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It's Time to Think More Strategically About AP Automation

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By Chip Martin

I've spoken quite a bit in this publication about the operational benefits of AP automation. For organizations struggling with paper invoices and inefficient approval cycles, AP automation initiatives have proven capable of delivering tangible benefits in the form of accelerated invoice approval, reduced processing costs, and more efficient AP personnel. New research from Boston-based Aberdeen Group reports that best-in-class organizations leverage AP automation to process invoices at costs ranging between \$1.50 and \$2.00, compared to \$10.54 achieved by industry-average organizations.

But given the complexities of today's business environment, executives rarely seem satisfied for any length of time, creating a constant stream of new goals for efficiency and cost reduction.

The question therefore becomes, how can AP think and act more strategically beyond just transactional cost reduction and transform itself into a significant contributor to the overall profitability of the company? Many AP and finance managers today are consid-

ering steps toward AP automation as a progressive journey that begins with the basics of imaging and invoice data capture, moving toward automated matching and workflow, and gradually encompassing more advanced concepts like spend management and trade financing—where the greatest value lies for the organization.

It All Starts with Migrating Your Suppliers

Supplier adoption of electronic invoicing initiatives is quite possibly the single greatest barrier hindering today's electronic invoicing initiatives. Trying to persuade suppliers to change their processes to align with your needs can be a costly and time-consuming process with success largely dependant on your ability to present a compelling value proposition to them.

To date, many AP departments have struggled with effectively communicating the value of AP automation initiatives to their suppliers, and as a result, have jeopardized key relationships through compliance mandates. For the supplier, supporting your AP automation initiative should represent an opportunity to improve the efficiency of their own



accounts receivable (AR) processes. To achieve this, your organization needs to be more proactive in providing opportunities to shorten the transaction cycle and offer self-service visibility into the invoice approval and settlement process.

From our vantage point, alternative approaches to supplier onboarding will deliver the benefits of 100% electronic invoicing to your organization faster without jeopardizing vendor relationships. One such approach focuses on a migration strategy that begins with third-party data capture services, combined with vendor segmentation to determine which suppliers are candidates for submitting electronic invoices directly.

Third-party data capture services, for example, can be particularly beneficial for accommodating suppliers initially reluctant to adopt electronic invoicing. Over time, the visibility realized by suppliers will lead them to adopt a fully electronic approach enabling them to shorten payment cycles and achieve further operational efficiencies.

As you seek to further optimize the performance of your accounts payable resources, processes relative to document capture, data extraction, and data entry, for example, are becoming popu-

lar candidates for outsourcing. This in turn allows AP staff to focus on more mission-critical tasks like dispute resolution and discount capture. A major benefit of outsourcing lies in the fact that these solutions usually require minimal up-front infrastructure investment and can provide direction on best practices.

Strengthening Collaboration Through Self-Service

Through the integration of self-service supplier portals, Web-based AP automation solutions can help drive collaboration between your organization and suppliers by improving visibility into invoice and payments status. A supplier's ability to upload, view, and track invoices in real-time as they make their way through your workflow process strengthens the visibility and control a supplier has over its AR processes. And for your organization, greater accessibility for the supplier translates into fewer of your own resources being tied to responding to inquiries and resolving discrepancies.

Intersection of AP Automation and Cash Management

The concepts of dynamic discounting and third-party financing have been hot topics within electronic invoicing circles. By providing an incentive to suppliers for early settlement, dynamic discounting serves the cash management needs of buyers and suppli-

ers alike. While discounts have been traditionally driven by suppliers as an incentive for securing early payment, the enhanced visibility into invoice status outlined above is actually turning the tables and enabling buyer organizations to proactively propose early settlement discounts to suppliers.

With third-party financing, organizations such as yours can maintain or even extend payment terms through the injection of third-party capital without adversely affecting your relationships with suppliers. Conversely, your suppliers gain additional cash liquidity and stronger balance-sheet positions by eliminating the need to utilize high-cost financing options like factoring or asset-based lending to reduce Days Sales Outstanding (DSO).

Early settlement agreements also ease uncertainty surrounding the timing and amount of payments, allowing for superior cash flow forecasting capabilities for suppliers.

Be a Strategic Contributor

In a seemingly short period of time, we've seen AP automation go from back-burner IT initiatives to front-burner finance department priorities as the broader, strategic value of accelerating invoice approval comes into full view. The path to optimized working capital and supply chain finance is made up of a series of stepping stones. Little progress can be made without accounting for how to best accommodate paper invoices.

To achieve the broader, strategic promise of electronic invoicing, your AP organization must look to pragmatic technology solutions capable of combining paper conversion with a more practical approach to supplier migration. It is through this approach that you'll be able to transform your AP department into a more strategic component of the overall business. **AP N&T**

About Chip Martin

Chip Martin serves as vice president of product management for Bottomline Technologies, and has domain expertise in payment systems, middleware integration, Web services infrastructure, and standards-based messaging protocols. He has a broad background within the technology industry, with more than 10 years' experience in sales, marketing and product management, and five years of experience in software product management and marketing.

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