Scaling in the Age of Digital Business Payables

A Guide to Leveraging AP Automation to Enable Successful Business Growth

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» Trends Amongst SMEs and Mid-Market Organizations
» The Best AP Tools for Scaling Organizations
» Best Practices for Approaching AP Automation

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Introduction

As organizations scale, leaving the small business market for the mid-market, they encounter many challenges. While industry and market play a large role in dictating an organization's specific pain points, the foundational tactical issues, particularly in the back office, are similar for many organizations.

Businesses often focus on the strategic issues of growth, such as customer base retention and expansion, product delivery, and brand management, while giving less attention to back-office departments such as Accounts Payable and Accounts Receivable. In doing so, organizations do not take into account the strains that growth puts on back-office processes, and also overlook the long-term detrimental impact back-office inefficiency has on the success of the front office, including from high costs, weakened supplier relationships, and poor cash management.

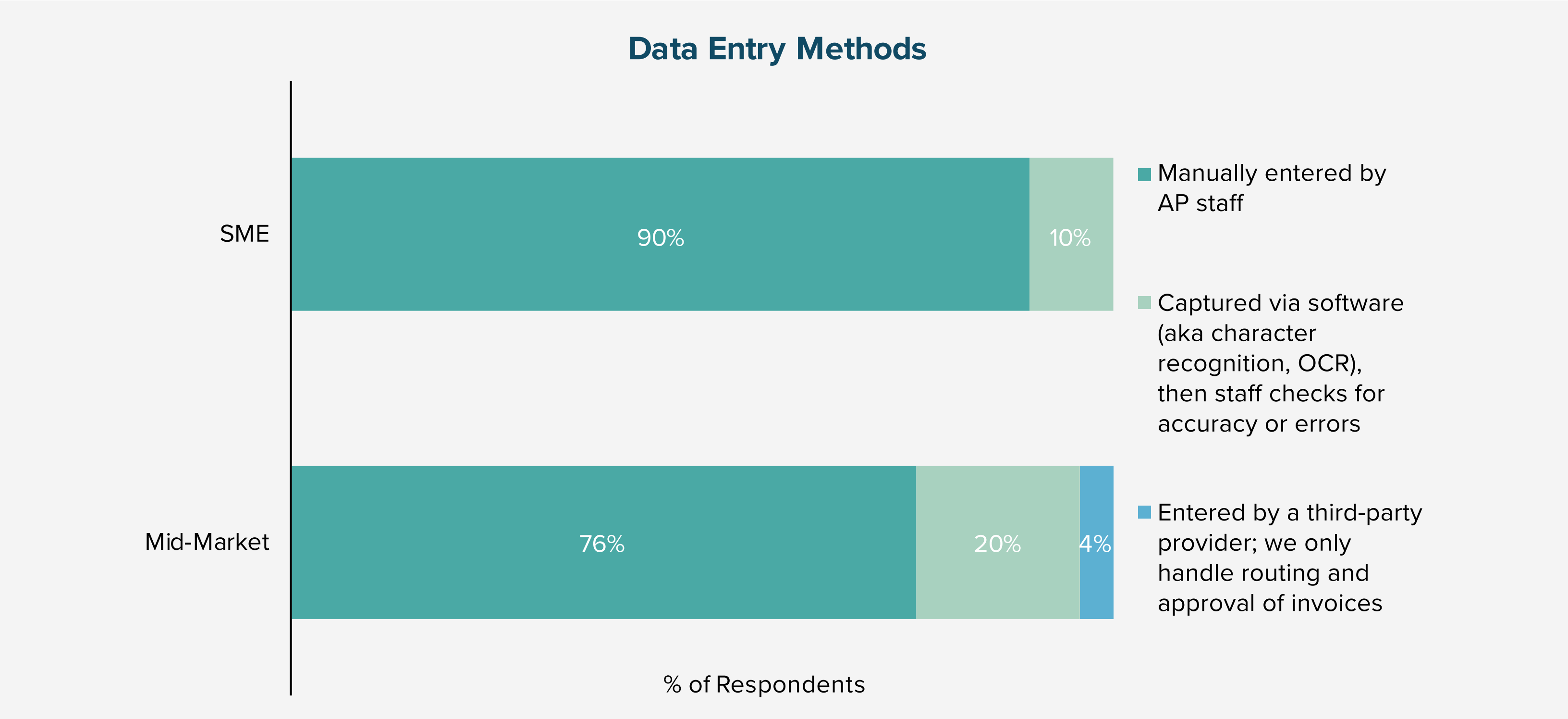
There is a solution to these challenges: Small organizations can leverage technology to not only automate and optimize their accounting processes, but also to enable a much smoother transition into the mid-market. This whitepaper explores the value and enablement that AP and AR automation can bring to growing organizations, strategies for properly leveraging that technology, and change management best practices for its adoption.

The Journey to the Mid-Market

For the purposes of this whitepaper, the small and medium-sized enterprise (SME) market will be defined as organizations with less than $25 million in annual revenue, and the mid-market will be defined as organizations with revenue from $25 million–$500 million. In February 2019, Levvel Research surveyed North American organizations within these revenue ranges about their payables processes.

Levels of AP automation in SME and mid-market organizations vary, and are often determined by company industry, business structure, and even culture. In general, however, research shows that as organizations grow, they are more likely to take advantage of tools that increase efficiency in their AP operations. For example, while SMEs mostly use manual data entry methods—90 percent of data entry is completed manually by AP staff—a smaller fraction of the mid-market uses manual methods (76 percent), and twice as many mid-market organizations use a software tool in order to capture invoice details than SMEs, see Figure 1.

FIGURE 1

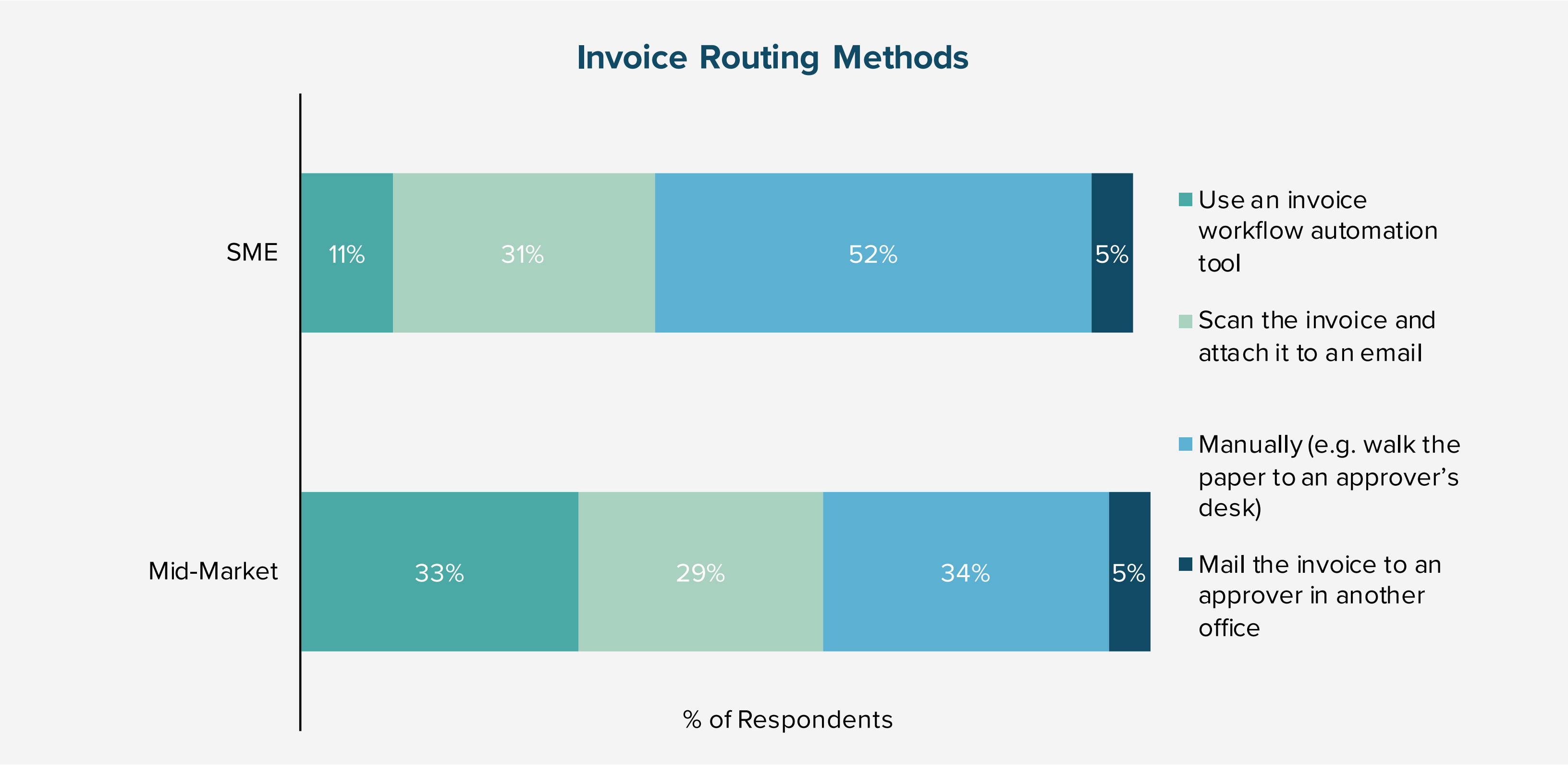


Most SMEs and Mid-Market Organizations Use Manual Data Entry Methods
How is invoice information entered into your ERP, accounting software, or accounts payable software?
(n = 125)

That the mid-market is more likely to adopt an automation solution than smaller organizations can in large part be attributed to the higher volume of invoices that these larger organizations receive. They also have a greater need to process invoices efficiently in order to keep costs low and properly manage supplier data and payments. In all, business growth demands—and often results in—increased dependence on technology.

For example, mid-market organizations are three times as likely to adopt invoice workflow automation (IWA) to approve invoices, see Figure 2. By contrast, more than 85 percent of SME invoice routing is completed manually, either by walking an invoice to an approver's desk, mailing the invoice to an approver, or scanning an invoice and attaching it to an email.

FIGURE 2



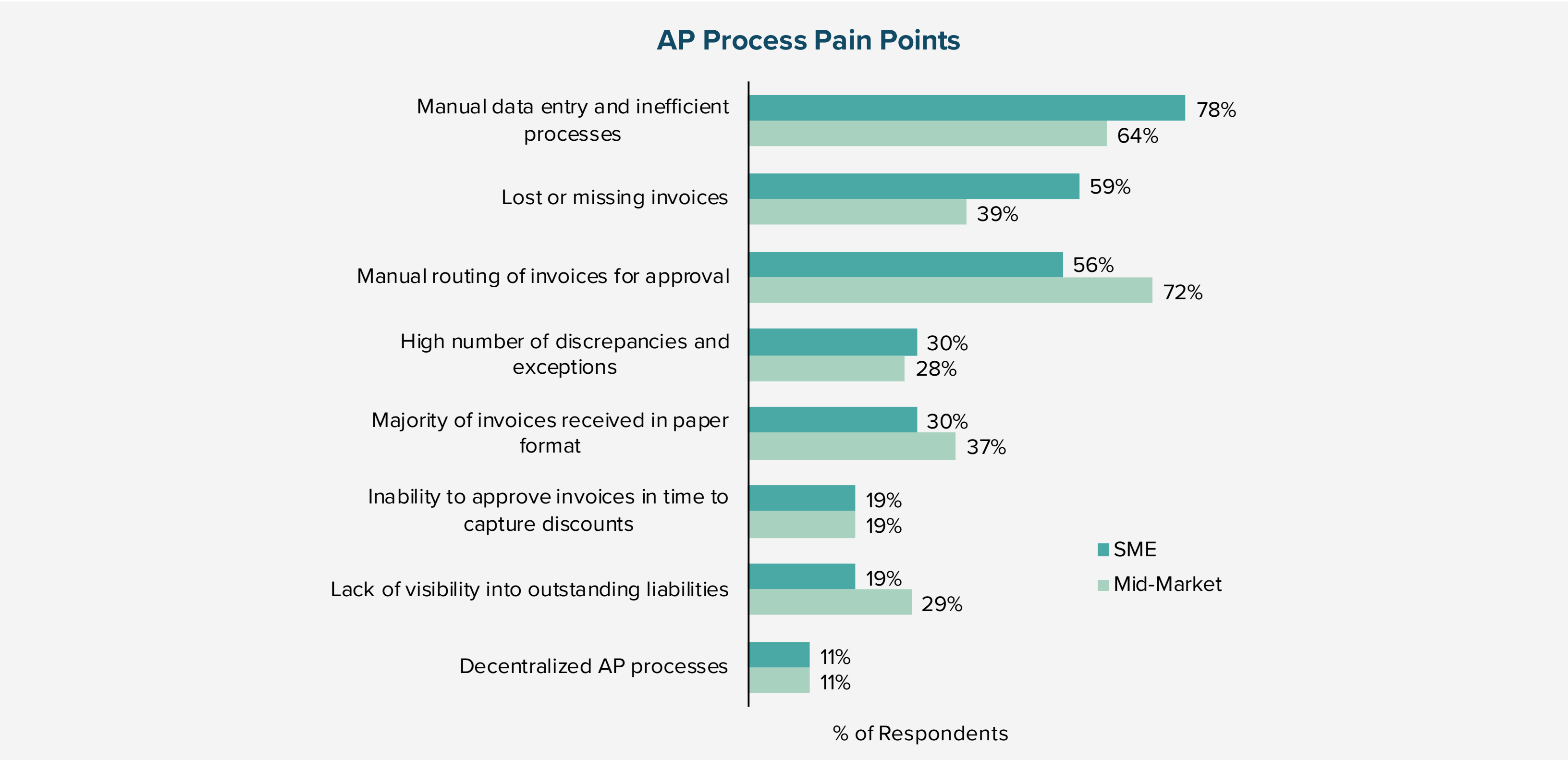
Mid-Market Organizations are More Likely to Automate Invoice Routing
How do you typically route invoices for approval in your organization?
(n = 125)

Larger organizations tend to have more invoices, more complicated approval workflows, and a greater need for visibility into approvals to identify process bottlenecks. They also have a lot to gain from automating workflow in particular, as faster invoice approvals/shorter lifecycles lead to fewer instances of late payments, stronger supplier relationships, and even the potential to capture early payment discounts.

As organizations scale up in size, their approval hierarchies also grow and become more complex. Instead of sending invoices to a single approver in AP, employees may need to route invoices to direct managers, who then initiate an approval workflow that circles back to the AP department for payment processing. These chains become more difficult to manage and create a higher likelihood of bottlenecks when done manually. That is why mid-market organizations' top pain point is manual invoice routing.

SMEs, on the other hand, were most likely to list manual data entry and overall inefficient processes as their top AP process paint points, which is in line with their low adoption of data capture technology, see Figure 3.

FIGURE 3



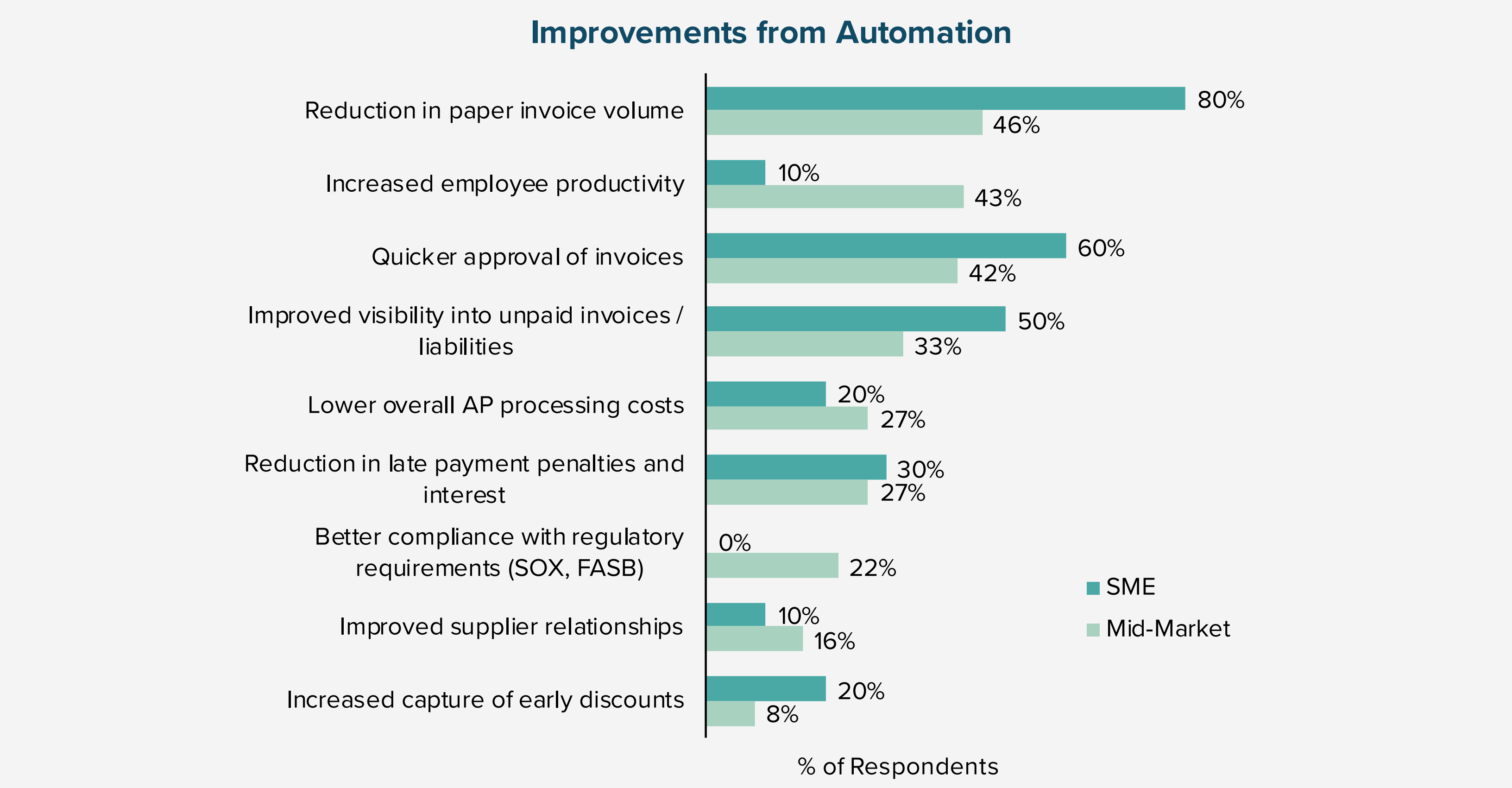
Pain Points Evolve As Organizations Grow

What are the top three biggest pain points you experience in your workflow process? (Select up to 3)
(n = 94; base equals respondents not using AP automation)

Lost or missing invoices come in second and third for SMEs and mid-market organizations, respectively, which is due to a high volume of paper among these organizations. SMEs are more likely to cite missing invoices as an issue, which is likely due to more manual processes. SMEs' smaller AP operations are often not fully equipped to support all incoming bills. They may only have a team of one or two accounting professionals struggling with a great deal of paper—a problem that will only compound as they grow.

The benefits reported to be achieved from automation by organizations of different sizes inadvertently reflect the order of what is most important to them in terms of AP efficiency. The greatest benefit for both SMEs and mid-market organizations is a reduction in paper, but SMEs are more likely to cite this benefit; on the other hand, mid-market organizations are significantly more likely to cite increased employee productivity as a benefit, see Figure 4[1].

FIGURE 4



Manual Data Entry is the Mid-Market's Greatest Challenge

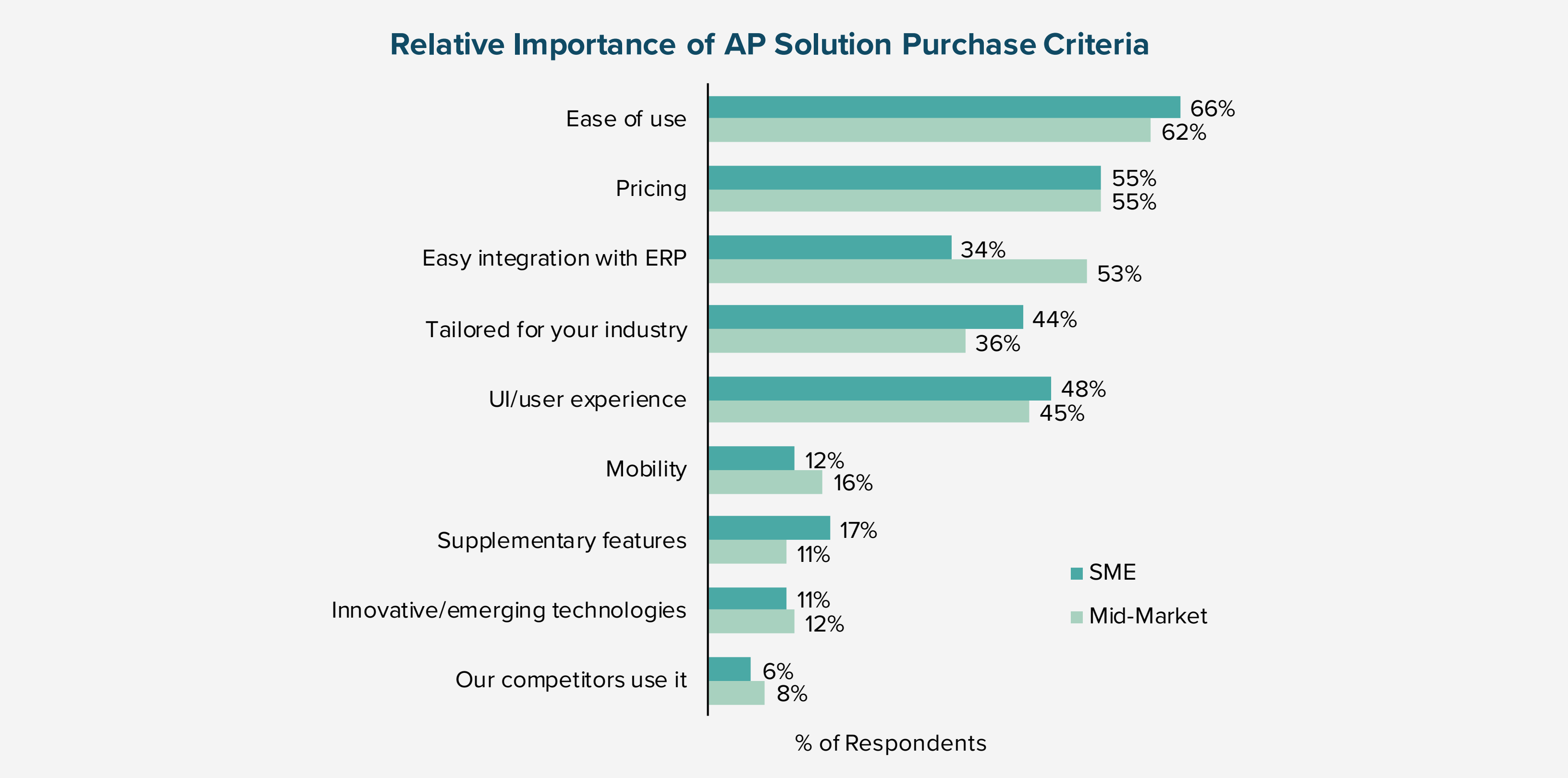
What are the greatest improvements you have seen since implementing an AP management solution? (Select 3)
(n = 37; base equals respondents using AP automation)

[1] All Respondents Note: Managed by Levvel Research; Use caution when interpreting small sample sizes. Source: Levvel Research Accounts Payable Survey, February 2018

The differences in benefit rankings reflect how organizations' challenges and improvement goals change with growth: Mid-market organizations have much larger AP departments than SMEs, but still struggle under the challenges of growth. Therefore, they have a greater need for an automation tool that supports their staff.

The SME and mid-market segments rank AP features and attributes differently when they are considering adopting a solution. Levvel Research surveyed the relative importance of various features and characteristics considered as purchase criteria for an AP solution, see Figure 5. Ease of use was the most popular criterion for a few reasons, including the value that usability has on ensuring high user adoption and the overall impact of a solution. Pricing was the second most important criterion, as it is a concern for smaller organizations with more limited budgets—especially those that are scaling and looking to address their needs as strategically as possible.

FIGURE 5



Organizations of All Sizes Place High Value on Ease of Use and Pricing in AP Software

For each set, please select the least important criteria and the most important criteria.

(n = 125)

Note: This data was generated from a MaxDiff analysis. Refer to page 17 for a detailed overview of the MaxDiff methodology.

The cost of software is one reason that SMEs are less automated than mid-market organizations, as is a lack of awareness around the value and offerings of AP software. A current manual state, though, is never sustainable. In many cases, SMEs wait too long to adopt AP automation because they believe they are able to manage adequately without it; this belief is often shattered as soon as the challenges of growth, such as increased supplier invoice volume, begin to materialize.

Some automation software feature preferences skew uniquely between market segments. Ability to integrate with an ERP was the third highest criterion considered by potential AP solution adopters in the mid-market, while it was fifth for SMEs. Levvel Research attributes this to the fact that larger organizations are not only more likely to have an ERP in place, but are also more likely to rely on their ERP for facilitating business operations, which often spans multiple locations. Because mid-market organizations store large amounts of company data in their ERP systems, it is unlikely that organizations of this size would choose a solution that could not integrate with their existing systems.

Another feature preference that was skewed between market segments was industry-tailored solutions, which resonated more for SMEs than for larger organizations. This may be because SMEs often have limited buying power, and if they are going to invest in a solution, they are more likely to want it to be tailored to their specific industry's needs.

Overall, when considering a payables solution, both SME and mid-market organizations prioritize criteria that supports and enables their current state, and that does not demand a great amount of monetary resources. As organizations grow, they start placing more value on attributes that will help them grow with their existing processes and systems (e.g., their ERPs). They are also slightly more likely to place importance on mobile functionality, which can support more complicated approval chains, among other benefits.

While there are many key size-related differences across the SME and mid-market segments, both SME and mid-market organizations must constantly determine how to maximize back-office efficiency with limited resources. They share many of the same challenges and improvement goals, but these challenges grow more complicated as an organization's size increases—as does the need to look beyond the capabilities of current processes and staff to manage AP. Fortunately, with growth comes opportunity: Namely, the chance to transform invoice management and AP processes from a tactical operation into a strategic, savings-generating initiative.

Tools for Scaling with AP Automation

Strategic organizations within the SME segment that are preparing for growth and a movement into the mid-market will anticipate the challenges of that growth by embracing scalable, flexible AP technology. A scalable AP solution will help SMEs accomplish three principal things:

» Reduce paper invoice volume

» Automate, accelerate, and enhance visibility into invoice approval workflows

» Offer value-added capabilities to enable a shift from tactical to strategic AP management

This section provides an overview of the main features and functionality of an AP solution that are most beneficial to scaling organizations.

Invoice Receipt and Data Entry

Several levels of automation can be applied upon receipt of an invoice. Simple digitization of an AP department eliminates paper, using scanned images or PDF invoices instead. AP staff can utilize front-end imaging and scanning to electronically input invoices into their accounting systems. The simplest way to "go digital" is to request forms via email or another information portal. Otherwise, AP staff must scan paper invoices and save corresponding images or PDFs in a database; this step is time-consuming, though, since it requires the manual rekeying of invoice information.

The data capture process can be automated using optical character recognition (OCR), which automatically recognizes text within a scanned image of a paper invoice or a digital PDF file, extracts relevant data, and converts it into a machine-encoded document. After invoice data is extracted, the OCR-converted fields are verified against a set of configurable validation rules and appropriate back-end information (e.g., invoice numbers within the AP system). This automated validation technology ensures consistency and compliance before information is entered into and processed by the invoice management system.

Advanced data entry technology may overcome some of the shortcomings of basic OCR by incorporating artificial intelligence (AI), which may intelligently input certain information into other documents, fill recurring fields from similar vendors, or automatically enter contextual invoice data like date or payment type.

Artificial intelligence relies on the processing of large data sets, which data entry algorithms use as a foundation for its decision-making. Machine learning (ML) goes beyond the more straightforward automation of AI. ML capabilities improve over time as an algorithm learns the invoicing patterns of an organization, revising its previous mistakes and thus ensuring an increasing level of accuracy. As an ML algorithm develops and recognizes more patterns, it will be able to complete more fields, as well as learn how to handle outliers, such as one-off/ unique invoices or other irregular data.

Automated invoice receipt most directly impacts AP staff who are responsible for manual tasks such as data entry. Automation lessens the burden of time-consuming, low-value tasks placed on small teams of overburdened AP clerks and accountants at scaling companies, as well as reduces the costs of paper-based activity. Management can spend less time addressing discrepancies or resolving disputes and can instead focus on strategic initiatives. In addition, digitizing invoice data gives an organization greater control and information security, which is essential as the organization grows and is subject to greater, more complex regulatory and compliance requirements, as well as the need to properly manage more supplier data.

Invoice Workflow Automation (IWA)

IWA solutions manage how different types of invoices are routed for approval and processed. AP departments can customize workflows to their specific needs; for example, they can send one department's invoices to a designated approver, set up approval chains with multiple approvers, or require additional information for specific types of invoices.

Solutions often provide exception management that flags certain invoices. Flagged invoices may have discrepancies between an invoice, a PO, and a contract, may be duplicates, or they may be missing information such as PO number, location code, or payment terms. Advanced exception management allows for the creation of custom workflows depending on the type of exception. Some systems put the responsibility for exception and discrepancy resolution back on suppliers, returning the document to them for correction before permitting it to enter the main workflow system.

Once invoices have been validated, matched, and routed into the appropriate queue, a variety of approval workflow capabilities ensure that they are approved in a timely manner. Most invoice workflow solutions are highly configurable;

they are built to be adapted to an organization's existing approval hierarchies to enable more complex routing (e.g., among different departments and cost centers). Organizations can easily set up and adjust workflows according to their own business rules and legal requirements, as well as the invoice type, amount, or other content. Advanced platforms can utilize AI to recognize patterns in workflow configurations and make approval setting suggestions for new employees. AI can automate this configuration process, saving time in the onboarding process.

When invoices require review, approvers can typically be notified via email or mobile alerts. Most solutions come bundled with alerts and reminders for approvers, out-of-office delegation rules, and escalation procedures for overdue invoices. Prioritization capabilities allow organizations to move invoices with early payment discounts to the front of the processing queue, ensuring that they are approved in time to qualify for the discount. In addition, some solutions feature workload-balancing features that redistribute the invoices in an approver's queue to other employees if that approver's workload exceeds a certain number of invoices.

Invoice management solutions affect all levels of an organization. Invoice workflows that were previously manual, sometimes requiring authorization via hand, email, or even stamp-to-paper approvals, are now managed by automated software. Instead of AP team members spending time tracking down the correct approver(s) for each invoice, an IWA solution routes invoices to appropriate managers electronically, as well as sends notifications and reminders to prevent delays. These alerts and custom controls reduce the time necessary for middle and upper management to oversee approvals. Invoice management solutions also record entire workflow histories, which helps with auditing and identifying errors. Those at the C-suite level will see the cost savings resulting from reduced invoice approval times and increased early payment discount capture. They will also save on the hiring costs associated with growth, as payables automation software allows smaller teams to manage AP processes without sacrificing efficiency.

Strategic AP Enablement

Holistic Accounting Visibility

An AP solution for scaling companies should take into account the fact that many SMEs have very small AP teams that not only handle all invoice and payment processes, but also often handle AR processes as well. AP solutions for these companies offer a balance of both synchronized processes and high usability to enable easy dual-process management.

Invoice management interfaces can give users and managers visibility into invoice approval processes, payment statuses, and supplier inquiries, as well as the status of the organization's own invoices waiting for payment. Solutions can track the real-time status of an invoice's progress, reorganize workflows of unapproved invoices, store complete document histories, and provide auditing trail information. The key is visibility and centralization that empowers small teams to do more than they could do using opaque manual processes or disparate systems, and that will continue to add value as the organization's accounting operations grow.

Reporting and Analytics

Payables platforms include comprehensive reporting and analytics capabilities that provide unique and valuable insights into many areas of the business. These features can typically either export reports in various formats or provide an overview of spend-related activity in an interactive dashboard. Reports provide a level of transparency that improves an organization's ability to audit, analyze, and improve its spend management. Reports can include many important elements, including first-pass success rates, exception rates, and open invoice statuses. They are often created from templates, which automates much of the manual analysis, but they can also be customized to a user's needs; the solution provider may also create new reports that are specifically tailored to the client's organization and processes.

Reporting and analytics tools benefit users at all levels in an organization, but are particularly useful for administrators and decision-makers with more strategic tasks and goals. Reports summarize spend activity and help managers and the C-suite identify spending trends, optimize spend policies, and improve efficiency. Reporting dashboards give visibility into areas such as employees who are delaying invoice approval workflows and suppliers that frequently send duplicate or incorrect invoices. The insights generated by advanced reporting and analytics tools aid C-suite professionals in targeting trouble spots and provide an overview of the organization's cash flow.

Cash Flow Management

When using manual methods to process invoices, bills, and payments, organizations are more likely to experience AP issues that lead to cash flow problems, particularly poor visibility into invoice workflows and late invoice approvals. Successful cash flow management can be made simple with an automation platform that enhances insight into payments, prioritizes simplicity in its functions, and increases efficiencies throughout back-office tasks.

Solutions for scaling companies that enable better cash flow management should offer a cohesive platform that combines all aspects of financial management, including AP, AR, and information management. It should accelerate invoice approval times to increase early payment discount capture, as well as offer insights into approval trends so that accounting teams can strategically restructure payments to enable optimized cash flow. Automated cash flow management also better prepares organizations for working capital tools such as supply chain finance and dynamic discounting programs, which become more important with growth and increased spend under management.

How to Approach AP Software Adoption

Levvel Research has identified a few best practices for building a business case for and eventually adopting an AP automation solution for your organization.

» *Map out your organization's current state and growth goals and analyze how they will affect the AP department, as well as your future technology needs.*

Organizations should create a map of their current state to improve the configuration stage of implementation; this map should include all current technology, AP users, departments, and stakeholders. Companies should account for current process workflows and any other variables and details that make the organization's AP mechanisms unique. With these variables identified, organizations will be better prepared to identify a solution appropriate to their growth and efficiency goals. They can leverage this data when working with a solution provider to configure and customize a new AP solution to meet all their specifications.

When defining goals and planning for transformation, teams should also strive to be as clear and precise as possible about how to adopt an AP solution and its ultimate payoff for the organization. A collective vision should be organized into discrete, well-defined benefits, with each goal being approached with a strategic plan. Those implementing the solution should ensure they value all voices within a company, including all AP department staff, employees receiving invoices, and managers.

Practitioners should also determine how automation technology will affect future staff additions, AP task allocations, and potential augmentation. As an organization scales, it is crucial to stay ahead of AP processes' needs, rather than addressing pain points after they emerge. Change management teams should incorporate future technology into their organizations' roadmaps.

» *Make the business case using current state costs and ROI calculations.*

Practitioners pushing for an AP automation solution must gain executives' enthusiasm and support. They should build a business case that includes a current state assessment, estimated savings, and projected improvements, especially highlighting how an integrated solution would benefit executives directly. An example of a significant benefit is increased visibility into spend data that the C-suite will harness with advanced reporting and analytics tools, which will in turn enable them to make more strategic business decisions. Ultimately, aligning the benefits of automation with the company's business plan will lead to greater buy-in and enthusiasm for technology adoption.

» *Find the best solution provider for your organization.*

A large number of AP solution options are available today, which may make the selection process seem daunting and overwhelming. It is important to be able to judiciously filter through providers' marketing efforts and analyze providers' features, helping decision-makers better identify which providers' strengths best meet their organization's needs.

The selected provider should be flexible, so that as an organization continues to scale, the solution can adapt and change as well. The solution provider should know the organization's market, both in revenue size and industry. There may be as pects of AP automation that the organization has not considered because it is still relatively small, but a knowledgeable player in the space would be not only a resource from which to learn but also able to equip the organization with the best tools it needs as it expands.

Methodology

MaxDiff Analysis

MaxDiff (or "best-worst scaling") is used for obtaining preference or importance scores for multiple features. Respondents are shown multiple subsets of items to evaluate and are asked to indicate the most and least important items within each group. (In this survey, respondents were given three randomized groups of three criteria each.) The goal in using MaxDiff is to achieve importance or preference scores for each item. The scores in Table 1 represent the percent difference between most appealing and least appealing for each attribute. MaxDiff also delivers a ranking among the items tested and a metric distance between each item. The higher the score (i.e. the higher the ranking), the more important or stronger the preference.

A positive score means that the attribute was selected as most important more often than least important. A negative score means that the attribute was chosen as least important more often than most important. If a score of an item is two times larger than another item, it can be interpreted that it is twice as important.

A MaxDiff analysis was performed for the insights discussed on page 8. Figure 5 depicts the ranking of solution criteria by percentage of respondents who selected the feature as "most important" using the MaxDiff modeling.

TABLE 1

MAXDIFF SCORES FOR AP SOLUTION PURCHASE CRITERIA

	SME	**Mid-Market**
Ease of use	0.63	0.62
Pricing	0.42	0.46
Integration with ERP	0.33	0.43
UI/UX	0.18	0.21
Tailored for industry	0.24	-0.05
Supplementary features	-0.31	-0.23
Mobility	-0.28	-0.29
Innovative/emerging technology	-0.41	-0.33
Our competitors use it	-0.79	-0.71

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