

# ACCOUNTS PAYABLE TAKES CENTER STAGE IN CASH-CONSTRAINED ECONOMY

How CFOs are Maximizing Capital by Optimizing  
Accounts Payable Performance

- ▶ Cash is king in today's difficult economic circumstances. Chief financial officers and other finance executives are under severe pressure to ensure their cash management practices are top notch—placing renewed focus on accounts payable.

Here's what top performers in terms of AP practices now understand: If you want to maximize cash management, you need to optimize visibility and transparency, strengthen controls and enhance operational efficiencies around accounts payable—all without added expense.

Achieving this objective successfully promises a rapid return on investment at a time when cash is critical to operations. It also elevates the finance executives who embrace these practices—underscoring their vital impact on company operations and performance.

Today's best practice firms have actively considered the tradeoffs associated with insourcing, outsourcing and smartsourcing accounts payable. They've taken the steps necessary to strategically manage their cash and capital.

However, companies that fail to take such measures are missing an opportunity to position themselves for the inevitable economic rebound. By failing to preserve and maximize capital, they will be unable to keep pace with their rivals as markets begin to heat back up. In contrast, leaders on the cash management front will be positioned to thrive when the recovery gathers strength.

## When Cash is King

It's clear that today's economic environment is threatening—if not outright hostile—to the prospects of many companies. Concerns about growth amid economic uncertainty have forced most organizations to concentrate on ensuring their capital is carefully preserved.

Under the circumstances, there is renewed emphasis on working capital, particularly in the challenge of improving cash positions. Companies recognize their cash management practices are increasingly critical to their short-term survival and continuing success, resulting in a renewed focus in finance departments to the question of how accounts payable is managed. While AP tends to get relatively little attention during flush economic times, the dynamics change considerably when the environment becomes less forgiving.

As a result, AP matters now more than ever. Companies are looking for solutions that reduce their expenses while enhancing their AP processes. The challenge is particularly acute for small- and mid-sized businesses, which experience transaction process costs that are 32% higher than industry averages and are twice as likely to make improper payments as their industry peers.<sup>1</sup> Best practice firms, by contrast, have addressed this challenge. Their invoice processing costs are, on average, 84% below their peers while invoice processing cycle times are, on average, 59% faster.<sup>2</sup> They've identified smart new capital management approaches that now separate them from the rest. What are these firms doing to make them stand out from the pack?

## Three Keys to Cash Management

Best practice firms have realized—in some form or fashion—there are three keys to successful cash management as it pertains to accounts payable. What are the keys?

### OPTIMIZE VISIBILITY & TRANSPARENCY

Visibility and transparency are critical to assessing and improving operations, minimizing financial risk and identifying such issues as overpayments and billing discrepancies. The absence of either contributes to high transaction costs and longer cycle times.

In order to manage cash flow tied to AP more effectively, companies must first have visibility into key invoice data. A comprehensive and transparent overview of all accounts payable transactions and commitments is a must. Electronic data makes it easier to attain visibility and transparency, but paper-based data still poses a considerable challenge. Companies must convert the data into an electronic format for ease of access, reporting and manageability.

Some firms rely on e-invoicing, electronic invoice presentment and payment (EIPP) or electronic data interchange. But such approaches typically are not enough. Research suggests about 80% of all invoices are still sent via paper. While e-invoicing and EIPP are becoming more common, there is no standardized platform in the marketplace. Companies still need to take multiple steps to turn invoice data into electronic form. Indeed, invoice scanning, imaging and data capture—requiring hard-

<sup>1</sup>AberdeenGroup, SMB: High Costs Aren't the Only Problem, October 2008.

<sup>2</sup>AberdeenGroup, The CFO's View of Accounts Payable: Cash is King, February 2009.

ware, software and technical expertise—typically must be employed to complete the conversion process. These are some of the hurdles that must be overcome merely to achieve visibility.

### STRENGTHEN CONTROLS

Companies are vulnerable to fraud, maverick spending and payment errors if they don't have control over their AP data.<sup>3</sup> Additionally, a lack of proper controls and transparency often increases exposure to fiscal liability, something today's organizations are wise to mitigate in the face of new corporate governance practices and standards.

Furthermore, they struggle to comply with policies, procedures and regulations. Documentation challenges result in an inability to conduct vital transactions, such as tax payments, in the timeframe required, resulting in late fees and unclaimed discounts. Companies have many actions they can take to compensate for this lack of control, but such efforts are reactive, inefficient and often create excessive operational costs.

Best practice firms recognize that the key to smart controls lies in implementing pro-active cost-effective approaches that give them full and fast access to payables-related data. They convert invoice data into an electronic format that can be easily tracked and monitored—and they use that data to ensure policies are consistently followed and transactions are cost effectively processed.

### ENHANCE OPERATIONAL EFFICIENCIES

Inefficient AP leads to more expensive transactions and longer process cycle times. Companies without efficient processes also take significantly longer to respond to inquiries. Indeed, market laggards spend nearly 60% more in resources responding to AP inquiries than best-in-class companies, and take nearly twice as long to process an invoice and schedule a payment.<sup>4</sup>

Getting efficient means automation. It's critical to have software that applies rules-driven workflows and exception tracking. Automated reconciliation capabilities and approval processes enable decision makers to drill down into the data and obtain the visibility that isn't possible with manual or paperbound processes. Through automation, companies can reduce costs and streamline sub-processes such as invoice receipt, approval, inquiry, validation, reconciliation, and settlements.

## AP Alternatives: Insource, Outsource or Smartsourcing?

Companies intent on embracing and applying best practices in accounts payable in order to enhance their cash position have a series of options to consider:

**+ OUTSOURCE THE AP FUNCTION:** Under this arrangement, a company would turn over full responsibility to an outsourcer. The outsourcer tends to concentrate on labor arbitrage—finding the lowest cost workers to handle the manual, labor-intensive tasks associated with high volume AP. The trouble with this approach is that it is hard to justify the expense unless processing volumes are extremely high. It is an approach typically adopted by large companies with extensive operational reach.

<sup>3</sup>Mary S. Schaeffer, *An Accounts Payable Game Plan: What You Don't Know About AP Can Hurt Your Bottom Line*, Amazon Shorts, 2005.

<sup>4</sup>AberdeenGroup, *The E-Payables Benchmark Report: Advancing AP Automation*, March 2007.

- + **INSOURCE THE AP FUNCTION:** This is the most common approach for companies in their early stages of development. To develop AP capabilities in-house, however, your firm must invest significantly in software, hardware and staff to manage the function. Additionally, you will miss out on the labor arbitrage and economies of scale associated with outsourcing AP to a specialist provider. This approach represents a commitment to continue upgrading one's capabilities in an area that's generally not considered a core competency or source of competitive differentiation.
- + **SMARTSOURCE AP PROCESSES:** Leveraging new web-based platforms that automate AP tasks and processes, you can now gain access to Critical AP management technology while delegating low value-added AP tasks to a specialist firm. This option represents a pre-integrated, turnkey and systematic approach to AP management, leveraging the technology, service-based strengths, and best-practices of an outside partner that focuses exclusively on accounts payable.

Under this approach, companies benefit from outsourcing labor-intensive AP tasks—for example, invoice receipt, sorting, scanning, data entry, as well as payment processing—while benefitting from the efficiencies of automation software purposefully built for accounts payable and not adapted from a pre-existing document management or business process management system.

The reason smartsourcing represents such an attractive option for small- and mid-sized companies these days is that the technology and service offerings that make it cost-effective are now increasingly available. With on-demand solutions, you have the opportunity to leverage leading edge AP technologies without having to own them and bring them on-premises.

These solutions can handle the “front-end” aspects of converting paper-based invoices and other disparate data sources into a common format that is easily analyzed and managed—allowing companies to make smart cash management decisions. But they also can handle “back-end” fulfillment—ensuring disbursements and payments are handled in an effective and hassle-free manner (whatever the payment method—paper check or electronic). Solution providers in this category apply the same “Software-as-a-Service” approach to accounts payable that companies such as Salesforce.com apply to customer relationship management. These Web-based solutions enable companies to delegate unproductive AP tasks without surrendering control of the function or bearing high expenses.

## Why Winning Practices in AP Set the Stage for Market Leadership in the Recovery

Accounts payable may not have received much attention when the economy was stronger, but it is certainly recognized as critical in a downturn. “The department has ceased to be seen purely as a cost center and is now considered a strategic asset,” according to IOMA Research. “Senior management now looks to AP to strengthen relationships with suppliers...and as a rich source of cost savings.”<sup>5</sup>

That means finance executives and their teams have much to gain by strengthening AP performance. As many now understand, intelligent AP is essential to successful

<sup>5</sup>Ioma Research, *The AP Marketplace: Market Forecasts and Trends Across All Categories of Spending in the Accounts Payable Function*, 2004.

cash management, which is vital to company survival, particularly in today's turbulent economic environment.

As intelligent AP is empowering finance groups to play a more strategic role in their organizations, it's reducing the cost of financial operations, and it's strengthening the cash position of firms. Such benefits contribute not only to survival, but set the stage for strong growth as the economy recovers.

Companies that are in strong cash positions will be able to make aggressive moves and outmaneuver their cash-strapped rivals as the economy generates new momentum. This is a long established pattern—one that finance executives will help their firms capitalize on if they are strategic managers of corporate capital. Intelligent AP offers them one important means of playing this critical role and laying the foundations for profitable growth.

### About Anybill

Since 2001, Anybill has automated accounts payable for small- to medium-enterprises (SME) as well as some of the world's largest corporations and institutions. Because accounts payable—in all its iterations, including tax payments—is all we do, we're able to provide innovative and effective software that's wed to superior customer service. We are headquartered in Washington, D.C., are SSAE 16 compliant, and maintain strategic relationships with regional and national CPA firms such as RAFFA, BDO Seidman, KPMG and Ernst & Young.