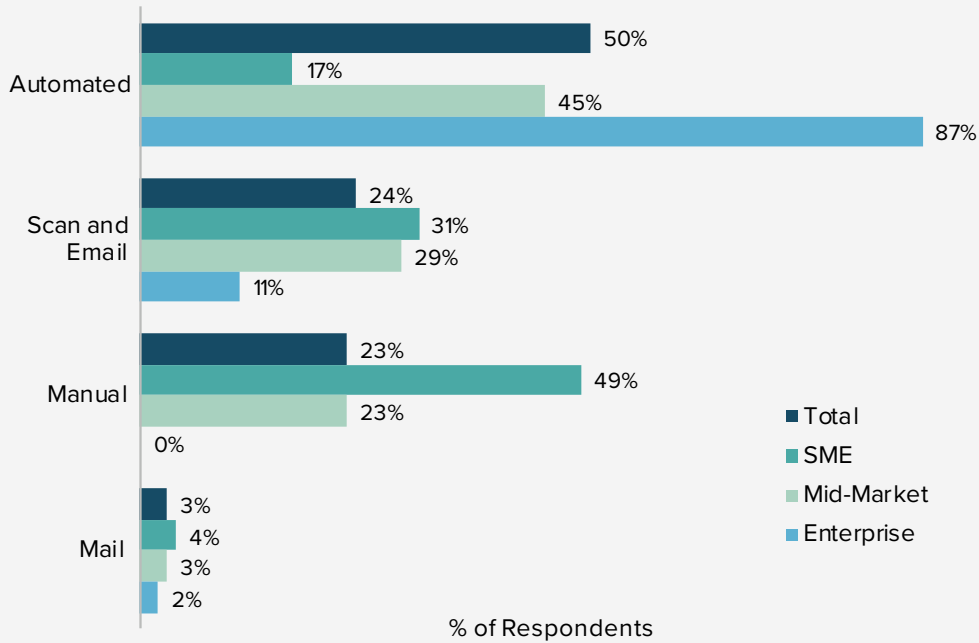
n = 258



Another factor that indicates AP automation maturity is invoice routing method. SMEs have mostly manual approval workflows, handing off paper to managers for approval or scanning and emailing individual invoices (see Figure 3).

FIGURE 3

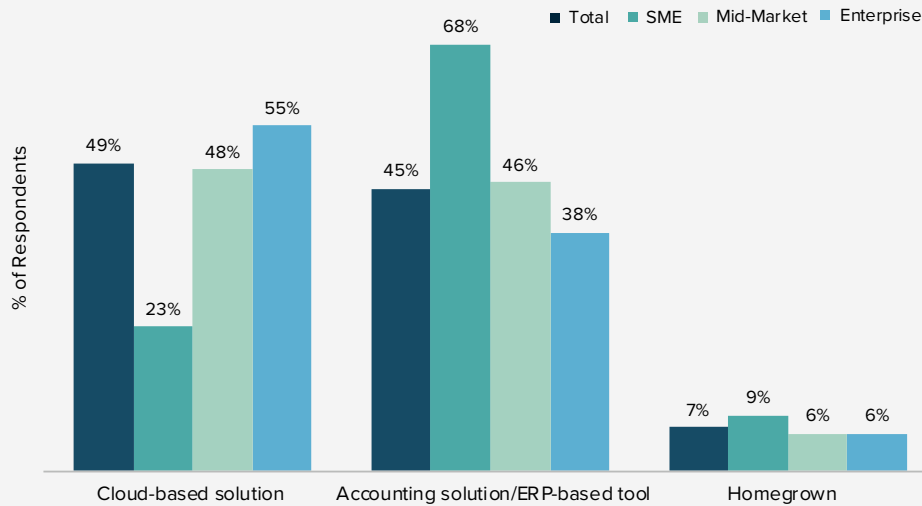
Invoice Routing Method By Organization Size



SMEs Are Mostly Likely to Manually Route Invoices for Approval
How do you typically route invoices for approval in your organization?
n = 258



Taking into account all of the data covering AP’s various tasks, it is not surprising that SMEs have the lowest adoption of cloud-based AP automation solutions (see Figure 4). Among SMEs that are using technology, most SMEs use solutions that plug into their accounting tools or ERP.

FIGURE 4
AP Tool Usage By Organizations Size

AP Tool Type Based on Organization Size

Which type of tool do you use for the majority of your AP processes?
n = 134

Based on Level Research’s most recent market analysis , about 45%² of SMEs fall into the Novice category of AP efficiency, and fewer than 10% of SMEs fall into the Innovator category. The hard costs of AP processes—both average cost per invoice and percentage of discounts uncaptured—drastically decrease as automation maturity increases (see Table 1).

Metrics	Novice	Mainstream	Innovator
Average processing time from invoice receipt to approval	45 days	23 days	5 days
Percentage of invoices received electronically	3%	9%	32%
Average processing cost per invoice (combination of paper and electronic)	\$15.00	\$6.70	\$2.36
Percentage of invoice terms discounts captured	18%	40%	75%

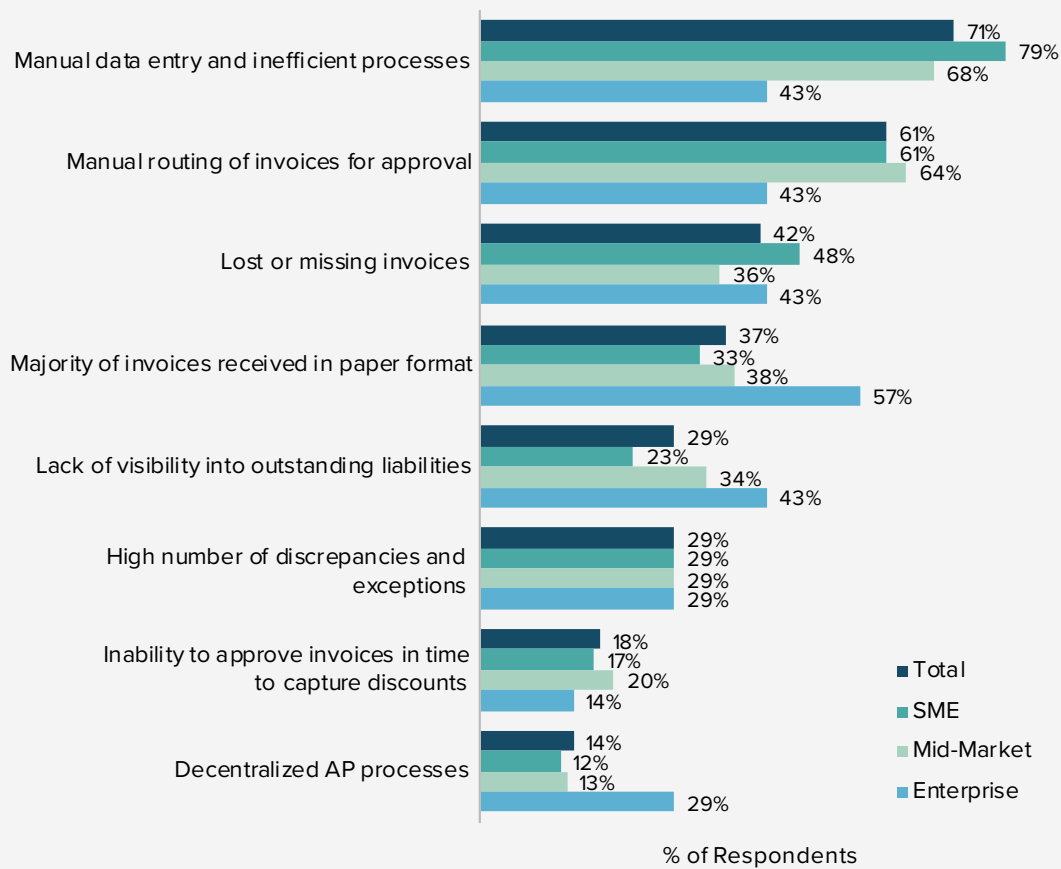
² Level Research Accounts Payable Survey, 2019



The effects of the Novice state are also reflected in soft costs, such as staff productivity, process efficiency, and data accuracy. Figure 5 illustrates the top pain points of the manual state for organizations from different revenue segments. SMEs, who mostly identify as Novices, experience challenges around manual data entry and routing, as well as high rates of lost invoices.

FIGURE 5

Pain Points By Organization Size



Manual Data Entry and Routing Are the Greatest AP Pain Points

*What are the top three biggest pain points you experience in your workflow process? (Select up to 3)
n = 129*

Level Research has identified other challenges that Novices experience in their AP processes. One is high-cost processes that inhibit growth; Novices are entrenched in existing processes that are inefficient and costly (refer to Table 1). They are dependent on current systems that are not scalable to higher invoice volumes or the needs of a larger organization.

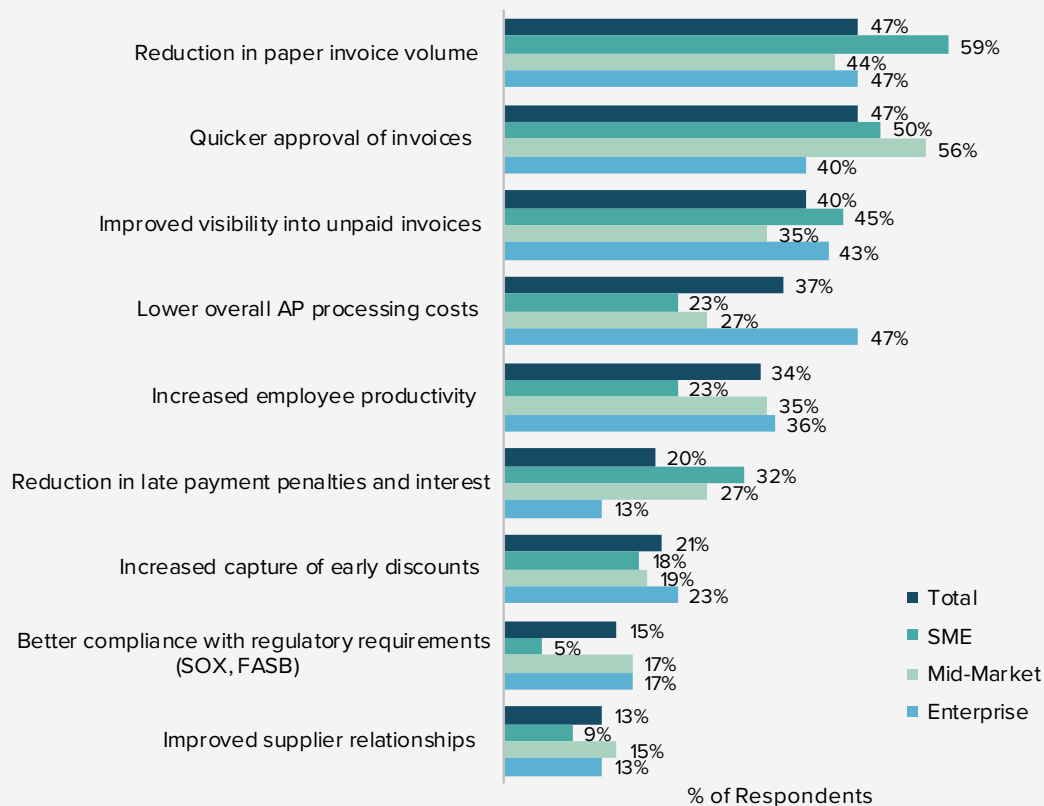


Another challenge is stretched teams and resources. Small organizations are often pushed to do more with less, sometimes motivated by a culture that pushes hard work for “the good of the company,” but also faced with the reality of having a small workforce to address a demanding invoice volume. This expectation frequently backfires, as placing a large burden on a small team can negatively affect morale, productivity, and quality of work.

In addition, supplier, financial, and payment risk are not exclusive to large companies. Small AP teams are just as vulnerable as their larger counterparts to issues such as duplicate payments, payment fraud, and noncompliance with reporting requirements. However, they feel the negative, often crippling impact of these issues much harder than a large organization. Once SMEs adopt AP automation technology and reach for the Innovator level, however, they experience significant improvements, especially in paper invoice volume reduction (see Figure 6).

FIGURE 6

Improvements From AP Automation By Organization Size



Reduction in Paper, Quicker Approval Times, and Increased Visibility Are the Top Benefits of Automation

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

n = 134



Ultimately, small organizations have stretched resources, so they can only address their largest and most pressing pain points. These major pain points are typically tactical in nature—for example, manual data entry and routing, and high lost invoice rates. Because of their limited resources and capabilities, as well as minimal means with which to research solutions and a perceived narrower market of software options, SMEs remain at the Novice level of AP maturity. In doing so, they remain cut off from the implementation of tools that would address the root of the problem and enable more strategic growth. SMEs should be looking for tools that not only automate their manual state but go beyond tactical issues by offering visibility, cash management, and electronic invoicing methods. This will enable them to end the cycle of limited resources and break into the mainstream level of AP maturity.



Achieving the Innovator State

Level Research has found that most North American organizations at the Innovator level are in the upper middle market and enterprise revenue segments. This is largely due to the fact that they have more resources with which to invest in technology, and they have more technology options catered to their needs and priced for their budgets. Larger organizations also tend to be older, having had the time to scale, and therefore having had longer to improve their state with both completed change management projects and technology solutions.

Often, SMEs carry on with their current state because they feel they cannot afford software; problems build up, and SMEs ultimately lose money on high processing costs. Many leverage their existing accounting solutions to attempt to integrate some automation into their AP process, but these tools do little to address their main pain points of high paper volume and manual approval workflows.

Well-executed AP efficiency is not reserved for the largest organizations; the Innovator state can also be achieved by small and mid-sized organizations, enabling a touchless invoice environment, cost savings, and more operational flexibility for the rest of the company. Level Research has identified a few steps for organizations aiming to achieve the operation status of an Innovator.

Drive Down the Cost Per Invoice

The main variables that go into calculating the cost per invoice are the costs associated with processing invoices, the number of AP employees, and invoice volume. SMEs should recognize the opportunity that lies in reducing costs spent on invoice processing. AP automation encourages the use of digital invoice formats, which reduces manual data entry and routing. Eliminating manual labor enables AP employees to process a much higher number of invoices per person, expediting processing times and reducing resources spent. SMEs should begin their AP automation journey with a solution that allows them to immediately reduce paper invoice volume and automate data entry and invoice coding.



Automate Approval Workflows

Manual routing can create bottlenecks for an already-stretched AP department, especially if the department does not have visibility into where or why the invoice is held up in an approval queue. While data capture tools and streamlined data entry is often the easiest entry point to AP automation for small companies, they do not have to stop there; they can leverage a tool that offers solutions for both invoice receipt and invoice workflow. An invoice workflow solution will not only provide that information on customizable dashboards, but can also remind approvers of invoices waiting in their inbox, reducing or eliminating bottlenecks. And more importantly, provide the accounting team with full visibility into the active spending across all their organizations.

Enable Automatic, Secure, and Strategic Payments

High paper volume for SMEs is not just an issue with invoices; many SMEs are still making payments with paper checks to avoid electronic payment fees. However, the cost of checks is often larger than annual fees for ACH payments or other methods. Many SMEs are not aware of the opportunities for savings possible with electronic payment options such as commercial cards. With this ePayment option, organizations can earn rebates from virtual credit card payments, speed up invoice payment times to improve supplier satisfaction, and reduce data gaps within payments and reconciliation data. Virtual Credit Cards also reduce payment fraud risk via one-time payment card options and optimize working capital to extend DPO.

Because electronic payments offer a large effect at an affordable cost point, they are one of the most adopted AP automation tools among North American organizations; these tools are a great way for SMEs to improve their current state with little impact on resources. SMEs should identify an AP solution that has included robust payments options to complete the invoice-to-payment life cycle and maximize the ROI.



Ensuring ROI from AP Automation

Reaching the level of an Innovator is a meaningful and decisive goal, but measurable ROI is an extremely important factor for any organization when choosing to purchase business software. For SMEs, ROI can be even more significant, as they have much fewer resources with which to invest in technology. The following best practices can help ensure ROI when adopting an AP solution.

- » *Find a software solution with tight integration with ERP systems.*

SMEs are heavily dependent on their accounting tools and/or ERPs for much of their AP processes. SMEs do not have to abandon this strategy of using existing systems; instead, they can find a robust AP automation solution that integrates with and complements their existing ERP. This improves financial reporting and reduces risk, while also saving on implementation costs and increasing the ROI of the solution in the near future. SMEs should look for AP automation providers that have relationships with some of the ERPs that are often leveraged by smaller organizations.

- » *Develop a strong business case for increased visibility, lower costs, and the impact of improvement on the rest of the business.*

Assessing the current AP state prior to technology adoption can go a long way toward determining and pitching the ROI to key decision-makers. Comprehensive appraisals and forecasts account for more details that may affect the results of adoption. Teams looking to adopt a solution will often find it easier to highlight the effects of high AP costs and the associated risk for a small company, as these often resonate farther and louder than at a large enterprise organization.

- » *Find a solution provider that understands their customers' space.*

A few years ago, AP automation offerings were limited, but there are many SME-tailored options on the market today. SMEs should identify solution providers that understand the needs of their size, industry, and even existing technical environment (e.g., an ERP). Contrary to many commonly held assumptions, these solution providers are often well positioned to help their customers scale their AP department without losing efficiency or visibility.



About the Sponsor

Beanworks automates accounting workflow to empower teams to succeed. From purchase to payment, Beanworks integrates with organizations' software to make AP simple and delightful. Thousands of users manage AP at a fraction of traditional processing costs while remaining focused on financial management and reporting. For more information on how to save time and focus on what matters most, please visit www.beanworks.com.



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