LEVVEL RESEARCH

The C-Suite's Guide to Successful Accounts Payable Transformation

Change Management Strategies for Implementing Accounts Payable (AP) Automation Software

Q4 2017 | Featuring Insights On...

- AP Management Trends
- The Benefits of AP Automation Adoption
- Potential AP Transformation Scenarios
- AP Change Management Best Practices

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Contents

Introduction

In an effort to reduce costs and increase efficiency in back-office processes, many companies consider financial process automation software, such as Accounts Payable (AP) automation. AP solutions help transform paper-heavy, manually intensive processes into streamlined operations that increase savings by lowering costs and increasing early payment discount capture rates. However, when it comes to actually choosing and implementing an AP solution, many organizations struggle with knowing where to start.

Some decision makers may be concerned that the cost, time, and effort required to implement AP automation software will not be worth the investment. This is especially true when it comes to higher-level executives. For example, AP departments may struggle under manual processes for years without successfully campaigning for an AP solution. This is because it is very difficult to align the understanding of executive decision makers with the actual day-to-day challenges and requirements of a manual-based AP process. While the C-suite may respect the issues their AP departments face, these executives are unclear as to how to successfully shift an AP department from paper to electronic invoices without harmfully disrupting the current state.

Because of these concerns, some organizations decide to forego automation, or they try to rush adoption of a plug-in, piecemeal solution that will seemingly have less impact on current processes. Levvel Research believes that those approaches perpetuate rather than alleviate the original concerns of the organization. Instead, organizations should take a holistic approach to automation, one that incorporates strategic change management. A change management approach to AP transformations ensures more control around project budgeting, timelines, and the software implementation's impact on current processes. With the proper change management strategy and the right AP solution, organizations will have more streamlined implementation, employee satisfaction, and long-term efficiency and ROI benefits. The following report offers a guide to strategic AP automation transformation for C-suite-level decision makers.

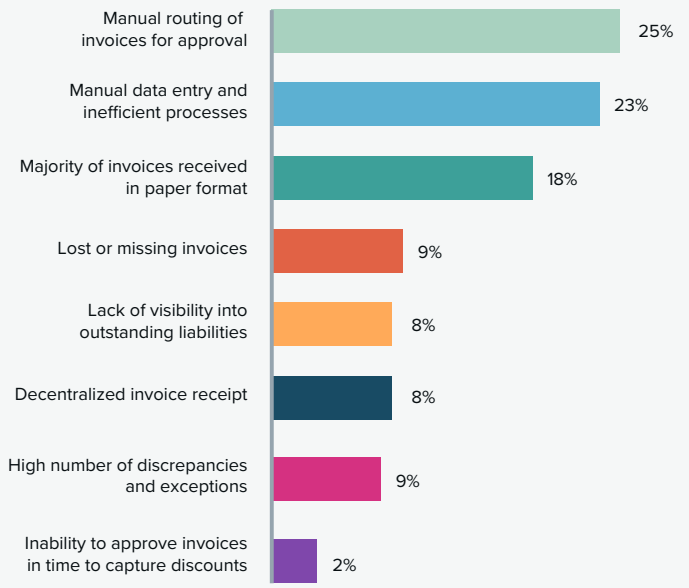
The Improvement Potential of Automated AP

Before organization leaders decide whether to transform their AP process, they must truly understand why they should transform that process. One of the best ways to understand this need is to see how the organization compares with its peers. The following data presents a current state look at AP management among North American businesses. The data is taken from Levvel Research's recent AP management survey, which includes responses from over 300 back-office employees across several industries and market segments.

AP Challenges

Research shows that organizations' top operational pains in their AP process include manual invoice routing, manual data entry, and high volumes of paper invoices, see Figure 1. These issues and others, such as lost invoices and a high number of invoice exceptions, are all common symptoms of a manual AP process.

FIGURE 1



Organizations' Top AP Pain Concern Manual Routing and Data Entry, and High Paper

"What are the top three biggest pain points you experience in your AP workflow process?"

On a strategic level, these issues can result in major problems for other areas of the organization, such as supply chain continuity, cash flow, and even credit standing. Disruptions in supplier payments can be harmful for supplier relationships, sometimes causing upstream processes to suffer over time. Poor visibility into liabilities and other accounting activities makes it difficult for treasurers, CFOs, and other stakeholders to control and make decisions surrounding their cash flow, creating instability in a company's overall financial state.

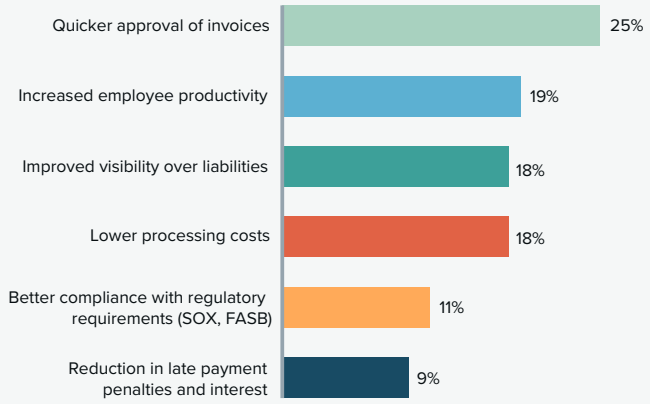
Improvements from Automation

Of course, one of the best ways to combat the above pain points is through automation. AP automation involves paperless invoice processing through electronic invoicing (eInvoicing) and/or the scanning and data capture of paper invoices, invoice matching and exception management, approval workflows, and integration with electronic payments tools. Many AP solutions also come packaged with working capital tools, including Dynamic Discounting and Supply Chain Financing (SCF) offerings to improve days payable outstanding (DPO), increase revenue, and promote faster supplier payments.

Levvel Research's research indicates that AP software corrects many of the issues that come from manual processes. Figure 2 shows that the top improvements organizations experience after automating AP processes are quicker invoice approvals, increased employee productivity, lower processing costs, and increased visibility.

FIGURE 2

Top Improvements Gained Through IWA Automation



Organizations' Top AP Pain Concern Manual Routing and Data Entry, and High Paper

"What are the top three biggest pain points you experience in your AP workflow process?"

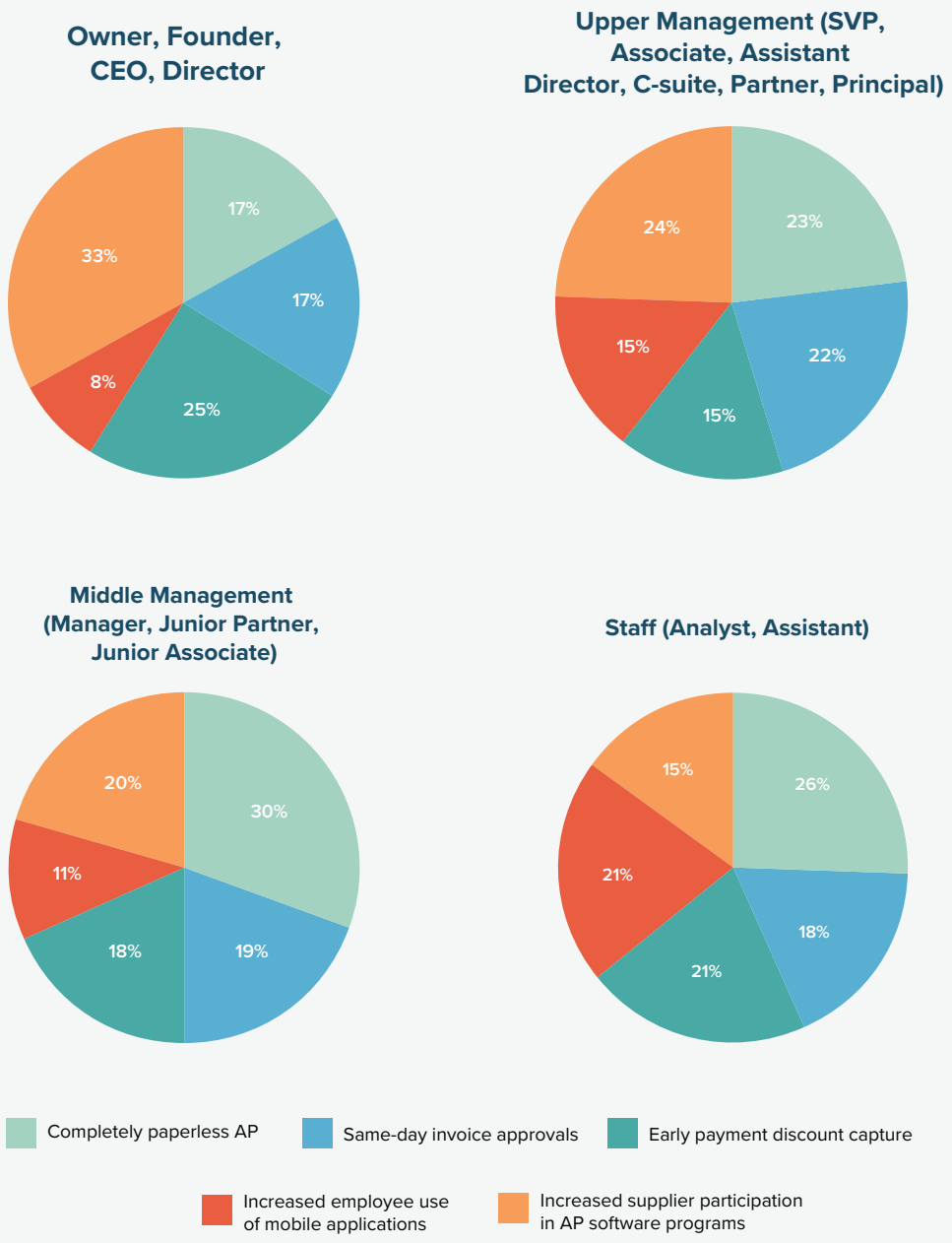
From an operational standpoint, AP automation greatly reduces manual AP tasks revolving around paper invoices, data entry, and hunting down missing invoices or supplier information. From a strategic standpoint, AP automation allows financial professionals to gain control through greater process visibility, optimized data, and an invoice lifecycle that is centralized in one platform. AP automation

also enables mid-level AP professionals to shift their focus from tactical, low-value tasks to more strategic activity, such as building supplier relationships. AP software greatly reduces issues between a company and its suppliers in general, as it speeds up invoice-to-payment lifecycles and offers supplier self-service tools. Improving downstream supplier management can have a great impact on upstream supply chain processes in the long run. For professionals in higher positions, AP technology also offers reporting and analytics tools that enable key decision makers to analyze financial data, which they can then leverage with working capital tools to make more strategic cash management decisions.

Improvement Goals by Role

While simplifying processes and improving efficiency are strong reasons to automate an AP process, organizations have many other goals in mind for improving their AP departments as a whole. Research shows that these goals can vary widely based on a professional's role in their organization. For example, Figure 3 shows that lower-tiered staff members are most concerned with practical, hands-on goals, such as getting rid of paper in the back office and increasing the use of mobile applications for work-related activities. On the other hand, professionals in higher positions are focused on more big-picture initiatives, such as improving supplier participation in automation and receiving more early payment discounts.

FIGURE 3



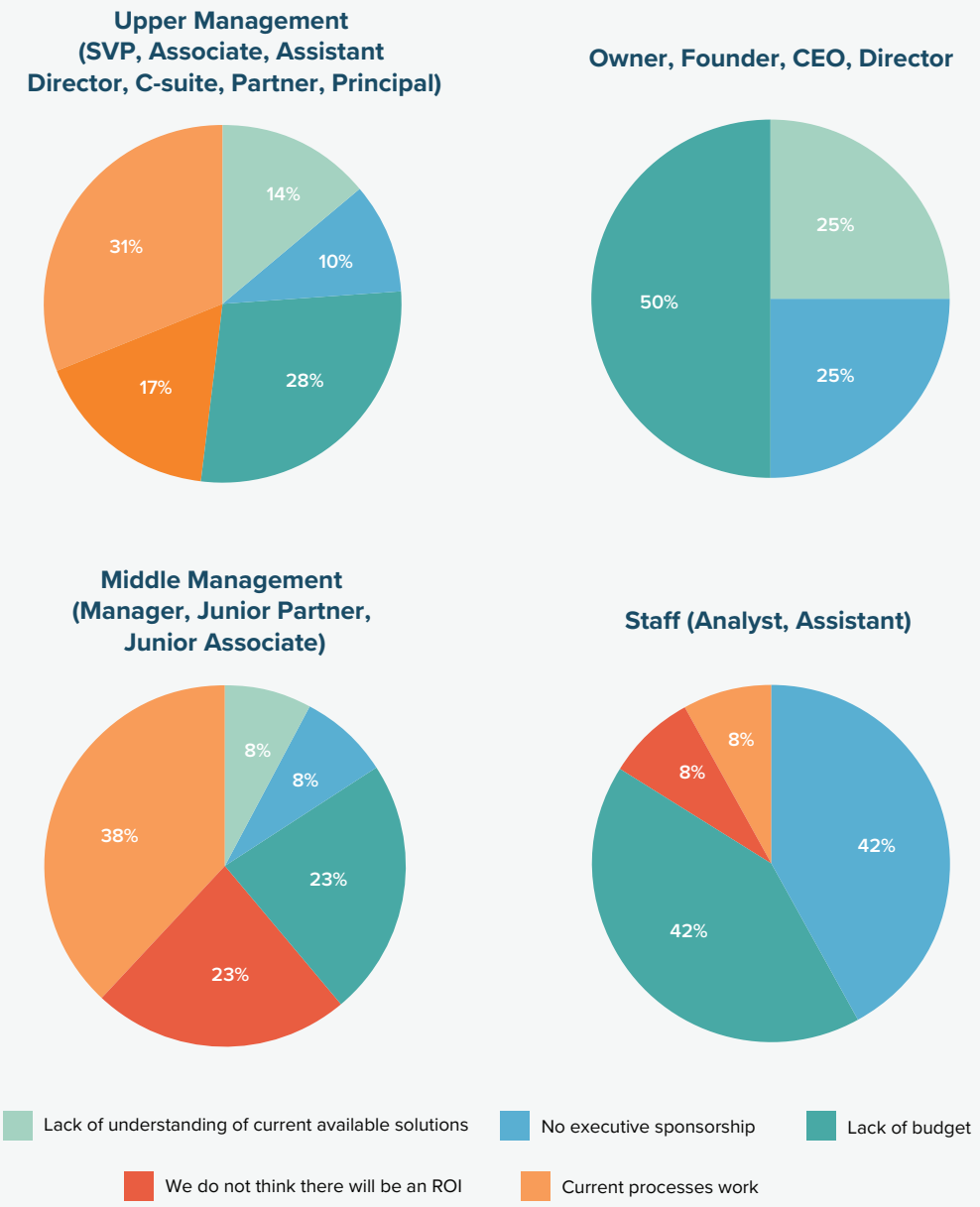
Workplace Goals Vary Across Different Roles

"Which of the following workplace goals/achievements are most important to you? (Select top 3)" & "Which title best applies to your position in the company?

Adoption Barriers by Role

Just as higher-level roles have unique improvement goals, they also have varying reasons for resisting the adoption of a software. Figure 4 shows that those in higher-level positions are more likely to be concerned about budgets than those in lower positions, but they are also more likely to lack the proper knowledge of available solutions.

FIGURE 4



Adoption Barriers Vary Across Different Roles

"What is the greatest barrier to adoption in your organization?" & "Which title best applies to your position in the company?

Respondents in analyst and assistant roles cited a lack of budget and a lack of executive sponsorship as their top barriers, while only 8 percent indicated that their current processes are working. While these employees are not satisfied with current processes, they are aware that key decision makers are not willing to automate. Respondents within middle management roles have similar views, but they are more likely to state that current processes are working, which may indicate their willingness to work with what they have. These issues reflect the middle and lower level employees' inability to sway decision makers towards a solution.

Many upper- and senior-level roles' adoption barriers are based on a lack of awareness of issues and available options. Respondents in upper management roles are not fully aware of the need for a solution, as they are more likely to say that current processes are fine and a solution would not be worth the ROI. Both upper management and those in higher levels cited a lack of budget and lack of understanding of possible solutions as main barriers to adoption. This "lack of understanding" is telling. PayStream believes that many key decision makers think that AP solutions cost more than they do, and that they believe the effort of implementation is more disruptive than it actually is. They also are not fully aware of what AP automation can do to bring about strategic change for their company—instead, they see the operational problems as not worth a seemingly expensive and lengthy software implementation.

In reality, companies can achieve widespread value from AP automation, in both operational and strategic terms, with guaranteed ROI and without disruption. The following sections will help fill in some of the gaps in organizations' knowledge around automating AP.

Potential AP Transformation Scenarios

One major reason the C-suite hesitates to begin a back-office process transformation is uncertainty of what the project will look like, and what its results will be. A holistic technology implementation and automation initiative can often seem overwhelming and complicated to executives, especially in companies with limited experience in large-scale process transformations. To help assuage this uncertainty, the following items outline some scenarios the C-suite and other executives can expect during implementation.

Resistance from Stakeholders

When an organization's key decision makers decide to begin an automation initiative, the reactions they will face will depend on a few factors. These include the size of the company, the nature of their AP department, and the culture and techniques of their workforce.

» *AP Staff and Suppliers* – The current environment in AP is one of the greatest factors here. Some AP departments have been operating the same way for many years, and have found ways to make manual processes work to their advantage, despite the inefficiencies. The internal relationships between AP professionals, and those between AP and suppliers, can be long-running and strong, but sometimes sensitive. Automating processes can appear dangerous to both parties, as the time and disruption involved in implementation can affect supplier and payment processes. A change in roles and activities that result from automation could also disrupt long-standing routines and equilibriums, causing concern among AP professionals. These fears can grow more pronounced among mid-sized companies with smaller AP departments and fewer suppliers. These smaller teams often have stronger relationships with their suppliers and will be more resistant to changing the current state or doing anything that would disrupt supplier relationships.

» *Information Technology (IT)* – Some of the largest concerns about automation can come from the IT department, as integrating new software with existing systems can be a complex and time-consuming process. It can put burdens on IT that are hard to predict or place in a timeframe. For example, depending on theproject, implementation could warrant hiring additional labor to help with the implementation process. Another concern is the possibility that the project will hit unexpected difficulties that will increase

implementation time, and if the implementation itself is not conducted properly, it can create technical issues for years to come.

Resistance from IT can vary based on the size of the company. Mid-sized companies often operate on many small, fragmented, non-standard software tools, such as several different ERP systems across the back office. A large-scale software integration is much more challenging in these environments, and IT's concerns around capacity are more valid. AP software implementations are less daunting to IT teams at the enterprise level, as these companies have typically been operating on standard, centralized tools across many departments for years. In these situations, adding AP automation is often simply an extension of the current ecosystem.

» *Upper Management* – There may also be some resistance and concern within the executive decision makers themselves, stemming from varying perceptions of the use case and necessity of the technology, and the different goals among roles. A CTO will have a much different vision of an AP solution than a CFO, and the same goes for the CEO and founders of the organization. There is also the CPO to consider, as their department's interaction with AP will be affected by software adoption. Some CPOs want to encourage or discourage software adoption based on whether they would like to also adopt a procurement solution in the future. If the Procurement department is already using a procurement solution, the CPO will likely have concerns and/or questions around how the AP solution integrates with current purchasing processes.

For all parties involved, the best way to combat resistance to an automation initiative is communication that ensures that all voices have been heard and all concerns addressed. By conducting a strong change management strategy from the very beginning, organizations can reduce the chance of hostility towards automation from any role, and increase the possibility of aligning all parties' goals. This change management strategy should take into account the differing views, concerns, and management techniques of the parties listed above. The section on page 15 outlines some change management best practices that address these factors.

Return on Investment (ROI) Timelines

The ROI from a technology investment is one of the best motivators to automate processes, but it can be hard for an organization to determine when and how much ROI will come. These projections also change depending on the technology. For example, ROI from software that automates upstream processes like sourcing is harder to define, predict, or guarantee than software for processes like procurement and AP, as sourcing automation produces less tangible results, such as reduction in maverick spend and more competitive contracts. ROI from automating AP processes comes directly from things like cost reduction and rebates, making it one of the easiest to measure and attain. AP software also results in financial gains through decreases in financial fraud and greater ability to capture early payment discounts.

With that being said, organizations should understand that ROI from back-office process transformation is not immediate. Different roles will have different expectations for ROI as well, and will start to see this ROI on different timelines. For example, professionals in junior-level roles will be more attentive to ROI from operational improvements, such as quicker invoice approval cycle times, fewer missed payments, or lower supplier dispute resolution times. Senior-level professionals will be more eager to measure ROI metrics around savings and increased revenue. Typically, operational savings will come almost immediately after a solution is in place, while more strategic and revenue-related metrics will take longer to become apparent.

When it comes to financial process software that is implemented across an entire invoice lifecycle, organizations should not expect substantial revenue-related ROI in the first 6-12 months. This is because much of the ROI will come from long-term efficiency and savings increases, and will be based on discount capture. However, between the first and the fifth years, organizations will start to see healthy increases in ROI. Table 4 on page 17 includes some calculators that organizations can use to measure potential ROI. Organizations should understand ROI timelines before they begin their change management initiative to make sure they are financially prepared for the investment and the project.

Process Improvements Timelines

Another important factor to consider is that not all ROI appears in hard cost savings. There are many soft savings that come from technology investment, including cycle improvement times and employee productivity—factors that

significantly contribute to improving a company's overall competitive advantage. However, with both hard and soft costs, it is important that organizations understand that these improvements will not come all at once. Typically, when an organization begins to automate their department, their AP automation maturity level will increase in stages.

Many factors determine a company's maturity level. Some are in their control, such as how quickly they choose automate their processes, and some are not, such as suppliers' willingness to participate in activities like electronic invoicing. Table 1 shows the different metrics organizations typically achieve based on a company's automation maturity.

The Novice level depicts metrics for companies with an almost entirely manual state, followed by the those with some automation (Mainstream), and those with fully automated AP departments (Innovator). PayStream has found that 30 to 40 percent of North American businesses making more than $100M in revenue fall between Novice and Mainstream in terms of automation maturity. However, if a company takes a strategic change management approach to implementation and works with a provider with a scalable solution, the Innovator level is an achievable goal.

TABLE 1
Process Improvements by AP Maturity Level

Metrics	Novice	Mainstream	Innovator
Average processing time from invoice receipt to approval	45 days	23 days	5 days
Average processing cost per invoice (combination of paper and electronic)	$15	$6.70	$2.36
Percentage of invoices received electronically	3%	9%	32%
Percentage of invoice terms discounts captured	18%	40%	75%

AP Change Management Best Practices

Change management initiatives greatly increase the success of companies' entire process transformation, and achieve a more streamlined transition from manual to automated processes. Organizations that use change management strategies will be more likely to:

- Maintain and improve the morale of employees affected by the project
- Increase the project's legitimacy
- Stay within project budget
- Gain faster ROI
- Finish the project within the determined timeframe
- Reduces the stress on current financial processes and on the workforce
- Decrease the stress before, during, and after a project

The following change management best practices will help organizations achieve more possible benefits from AP automation.

Gain widespread internal cooperation. One of the most important things to do when planning an AP process transformation is to bring all stakeholders to the table from the very beginning. As highlighted in the previous section, automation projects often strike fear in a workforce concerned about whether their jobs or their workplace environment will change for the worse. This fear of change can create a great deal of resistance to an integration initiative and undermine its success. To prevent potential problems, automation projects should be openly discussed whenever possible, and change management leaders should create an open line of communication among all parties. For example, while employees in lower positions, such as AP assistants may not necessarily have a final say in automation initiative decisions, their enthusiasm for the initiative can add strength to implementation and change management efforts.

Table 1 outlines some of the topics and concerns that could potentially arise with each stakeholder, and some talking points that upper management can use to alleviate these concerns.

TABLE 2
Communication Talking Points to Gain Cooperation

Role	Issue	Talking Point/ Possible Solution	Strategic Role Enhancement
CPO/CIO	Disruption of the current state; not worth the investment/too expensive	AP software, particularly cloud-based software, is easy to implement, and software providers will work with clients to minimize the impact on the current state as much as possible; AP cloud software is scalable, and can be implemented according to an organization's budget and preferred timeline; the value of AP automation (leveraging ROI calculators from the following section) far outweighs the costs and temporary disruption	CPO/CIO will have more visibility into current processes and spend activity with the solution, both from centralized data and from access to advanced analytics tools; CPO/CIO roles will transform from simply solving operational issues to making more long-term, strategic decisions
AP Staff	Decrease in value of current role	Automation will result in job reallocation rather than job loss; it will provide tools that improve staff's work and productivity	AP automation will reduce the time AP staff must spend on low-value tasks; AP staff will gain more power through a centralized platform that gives them controlled access to certain process and spend data; they will be able to foster better supplier relationships with the solution's supplier management tools
IT	Fear of over-stretched resources; fear of lengthy, exhausting implementation; fear of creating new, long-lasting problems instead of fixing current issues	AP cloud software is easy to integrate with existing systems; AP software providers offer extensive integration support during implementation and long-term technical support after; AP cloud software is advanced, scalable, and technically intuitive, built to relieve the burden legacy systems have placed on IT	IT's activity shifts from putting out fires to creating innovative digital environments in their organization; IT will no longer have to spend extensive time maintaining outdated systems, but can rely on the cloud-based solution provider to proactively manage software updates and improvements; IT will have time to identify any gaps in their current systems and work strategically with the solution provider to build out and/or customize features that meet their organization's specific needs

Involve external stakeholders. Just as the C-suite should not disregard the voices of lower-tier employees during an automation initiative, they also should not forget to involve their suppliers. It is important that these suppliers are aware of how AP processes will change when they are automated. This is particularly crucial for organizations dealing with high volumes of paper invoices, and with suppliers that have shown resistance to moving from paper to digital invoice formats like eInvoicing. When the C-suite maintains open communication with suppliers, they are more likely to gain supplier participation in the solution—and improve ROI.

Some common issues coming from external stakeholders include resistance to the time and effort needed to build eInvoicing integration or register for the supplier network. This is especially true among suppliers that have past experience with older, legacy-based supplier networks with supplier-pay pricing models. One way companies can combat these concerns is to select an AP provider that offers a free portal and services to suppliers. An organization should also be sure to outline the specific benefits that AP automation has for external stakeholders. These benefits include more on-time or early payments to the supplier, less work for the supplier's AR team, and improvement of the supplier's cash flow.

One strategy to improve supplier participation in the solution is to build adoption timelines with suppliers that involve customized deadlines and incentives. For example, suppliers with higher spend criteria or invoice volumes can be given shorter deadlines but better incentives for registering with an eInvoicing network. Another strategy would be to offer alternate options to suppliers based on their size and technical maturity. Smaller suppliers, or those from less technically progressive industries, are not always able or willing to build system-to-system integration that supports eInvoicing. However, if the organization offered these suppliers other options that still eliminated some of the pains around paper invoices, such as an email address where they can send scanned invoices, or portal-based invoice sending and receiving, the company still improves costs, visibility, and invoice lifecycle times.

Measure the current and future state. In order for organizations to increase the chance of success in an AP transformation, they should understand their current state. They can do this by closely evaluating and measuring their current processes and process metrics. These include processing times, labor costs, error rates, and the annual costs of existing systems, including maintenance.

Table 3 offers examples of current state measurements that companies can gather from their process metrics. Once organizations have a clear picture of their current state, they will be able to build a precise set of improvement goals, define timelines to achieve those goals, and clearly define the next maturity stage they are trying to reach. They will also be better able to choose a solution that can help to meet their needs and goals.

TABLE 3
Measuring Operational Costs

Total Cost Per Invoice	Perfect Payment Index Calculation
(Number of AP Clerks * Average Annual Salary) / Number of Annual Invoices *(does not account for overhead or other soft costs)*	% electronic * % paid on-time * % discount achieved

When it comes to measuring the future state, organizations can use their current state metrics with AP software ROI calculators. There are many tools available for companies wishing to estimate the ROI of software adoption, including the ROI formulas in Table 4 Levvel Research suggests that C-suite professionals leverage their future state metrics when building their automation goals and choosing a provider. They should also use these metrics to set realistic implementation timelines, and build budgets based on those timelines and their expected ROI.

TABLE 4
Predicting Savings with Automation

First Year ROI (%)	Payback Period (Years)	5-Year ROI
Annual Savings / Total Cost of Implementation	Total Cost of Ownership (Annual Subscription* Number of Years + Implementation Cost) / Annual Savings	(Annual Savings * 5) / (Total Cost of Ownership + 5 Year Maintenance Costs)

Fix current processes. One of the values of identifying the current state is that it highlights which process and management issues can be corrected before implementation. An automation overhaul is only as effective as the processes it integrates; when an organization's AP department is dysfunctional, they will not be able to get the most out of their solution. When organizations have gained a better look into how AP processes are currently running, they will be able to readjust a variety of factors to better prepare for automation, including workflows, management approaches, and communication techniques.

An important aspect of this process improvement is to evaluate the current approaches to different invoice and payment processes. For example, how are non-PO- and PO-based invoices managed differently, and are these strategies best practices? Other things that would improve current processes are cleansing supplier lists and data to prepare it for the new AP system, and revaluating supplier contracts to make sure that the organization has updated, competitive pricing agreements before trying to onboard suppliers to the new system. By creating as stable an environment as possible and evaluating the current state before beginning a AP transformation, the C-suite will greatly improve the success of the initiative over time. This will also help speed up implementation timelines as well as potential ROI due to the step-by-step, structured approach.

Stay on schedule. In order to reduce the risk of implementation disrupting current processes, it's important that organizations adhere to project timelines. Some best practices for this are creating a project definition document that outlines all the parameters of the AP transformation—the project phases, what will change, who will be involved, etc. This should also entail workflows for any needed approvals during the project. Organizations should make sure this document is dispersed as widely as needed. Another best practice is to assign one or more project managers to monitor the process and help keep it one track. Depending on the scope of the project, these managers can be sourced internally or from outside firms. By applying a strong project management approach to the AP transformation, organizations are much more likely to stay with timelines and budgets—and gain faster ROI.

Choose a suitable provider. Despite all the preparation organizations may have conducted prior to implementation, their efforts may be wasted if they choose a solution provider that is not suited to their business requirements and environment. Organizations should carefully evaluate a solution provider against their current state, their workforce training needs, and their own business

characteristics. They should consider the solution provider's experience with companies like their own, and in industries and market segments similar to their own. They should choose a provider with advanced features and a system that can be deployed according to their own technical environment, with advanced integration capabilities to connecting to existing systems. They should also choose a provider that will help map out plans for achieving all pre-defined improvement goals. Finally, an organization should not overlook the value of a choosing an intuitive system, and a provider that offers extensive and flexible training services.

About Levvel Research

Levvel Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Levvel 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. Levvel 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, Levvel Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Levvel Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

