



Aberdeen *Group*

The Invoice Reconciliation and Payment Benchmark Report

June 2006

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Executive Summary

Invoice Reconciliation and Payment (IR&P) is more than simply processing invoices and paying bills. It is the foundation into gaining real-time visibility into costs and supplier performance. In an economic environment with wild price-swings in business costs, IR&P should be providing information on spend and costs to manage the enterprise and maintain competitive position.

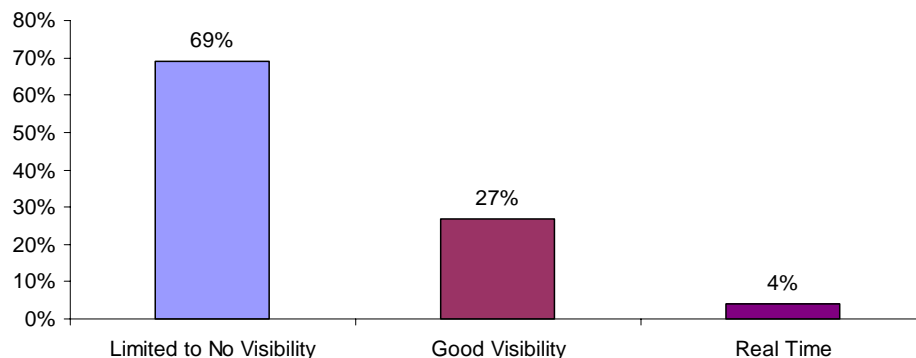
AberdeenGroup received survey responses from approximately 150 industry executives and managers to gain further insight on IR&P processes, strategies, processes, challenges, and successes. This report identifies the current priorities, top pressures, and specific strategies Best in Class enterprises are implementing to increase the business value delivered from IR&P activities.

Key Business Findings

Aberdeen's 2006 *Invoice Reconciliation and Payment Benchmark Report* reveals that enterprises are seeking to reduce their costs through maximizing liquidity and cash flow and headcount reductions. A key area of focus is improved visibility into spending. Gaps in the source-to-pay lifecycle include processes where critical information is not collected, data is poorly organized, systems are not well integrated and information is not centrally collected for reporting, spend analysis, and business intelligence. This results in problems gaining real-time visibility into business costs and supplier performance. Only 4% of the enterprises in this benchmark have real-time visibility into this critical financial information; 27% reported they had good visibility into spending, and 69% report they have no visibility or limited visibility to spending. (See Figure 1)

More than two-thirds, or 69%, of enterprises report they have limited-to-no visibility into spending.

Figure 1: Visibility into Spending



Source: AberdeenGroup, June 2006

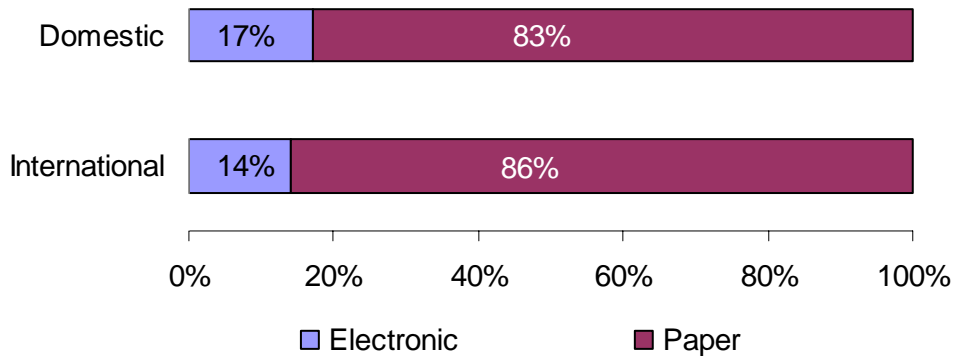


Implications and Analysis

Lack of visibility into spend is alarming given that enterprises face an environment in which costs have become less predictable. Staying competitive in the marketplace requires access and visibility to costs and programs to manage these costs.

One of the challenges in gaining visibility into supplier performance is the large volume of paper-based transactions and variety in the types of billing processed. Paper remains stubbornly entrenched in the billing process. This benchmark reveals most billing (83% domestic and 86% for international) is received in paper format.

Figure 2: Paper Invoices vs. Electronic Billing



Source: [AberdeenGroup](#), June 2006

Most enterprises are not able to get the data from different systems organized and integrated into one repository. Nearly one-third, or 34%, of the respondents in our survey report that they have three or more systems to manage invoice processing, reconciliation, and payment. An additional 10% of the respondents do not know how many systems they are using.

Few enterprises have realized the potential to effectively leverage data from the IR&P process. The process and data extracted from it are not well-integrated with sourcing, procurement, and ERP systems. To maintain competitiveness in an environment where supply costs are rapidly changing, enterprises must improve their IR&P processes to improve visibility into spend and drive cost reductions.

Recommendations for Action

- Automate labor-intensive invoice processing.
- Manage payment terms and capture cash discounts.
- Increase use of financial institutions' trade services and working capital solutions.
- Work toward a fully visible, integrated environment for the source-to-pay life cycle.
- Develop supplier score cards for improved cost management.



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Chapter One: Issue at Hand

Key Takeaways

- Enterprises are seeking to maximize cash flow, lower their costs for processing invoices, and improve visibility into spending to manage their competitive position.
- The invoice process and accounts payable function remains a highly labor-intensive function with too much paper and a jumble of systems with limited integration and poor visibility into spend.
- These challenges provide significant opportunity to streamline processes with integrated systems to capture new process efficiencies in the IR&P process.

Gaps in the source-to-pay cycle include processes where critical information is not collected, data is poorly organized, systems are not well integrated and information is not centrally collected for reporting, spend analysis, and business intelligence. This results in problems gaining real-time visibility into business costs and supplier performance. Considering that an enterprise spends nearly half of every dollar that it earns on external goods and services and between 60% to 80% of the cost of a final product for manufacturers comes from external suppliers, this information is critical to manage the enterprise's competitive position and profitability.

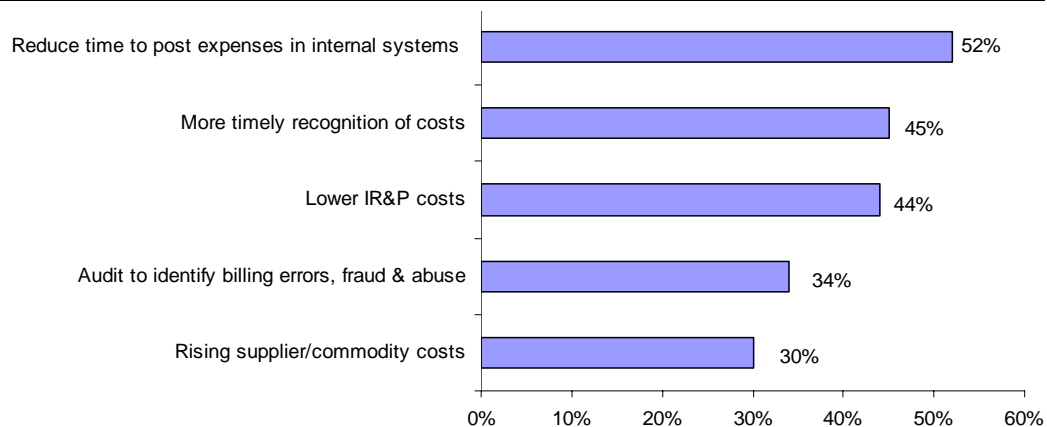
Pressures of the IR&P Process

Aberdeen research identified five market pressures that are driving enterprises to gain visibility into their costs and properly manage their expenses. Three of the pressures cited by survey respondents are linked directly to visibility:

- *Reduction of cycle times to post expenses*
- *More timely recognition of costs*
- *Rising supplier costs impacting the enterprise.*

The other two priorities are tied to the theme of cost control. Respondents indicate they face pressures to lower IR&P processing costs and improve audits to identify billing errors, fraud and abuse. Automation is critical to address these challenges.

Figure 3: Top Pressures of the IR&P Process



Source: AberdeenGroup, June 2006



Enterprises are Crushed by a Mountain of Paper Bills

IR&P is more than simply processing a few invoices that are not captured by Enterprise Resource Planning (ERP) systems. Most of the bills are coming in paper format (83% domestically and 86% overseas). Despite continued adoption of P-Cards and Corporate Cards for many “one-time transactions,” paper remains stubbornly entrenched in most enterprises. All of this paper must be processed, otherwise most enterprises would come to a grinding halt.

With paper, critical information is difficult to access in a timely fashion. The survey responses show no visibility or limited visibility to spending is an obstacle to managing the enterprises for 69% of the respondents (Figure 1). The table below highlights key issues and quantifies some of the costs with paper bills.

Table 1: The Impact of Paper & Labor-Intensive Billing Processes

Issue	Impact on the Enterprise	Cost
Long cycle time to process invoices	<ul style="list-style-type: none"> • Delays in posting expenses • Inability to maximize cash flow through timing payments to just prior to expiration of cash discounts • Late payment penalties 	1% to 5% of transaction value
No program to validate billing	<ul style="list-style-type: none"> • Over payments for billing errors • Duplicate payments • Tax errors 	12%-15% error rate

Source: AberdeenGroup, June 2006

Pressures, Actions, Capabilities, Enablers (PACE)

Pressure to post expenses faster, recognize expenses, and manage rising supplier/commodity costs are increasing the need for enhanced visibility and control. These are the leading factors fueling the drive for IR&P improvements among enterprises. Table 2 highlights the *actions*, internal *capabilities*, and technology *enablers* that enterprises have prioritized to address these pressures and accelerate improvements in invoice processing reconciliation and bill payment.

These prioritized actions, capabilities, and enablers are examined in more detail in the next chapter.

PACE Key — For a more detailed description, see Appendix A

Aberdeen applies a methodology to benchmark research that evaluates business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — external forces that impact an organization’s market position, competitiveness, or business operations

Actions — the strategic approaches that an organization takes in response to industry pressures

Capabilities — the business process competencies required to execute corporate strategy

Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices

**Table 2: IR&P PACE**

Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
Reduction of cycle times to post expenses	<ul style="list-style-type: none"> Automate manual steps in IR&P process to reduce headcount Adopt P-cards and Corporate cards to eliminate paper from non-recurring transactions Use rule based workflow for routing of invoice approvals 	<ul style="list-style-type: none"> Scan bills at the front end of processing and consider Optical Character (OCR) technology Migrate paper bills to electronic media Automate expense approval and routing Increase collaboration between stakeholders 	<ul style="list-style-type: none"> Enhance visibility and access to physical copies of bills or electronic facsimile Utilize alert system to flag bills awaiting approval Procure services through electronic marketplaces with P.O. flip Improve visibility into billing dashboards
More timely recognition of costs			
Lower IR&P costs			
Rising supplier costs impacting the enterprise	<ul style="list-style-type: none"> Leverage IR&P data to improve volume discounts, sourcing, and capture of fluctuating costs 	<ul style="list-style-type: none"> Better align finance and procurement to allow for more collaboration and sharing of data 	<ul style="list-style-type: none"> Improve supplier cost monitoring, benchmarking and reporting
Audit to identify billing errors, fraud & abuse	<ul style="list-style-type: none"> Improve visibility and auditability of process Centralize billing into one repository 	Automated audit for <ul style="list-style-type: none"> Elimination of duplicate payments Validation of taxes Fraud detection for high risk transactions 	<ul style="list-style-type: none"> Integration of processing systems, pricing, and contract data Identify off contract purchases

Source: AberdeenGroup, June 2006



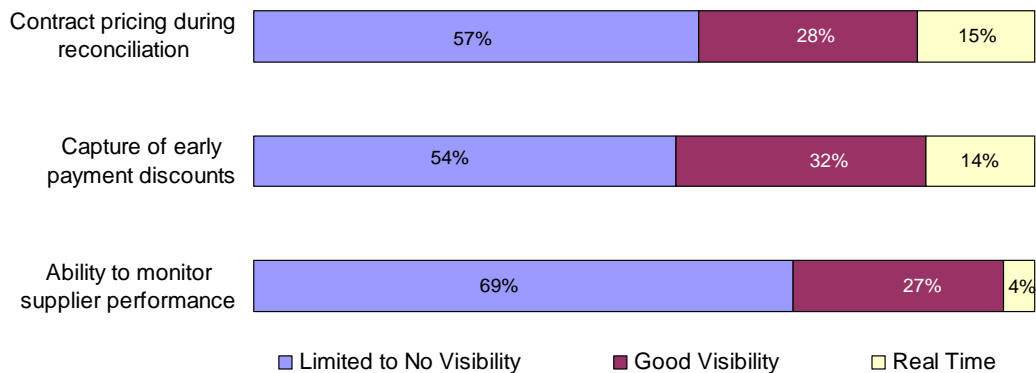
Chapter Two: Key Business Value Findings

Key Takeaways

- Managers should have visibility into their expenses through their invoices. Unfortunately, data is either not captured or poorly organized and not available to manage business costs and track supplier performance.
- Billing errors are also a problem with few systems to reconcile contracts with invoices. This benchmark found error rates in the range of 10-15% of the total.
- Many enterprises are not leveraging the data in their invoices to manage their business.

Enterprises have limited-to-no visibility of contract pricing during reconciliation of billing, capture of early payment discounts, and supplier performance (Figure 5). This creates serious challenges in auditing bills, timing of payments to maximize float while capturing cash discounts, and accessing the data on costs to manage the enterprise. These are critical elements that are needed to maintain competitiveness in an environment where supply costs are rapidly changing.

Figure 4: Enterprise Visibility for Pricing, Discounts & Supplier Performance



Source: AberdeenGroup, June 2006

IR&P Challenges

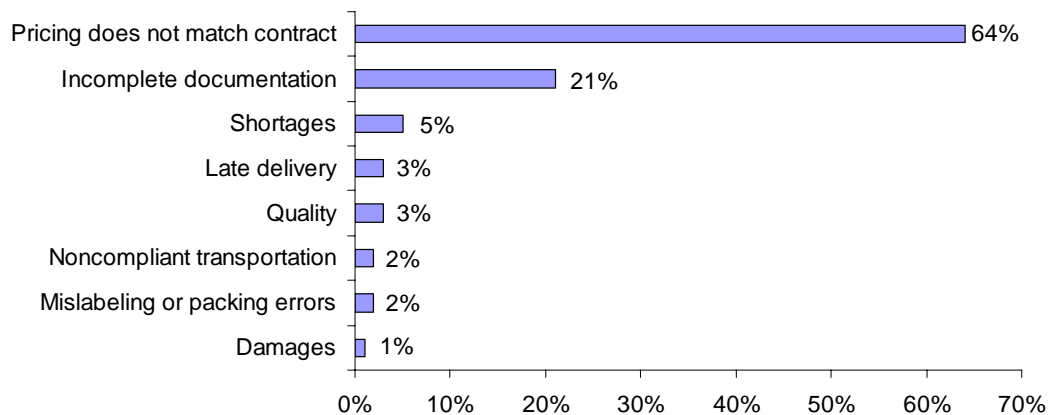
- **Long cycle time to process invoices** — Eighty-three percent of domestic invoices and 86% of international invoices are received in paper format. Entry of invoices can be a slow process. Our survey results found, on average, it takes 27.6 days to process an invoice. Laggards have an average cycle time of 49 days whereas the Best in Class' average cycle time to process and invoice is 7 days. Faster cycle times mean less cost to process invoices, cash discounts can be taken, and better supplier relationships can be built.



- Problems identifying missing bills** — Lack of automation and poor visibility (Figure 5) into invoices means firms do not have systems to flag missing bills. At most enterprises, invoice processing is a series of disparate and largely manual activities. Aberdeen's benchmark found that 34% have three or more systems to process bills and another 10% don't know how many systems they use. Missing bills lead to added cost to track the lost invoice, late payment penalties, delays in future orders, and risk with duplicate payments if the bill is located.

On average, 12% to 14% of billing is believed to contain errors. This represents errors that respondents have actually identified. The error rate is likely to underreported because some errors are never found. The most common billing error was pricing that did not match contracted rates. It is surprising that tax errors and duplicate invoices were not cited more often in the survey pool.

Figure 5: Invoice Billing Errors

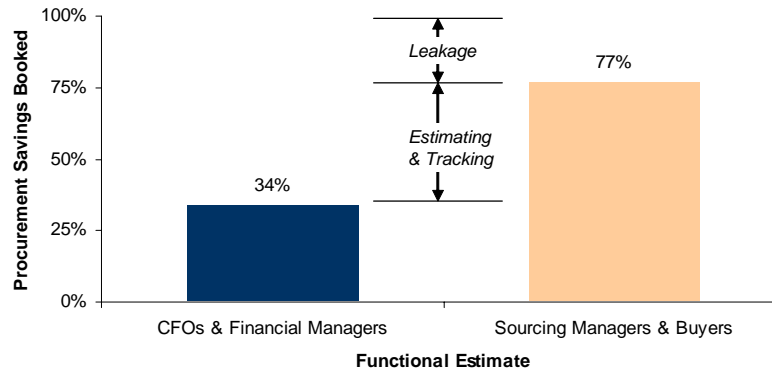


Source: AberdeenGroup, June 2006

- No automated program to validate billing** — The majority, 57%, of enterprises have little-to-no visibility into their contracts for bill validation. Aberdeen's March *The Contract Management Benchmark Report: Procurement Contracts* found that nearly half of companies continue to store at least a portion of their contracts in paper format or in disparate systems/databases, limiting their ability to locate contracts or validate billing. Challenges in performing audits prior to payment add additional costs with financial adjustments, system updates, and tracking of these transactions after the payment has cleared. Aberdeen's benchmark report on *The CFO's View on Procurement* showed that CFOs believe that only 34% of projected procurement savings, on average, are realized, whereas sourcing and procurement managers believe that 77% of the savings are realized. This leaves nearly a quarter of the savings, or 23%, that managers feel are never realized. An automated program that links contracts to billing would address the leakage in procurement price concessions.



Figure 6: Estimated Percent of Projected Procurement Savings Booked



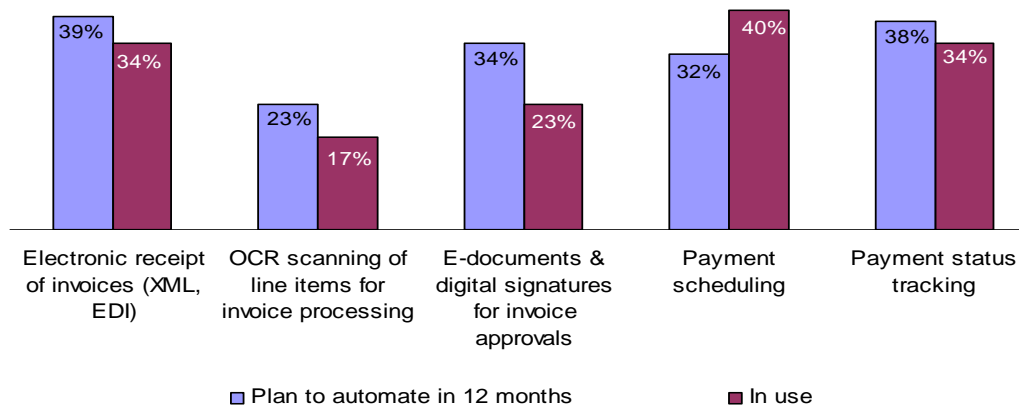
Source: [AberdeenGroup](#), *The CFO's View on Procurement*, September 2005

- **No system/portal for supplier queries** — Only 34% of the survey respondents report that they have implemented an online system for supplier queries. Enterprises have opportunities to gain headcount efficiencies by providing a portal for suppliers to view the status of their disbursements and provide access to other time consuming queries.
- **No repository for centralized management of invoices** — ERP systems are not well integrated with manual processing of bills. In effect, IR&P fills the chasm that exists between automated ERP processing of EDI billing and volumes of paper bills that need to be manually processed. Poor visibility into invoices and compliance-tracking makes it difficult to manage costs. Lack of visibility into spending is alarming given that enterprises face an environment in which costs are unpredictable and these costs are critical to maintain competitiveness and profitability. Enterprises need to strive towards achieving a fully visible integrated environment for their managers.

How are Companies Responding to these Challenges?

Enterprises of all sizes and in all industries face the external pressures cited in Chapter One. Enterprises are seeking to manage their expenses through reduction of cycle times to post expenses, more timely recognition of costs, and manage rising supplier costs. The other two priorities are tied to the theme of cost control with survey respondents striving to lower their IR&P processing costs and improve audits to identify billing errors, fraud and abuse.

To respond to these pressures, benchmark participants prioritized the following actions for improving IR&P efficiency and performance:


Figure 7: Current and Planned Use of IR&P Automation


Source: [AberdeenGroup](#), June 2006

- Migration to electronic receipt of invoices** was cited as a primary action by 39% of the survey pool. Since more than 80% of the invoices are received in a paper format there is room for improvement. Aberdeen's examination of IR&P programs consistently finds that many enterprises are lagging in their use of EDI and other electronic billing media.
- OCR scanning of line items for invoice processing** proves to be of value and can streamline processes. We found that 23% of the enterprises represented in our survey plan to increase their adoption of OCR scanning. In the past, the technology was not mature and early adopters paid a price. Recent advances in OCR scanning help to explain there is renewed interest. This approach includes scanning the line item details and cross-indexing common fields for searching and structuring data for integration with other systems and spend analysis. Like the moves to HTML and electronic transactions, more complete OCR scanning of line item detail helps to address the inefficiencies of manual search and retrieval of filed documents; the cost of lost and misfiled documents, transit costs to move paper, and operational costs to handle paper-based invoices. Additional benefits include reduced storage costs for filed hard copies and long-term storage through digital copies. In addition, digital electronic storage can be an efficient approach to disaster recovery contingency planning.
- Deployment of E-documents and digital signatures for invoice approvals** is vital if companies want to improve their cycle times for approving bills and capturing early payment discounts. With this approach integrated programs route billing for approval based on a structured workflow. Alerts and escalations help to monitor invoice approval status. Managers are able to view all the details online through links to scanned images or electronic facsimiles of bills. Our benchmark found 39% of the survey respondents are using paper-based approval routing forms. Aside from being extremely inefficient, this approach provides little control and archival tracking for fraud controls and Section 404 internal controls to support Sarbanes-Oxley compliance.
- Payment scheduling** is ranked as an area that 32% of the enterprises plan to address over the next 12 months because it provides more secure and efficient fi-



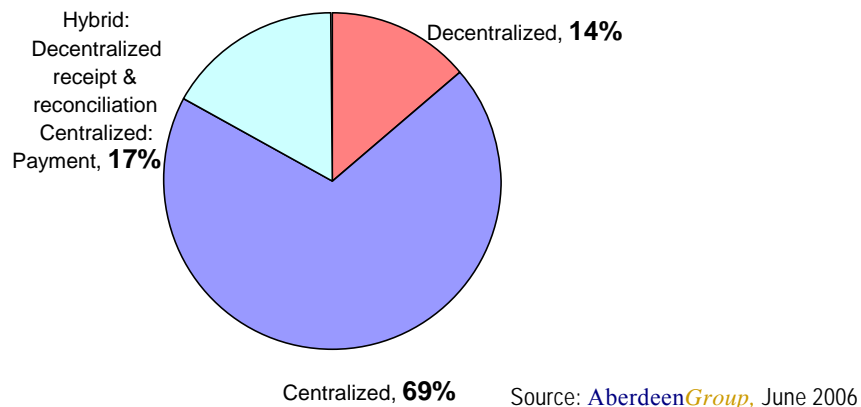
nancial processes. Enterprises are deploying this approach to decrease their cycle time and accelerate their accounting processes. Respondents that are employing electronic payment scheduling are able to reduce the cost of third-party payments and capture early payment cash discounts by more effectively managing the timing of their payments.

- **Payment status tracking** provides a good target for cost take-out and it is listed as an area that is being pursued to reduce costs associated with manual searches for payment information.

Enterprise Approaches to Managing the IR&P Process

Centralization is important in establishing consistency in how documents are processed and compressing timeframes to process invoices. Most enterprises have adopted a centralized approach to processing invoices. The breakout above (Figure 7) shows a number of different approaches to managing invoices. The findings indicate most enterprises or 69% have adopted a central approach to IR&P. A small portion or 14% are totally decentralized and 17% have a hybrid approach where invoices are processed at decentralized locations, but paid centrally (Figure 8).

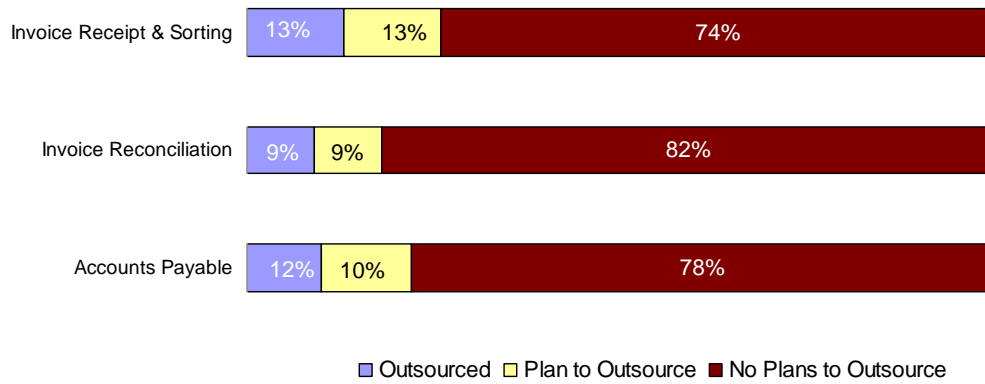
Figure 8: IR&P Overall Is Centrally-Managed



Enterprises show a preference not to outsource management of the entire IR&P process to third parties (Figure 9). IR&P may not be a core competency for most firms, but enterprises appear to be reluctant to completely outsource monitoring of invoice charges and payments. Instead of full outsourcing, these functions are being performed through hybrid models of SaaS or ASP approaches where a solution provider loads the paper and enterprises manage selected part of the process.



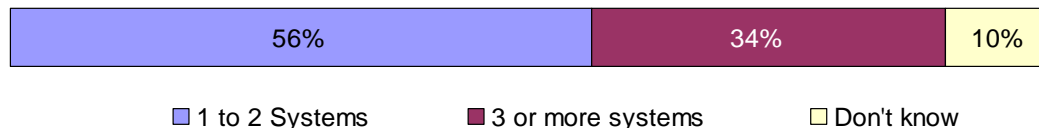
Figure 9: Outsourcing of the IR&P Process



Source: [AberdeenGroup](#), June 2006

A final challenge identified in the benchmark highlights that 34% of the enterprises use three or more systems to manage invoices. These disparate systems contribute to the integration problems that make gaining access to data difficult.

Figure 10: Systems Used to Manage IR&P



Source: [AberdeenGroup](#), June 2006



Chapter Three: Implications & Analysis

Key Takeaways

- Best in Class organizations capture data from their IR&P process in a highly organized manner and integrate it with their ERP systems to provide real-time visibility into spend.
- Best in Class enterprises are able to process invoices faster at lower costs.
- In top-performing organizations, business practices and technology solutions are unified (they may be decentralized), but data is processed consistently in a controlled environment across the enterprise.

Enterprises need to benchmark what constitutes acceptable business performance and set “stretch” goals to continually improve their rankings. Automating paper-centric processes may require reengineering and significant rethinking in what it will take to improve collaboration with vendors.

This report has benchmarked industry averages, however, the metrics for costs of processing an invoice and time to complete the cycle will vary based on the number of line items and complexity of the billing.

The table below defines levels of performance and practices in the IR&P process against the respondents in Aberdeen’s survey pool (Table 3). Benchmark participants fall into one of three categories – Laggard, Industry Average, or Best in Class, based on their characteristics and performance metrics in four categories:

1. **Process**
 - a. Macro
 - b. Invoice handling
 - c. Invoice reconciliation/audit
 - d. Routing and approval
 - e. Disbursement planning
 - f. Payment creation and delivery, and customer service for vendor queries
2. **Technology:** Automation levels and integration of systems
3. **Performance metrics:** Costs and cycle times to process invoices
4. **Visibility:** Access to IR&P data.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:

Best in Class (20%)

Practices that are the best currently being employed and significantly superior to the industry norm

Industry Average (50%)

Practices that represent the average or norm

Laggards (30%)

Practices that are significantly behind the average of the industry



Table 3: IR&P Competitive Framework

	Laggards	Industry Average	Best in Class
Process: Macro	<p>Manual process generally defined by P.O. or non-P.O.-based procedures and dollar-limit authority.</p> <p>Primarily paper-based work flow with some office equipment solutions for image scanning.</p> <p>ERP entry/reporting capabilities.</p>	<p>Dissemination of controlled procedures and high compliance.</p> <p>Significant emphasis on EDI.</p> <p>OCR scanning of paper invoices.</p> <p>Use of Credit/P-cards limited consistency/control over use.</p>	<p>Consistent application of controlled procedures and work flow.</p> <p>Supplier portal for EIPP.</p> <p>EDI for with largest volume suppliers.</p> <p>OCR imaging to eliminate paper-based invoice work flow and archival.</p> <p>P-card deployed for specific categories.</p>
Process: Invoice handling	<p>Numerous points of invoice receipt and data validation.</p> <p>Manual entry of summary information.</p> <p>System and paper catalog header information validation.</p>	<p>Elaborate mix of P.O. box remit to and dedicated fax lines.</p> <p>Localized imaging and bar-code solutions.</p> <p>Extensive use of EDI with top suppliers.</p> <p>Limited OCR scanning of paper invoices.</p>	<p>“Virtual” centralization of invoice receipts with immediate header creation.</p> <p>EIPP for majority of indirect suppliers.</p> <p>Extensive use of OCR imaging to eliminate paper invoice work flow, archiving and disaster recovery.</p>
Process: Invoice reconciliation and audit	<p>Reactive approach to auditing after bills have been paid.</p> <p>Historical audits performed on annual or semiannual basis.</p> <p>No automation to flag errors or duplicate payments.</p>	<p>Limited audit for duplicate billing and variances in billing.</p> <p>More detailed audits require manual processes.</p> <p>Manual filing and tracking of claims.</p>	<p>Detailed audit for duplicate billing, fraud and special contract pricing.</p> <p>Reconciliation performed prior to bill payment.</p> <p>Automated filing and tracking of claims.</p>
Process: Routing and approval	<p>Manual data verification.</p> <p>Frequent duplication of invoices/payment owing to copies sent to multiple stakeholders.</p> <p>Form, telephone, or e-mail approval process.</p>	<p>Mix-mode paper and electronic work flow for A/P function.</p> <p>System recorded cycle time by major activity.</p> <p>Exception-based approval routings and procedures.</p> <p>Limited tracking of approvals.</p>	<p>Data validation via automated checks and online distribution, category, vendor catalogues.</p> <p>Rules-based work flow approval routing with electronic signatures.</p> <p>Tracking and escalations for delays in approval.</p> <p>Comprehensive electronic documentation of invoice approval for internal controls and SOX compliance.</p>



	Laggards	Industry Average	Best in Class
Process: Disbursement Planning	No visibility to total liabilities, discounts available or penalties owed.	Period (monthly/weekly) or batch-specific total liabilities reports against P.O. or invoice entered. Alerts for accelerated payment discounts. General policy on accelerated or deferred payment schedules.	Total liabilities report includes planned and actual liabilities. Posting based on contract terms, payment method, and supplier performance.
Process: Create and delivery payment	Decentralized check-processing.	Consolidated batch check printing. Localized special "check" provisions. Electronic Funds Transfer (EFT) for top suppliers.	Centralized disbursements function. EFT for majority of suppliers. ACH for select services and lease equipment suppliers.
Process: Vendor queries	Calls routed to A/P department. Time consuming manual search for records.	Dedicated A/P call line. Systems invoice status update if invoice received and header entered. Some supplier self-service procedures based on trust/necessity.	Supplier portal for information, e-forms, record maintenance, and invoice status inquiries.
Visibility/Access to IR&P Spend Data	Disparate systems limited collection of data. P.O.-based invoice reporting only. Limited visibility into total liabilities. Cash management via spreadsheet.	Invoice status for a few P.O. types and major steps (i.e.: received, pending, approved) Payment terms. Discounts, rebates, and other terms via system notes or manually provided by buyer. Periodic (batch/weekly) cash management reports.	Tracking and status from requisition or header entry through disbursement acknowledgment. Visibility across contract terms, payment method, and supplier performance. Knowledge of total committed liabilities, including planned disbursements.
Technology	Dedicated fax between sites. EDI for three-way match directs. Little to no integration with ERP system.	Office-based imaging, bar-code solutions, and storage solutions. Limited use of EDI. Some OCR scanning. Uploads and exports to/from ERP system tables.	Supplier e-portal. P-card data feeds. Rules-based work flow with electronic signatures. Good integration with ERP System.



	Laggards	Industry Average	Best in Class
Performance metrics	Invoice-processing cycle time: 30 to 60 days. Cost per invoice: \$34+. Percentage payments via paper check: 90%.	Cycle-time: 10 to 30 days. Cost per invoice: \$3+ to \$34. Percentage payments via paper check: 66%.	Cycle-time: < seven days. Cost per invoice: >\$3.00. Percentage payments via paper check: < 25%.

Source: [AberdeenGroup](#), June 2006

The information in this grid is provided to help enterprises benchmark themselves against the findings of this research and assist them in prioritizing which strategies to pursue in optimizing their performance.

There are significant savings and ROI for investments in automating the IR&P process. Savings categories include:

- Optimization of IR&P staffing personnel (head count reduction).
- Operational savings through reduced search expenses for misfiled and lost billing.
- Reduced transit costs for routing of paper.
- Streamlined approval process and internal control.
- Reduced storage, archiving and disaster recovery costs from scanning of paper to electronic media and conversion of paper billing processes to EDI.
- Capture of early payment discounts and avoidance of late payment penalties to maximize liquidity and cash flow.
- Greater visibility and control of expenses.
- Reduction of overpayments through improved audit and fraud reduction.



Chapter Four: Recommendations for Action

Key Takeaways

- Complete a thorough review of your IR&P processes and the technology to determine which steps manual steps can be automated to streamline the process and reduce costs.
- Increase collaboration with procurement and IT.
- Position changes to the IR&P process as a strategic initiative to gain internal support and shift from the tactical approach of simply processing invoices.

Few enterprises have realized the potential to effectively leverage data from the IR&P process. While managers have a renewed focus on reducing IR&P processing costs, there is recognition that these programs can contribute strategic value.

Aberdeen recommends that enterprises focus on the following actions for Laggard, Industry Average, and Best in Class performers.

Laggard Steps to Success

1. Thoroughly review your IR&P processes and the technology used. Determine which manual steps cause the biggest delays and cost the most money.
2. Automate labor-intensive invoice processing. Processing of bills can be automated by adopting Optical Character Recognition (OCR) scanning. Look to increase use of HTML and electronic transactions through:
 - a. Partnering with IT to establish a new initiative to improve the use of electronic billing. Ensure EDI or other electronic formats are used with vendors that have large volumes of invoices.
 - b. Adopting Corporate/P-cards and establish a policy to identify specific categories for which they should be used to establish consistency and control.
3. Review your IR&P technology. If you are using multiple systems, compare the costs of integrating these systems with evaluations of newer integrated approaches. The goal is to find an approach that will enable the enterprise to collect critical information, organize the data, integrate it with the ERP program or reporting, spend analysis, and business intelligence.
4. Establish a stronger proactive audit capability for bills. Work towards establishing more automated audits for duplicate payments and fraud detection.
5. Review your payment programs. Are you tracking cash discounts? How can you improve timing of payments through electronic payment programs to improve cash flow and liquidity to maximize cash discounts?



Industry Average Steps to Success

1. Complete a thorough review of your IR&P processes and the technology used.
2. Ensure EDI and other electronic formats are used with vendors that have large volumes of invoices.
3. Leverage P-cards for one-time transactions. Review trends in purchasing by department to determine if there are “quick-hit” areas where P-Cards can reduce paper transactions.
4. Review electronic marketplaces. Are you currently in a program? How many of your suppliers are in the program? Enlist the procurement team to place more focus on doing business with vendors that participate in electronic marketplaces. Work with procurement to enlist vendors that are not participating to join the network. Participation in electronic market places with P.O. flips that tie paperless procurement initiatives to electronic billing are also key to automation and cost savings.
5. Determine where your current applications will allow you to perform proactive audits when bills are received. If the current applications do not have this functionality, look at upgrades or new solutions that can be added to your current systems.
6. Partner with procurement to receive access to contracts. Work towards getting within the root cause of billing errors. Establish a feedback loop with procurement to let them know the billing accuracy of suppliers.
7. Review your IR&P ERP reports. Determine how the data can be integrated into streamlined reporting.
8. Identify the top obstacles to capturing cash discounts. If it is getting the invoices approved, determine how you can establish an alert system with escalations to get bills approved on time. If it is bill-cycle time, find out where the bottlenecks are.
9. Manage payment terms and capture cash discounts. Automated electronic invoicing and disbursement programs can help maximize liquidity by timing payments to maximize float while ensuring they are made in time to capture cash discounts. These programs can enhance suppliers’ fiscal health and vendor relations while lowering product purchasing costs and increasing cash flow for the enterprise.
10. Determine who handles vendor queries for payment status. What is the frequency of calls and what is it costing the enterprise? Can a portal or web post enable you to eliminate inquiries?

Best in Class Next Steps

1. Create an easy to measure score card for the costs in processing bills, time to process an invoice, audit findings, costs to pay invoices and volume of transactions in terms of bills and dollars being managed. Use these measurements as your benchmark to manage IR&P and empower line managers to help improve the ratings.
2. Increase use of financial institutions’ trade services and working capital solutions. Trade services can provide lower transaction costs, help to smooth cash flow, and reduce check fraud. Working capital solutions allocate risk and access



to capital by leveraging a strong buyer's credit to secure supplier payments at lower cost. In effect, with this approach a weaker supplier does not have to mark-up their goods and services to reflect their higher costs of financing. Buyers continue to maximize their Days Payable Outstanding (DPOs) by using a third party financial intermediary.

3. Work toward a fully visible, integrated environment for sourcing, ordering, invoice processing, ERP systems, and payment processes. This will help minimize processing expenses, automate back-office financial processes and reduce invoice disputes. Moreover, visibility will help operations reduce inventory levels and maximize cash liquidity.
4. Empower others with the data collected during the source-to-pay process. Proactively capture, cleanse, and segment information. Providing visibility into ordering, terms, pricing, and payment cycle information to line business managers as well as purchasing and treasury staff empowers others to manage the business more effectively and improve competitive position.
5. Develop supplier score cards for total cost management. Supplier score cards should provide near real-time modeling of costs. Score cards should factor lead times, product quality, labeling, delivery and other factors that could require stockpiling of larger inventories. These measures and other supplier performance metrics can be used to maximize company profit. This approach will enable IR&P professionals and their procurement counterparts to provide the CFO greater visibility and control over the cost of goods and services and corporate profitability.

In conclusion, a business case for action must address the broader source-to-pay process. The business goals for the IR&P program may start with the cost and time to process an invoice, but IR&P can contribute to enterprises, by providing real-time visibility into spending; improving negotiation leverage, ensuring the use of volume discounts and rebates, preventing overcharges and duplicate payments, monitoring supplier costs, and making the most timely use of cash. The key is to establish a strategic business case linking purchasing and treasury goals. Source-to-pay processes are a cornerstone of total cost management (TCM), which helps to optimize management and control of the total cost of doing business.



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Razorsight Corporation

3926 Pender Drive, Suite 200
Fairfax, VA 22030
703-995-5900
www.razorsight.com
email: Info@verticalnet.com



Authors' Profiles

Joe Basili
Research Director
Global Supply Management
AberdeenGroup, Inc.

Joe Basili is a researcher, writer, and consultant for invoice reconciliation, payment, and total telecommunications cost management. Through fact-based research reports, public speaking, and advisory meetings he provides best practices on how organizations can optimize their information technology (IT) systems, telecommunications network costs, operations, and procurement. His experience includes leadership of marketing teams in the TTCM space and range of marketing, sales and operational roles with Frito-Lay, Honey Fashions and Crown-Zellerbach/James River.

Sudy Bharadwaj,
Vice President and Practice Director
Global Supply Management
AberdeenGroup, Inc.

Sudy Bharadwaj oversees research programs, products, and services, as well as client development related to supply chain issues, including sourcing, spend management, contract management, procurement, and category-specific strategies. Prior to joining AberdeenGroup, Bharadwaj was vice president of Solution Delivery, Marketing and Presales for MindFlow Technologies, a leading strategic sourcing vendor. He has also led sales consulting teams at i2 Technologies and held other marketing and program management positions at Hewlett-Packard.

Rick Saia
Analyst/Editor
Global Supply Research
AberdeenGroup, Inc.

Rick Saia focuses on the use of technology in the global supply management arena and most recently assisted in the development of research in Aberdeen's Information Technology practice area, especially the recent *SOA in IT Benchmark Report*, and current surveys on enterprise applications and network application processing. He has extensive experience writing and editing on information technology topics. His experience includes senior-level editorial positions at *Computerworld* and *Cutter Consortium*.



Appendix A: Research Methodology

In May and June 2006, AberdeenGroup examined the question of technology use and plans in middle-market enterprises. Aberdeen supplemented this online survey effort with further research on a subset of respondents.

Demographics of the Surveyed Population

Responding enterprises included the following:

- **Job title/function:** The research sample consisted of respondents with the following job titles: 38% senior management (CxO), 6% executive management, 7% VP-level management, 40% directors or managers, 8% individual contributors, and one administrator.
- **Industry:** The research sample included respondents from a wide variety of industries. Thirty-one percent were from high technology or software companies, 7% industrial equipment manufacturing, 4% each in automotive, distribution, education, finance/banking/accounting or retail. Three percent each were from consumer packaged goods, pharmaceutical manufacturing, public sector, and transportation/logistics. Others were from aerospace and defense, chemicals, construction/architecture/engineering, health/medical/dental services, medical devices, mining/oil/gas, publishing/media, telecommunications services, travel, utilities, and wholesale.
- **Geography:** Sixty-three percent of the respondents were from North America, 19% were from EMEA, 12% from Asia/Pacific, 3% from South/Central America and Caribbean, and 3% from South America.
- **Company size:** Employee headcount in participating companies is shown in Figure 25: The greatest numbers of respondents were from mid-market companies.



Appendix B: PACE Methodology

PACE Key

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)

Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)

Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)

Enablers — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

**Table 4: PACE (Pressures, Actions, Capabilities, Enablers)**

Priorities				
Prioritized Pressures	Better manage and service customers (95%)	Reduction of operating costs (92%)	Create an aggressive plan for future viability and successful growth (91%)	Beef up current business capabilities to become more competitive (90%)
Prioritized Actions	Focus on growing revenue instead of cutting operational costs (91%)	Review current technology in use (90%)	Enhancing and integrating current technology to better address the entire business cycle (85%)	A tie for fourth place: <ol style="list-style-type: none"> 1. Eliminate a fragmented infrastructure and applications technology architecture (77%) 2. Update or add new applications to existing installed appls. (77%) 3. Benchmark your competitiveness in a global market (77%)
Prioritized Capabilities	Internal and external communication of key corporate strategies and initiatives	Ability to accurately determine and plan for customer demand	Align performance with rewards; re-align metrics that do not sufficiently incent employees to support/achieve corporate goals	Better funding for corporate strategies and initiatives
Prioritized Enablers	Consolidation: using a single instance of core software across all the enterprise	Integration: gluing together disparate business applications	Suite over best of breed: Moving from disparate software application to an integrated ERP suite	Hiring management: Total business process capabilities that link to retention best practices

Source: [AberdeenGroup](#), June 2006



Relationship between PACE and Competitive Framework

PACE and Competitive Framework — How They Interact

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that it makes and how well those decisions are executed.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of three levels of mid-market ERP practices and performance:

Laggard — Mid-market ERP practices that are significantly behind the average of the industry, and result in below average performance

Industry Average — Mid-market ERP practices that represent the average or norm, and result in average industry performance.

Best in Class — Mid-market ERP practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.



Appendix C: Invoice Payment & Reconciliation Process

- 1. Invoice Receipt:** Includes paper media, electronic media (i.e. EDI, .xml, .csv, or other file formats), P-Card, and credit card transactions. With paper, the steps can include receipt, sorting and inserting separator pages, manual entry into a system, scanning of invoices image and manual data entry of information, or more automated scanning with data entry through Optical Character Recognition (OCR), Optical Mark Recognition (OMR), or Intelligent Character Recognition (ICR).
- 2. Invoice Archiving and Storage:** Electronic billing and scanning of all paper removes paper at the front-end when billing comes to the enterprise. Archiving and storage of records may be part of this step if there is conversion to electronic media. An integral part of data entry is indexing key fields to enable searches, retrieval of invoices. Alternatively back-end document capture calls for scanning the invoices after they have been manually routed through the enterprise for approval and payment.
- 3. Approval and Inquiry:** Includes rule-based routing with a structured workflow that follows business rules for individuals' roles and approval hierarchies. Managers receive automatic notification of invoices that need to be approved, and the system tracks approval status, provides access to billing images. Common features include reminders and escalations to ensure that bills are approved in a timely fashion.
- 4. Validation and Reconciliation:** Includes proactive audits for duplicate invoices, fraud (i.e. billing to residential, prison or other high risk locations, undocumented suppliers, etc.) comparing variances (spikes) in previous amounts billed, calculation errors, taxes, special contract pricing. It should also have capabilities to create dispute notices, track claims, and monitor escalations. Finally, it should track short payments, help calculate and allocate credits back to business units or cost centers, help track activities for regulatory audits and provide reporting on audit activities.
- 5. Settlement (Payment):** Includes the selection of the most efficient payment method to disburse funds such as check, wire, EFT, ACH, and card networks. In addition to improved security and transaction costs, this function helps to optimize cash flow, ensure tax compliance, capture discounts, and provide trade financing.



Appendix D: **Related Aberdeen Research & Tools**

Related Aberdeen research that forms a companion or reference to this report includes:

- [*The Contract Management Benchmark Report: Procurement Contracts*](#) (March 2006)
- [*The CFO's View on Procurement*](#) (September 2005)

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.



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To be the trusted advisor and business value research destination of choice for the Global Business Executive.

Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

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