

# Building a Business Case for Accounts Payable Automation



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**T**he number-one issue in Accounts Payable (AP) today is automation. It's no longer a question of whether AP should be automated—but how to automate and to what extent.

The current body of research reveals that automation can reduce procure-to-pay (P2P) processing costs by up to two-thirds. World-class companies achieve a cost-per-AP-transaction figure of about one dollar (per line item).

By implementing technology tools such as imaging, automated workflow, web-based invoicing, and electronic payments, AP departments are transforming from expensive back-office paper-based operations that “just pay the bills” to cost-efficient departments that focus on “payment services.” This new generation of AP department acts as a strategic partner in areas such as cash management, procurement, and vendor relations.

The biggest challenge AP departments are likely to face when attempting to implement these new technology tools is making the business case for the solutions itself. The purpose of this white paper is to help AP departments develop a business case for AP Automation by providing a framework of thought.

These five steps will help you build a business case for AP Automation and transform your AP department into an automated operation:

1. Determine the problem.
2. Set objectives.
3. Identify solutions.
4. Do the numbers.
5. Select a solution.

## **1. Determine the Problem**

**L**ate payments, lost discounts, payment errors, disgruntled suppliers, control weaknesses. These are not problems, but symptoms of problems. For example, if you have late payments, is the problem in the approval process? Are invoices stuffed into desk drawers and forgotten? Is the problem in the data capture process? You don't know for sure until you analyze your particular situation.

### **Pinpointing the Pain Points**

The processing of invoices involves a repetitive series of tasks—and each of these tasks can contain many points of “pain.”

#### **Receipt → Data Capture → Approval → Payment → Reporting → Filing**

In a fully manual process, these tasks are time-consuming, which translates into high costs. As a result, this brings up two main problems: efficiency and cost. These problems can be addressed through the use of automated solutions.

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But to determine a solution, AP departments must identify the specific pain points in their own processes. They can achieve this by mapping out their processes using flowcharts of the end-to-end invoicing cycle with appropriate descriptions of the systems, processes, formats, and transactions that take place both inside and outside the department.

Examples of pain points in the above-mentioned tasks include:

**Receipt:** Invoices come in many different formats, such as paper, EDI, html, and fax. The invoices are entering the company at different points—some directly to AP and some to purchasing departments, some elsewhere, so it can be difficult to get a handle on what has come in.

**Data capture:** Invoice data manually entered into the accounting system is time-consuming and increases the chance for input errors.

**Approval:** A three-way match must be done (matching invoice to purchase orders and receiving record). Some invoices must be routed to approvers. There are exceptions that must be handled, such as prices on invoices received that do not match the prices on the purchase order, quantities ordered/received, etc. Much time is spent shuffling paper around.

**Payment:** Payments made by paper checks are expensive (cost of check stock, postage, manual handling) and open the door to check fraud.

**Reporting:** A slow, manual invoice process hinders timely recognition of expenses, thus making reporting and analysis time-consuming and open to inaccuracies.

**Filing:** The physical filing of paper invoices and related documentation takes up extensive space and is cumbersome to retrieve, especially if misfiling is a problem.

Of course, there are many negative ripple effects with the above problems that cause additional pain, such as:

*Unhappy suppliers:* Late payments mean phone calls from suppliers that can drain an AP staff's time.

*Control weaknesses:* In a manual process, you can lose track of where invoices are at any point in time. An automated system provides full control over each invoice during the entire review and approval process.

*Sub-optimal cash flow:* A slow invoice process means late payments, which can result in interest penalties—and lost invoice discounts—which directly reduce an organization's bottom line.

*Audit troubles:* Internal and external auditors need to access payment information, which can be extremely time-consuming if the records are paper-based and manually filed.

### Some Questions to Ask

While you are doing an internal assessment, there are certain questions that must be addressed. The answers to these questions will help you develop your business case for implementing an invoice automation solution:

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- What types of invoices do we receive?
- What are our rules for routing and approving invoices?
- How much does it cost to process an invoice today?
- How long does it take to process an invoice?
- How many invoices do we expect to receive each year for the next three years?
- What is the value of available discounts that are missed due to delayed processing or approvals?
- Which categories of vendors account for the greatest share of the cost?
- Which categories of vendors (or individual vendors) account for the greatest number of exception invoices?
- How much time do we spend answering vendor inquiries?
- What systems does our company use that hold information relevant to the invoicing process?

The list above is not intended to be exhaustive, and you will want to add many of your own questions to it. Additionally, while most AP departments do their process assessments in-house, it is not uncommon to engage a financial automation expert or AP management consultant to assist with the process.

## 2. Set Objectives

The objectives for an automation project depend on an assessment of AP within an organization. This involves some philosophical issues. The question to ask is: How should the AP process be assessed?

- As a large cost center activity whose expense should be minimized?
- As a control unit that ensures that company assets/operations are properly safeguarded?
- As a process that services the supply chain/procurement activity via disbursement?
- As a center of human resource development excellence that facilitates process improvement?

The answer, of course, is all the above. An AP organization needs to meld the above characteristics into a balanced approach that corresponds to the needs of its business environment. In order to emphasize a specific organization's uniqueness, some have assigned values for cost, control, customer service and human development into a formal balanced scorecard. Even when scoring is less structured, metrics covering a range of issues, at least implicitly, should be used.

There are various scenarios that drive the transformation of AP. They are usually based upon pain, fear, ambition or some combination of these factors. While fear may be the product of increased competition or the vulnerability of weak controls, ambition drives organizations to be industry

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leaders by exploiting technology's cutting edge, and it is usually pain that initiates the project. It is easier to justify the benefits of transformation when the problems/costs are painfully revealing and measurable. It is easier to justify converting to a generally accepted or best practice technology than to experiment at the cutting edge. In other words, it is more compelling to change when you find your company behind the curve.

Different organizations have different priorities:

A *volume discount retailer* is concerned that the transaction processing cost is too high based upon expected margin compression in the future.

A *blue chip law firm* may not be interested as much in transaction costs as in rendering a service that relieves the highly compensated partners of their paperwork.

A *manufacturing company* may be pressured by its material suppliers to automate the procurement process in order to streamline the supply chain.

A *rental car company* may have field managers who have fraudulently engaged services and concealed unpaid invoices causing management to seal the significant control gaps these risks reveal.

A *financial services* company produces a high volume of expensive paper checks that is costing a lot of money to process and track.

A *distributor* sees an opportunity to reduce costs by securing discounts by accelerating payments

Figure 1 classifies the driving force of the above six examples as pain, fear or ambition.

|   |                    | NEGATIVE PERFORMANCE IMPACT |                  |                 |                  |                 |                  |              |                  |
|---|--------------------|-----------------------------|------------------|-----------------|------------------|-----------------|------------------|--------------|------------------|
|   |                    | Motive for Change           | AP Payroll Costs | Other Pay Costs | Expense Invstmts | Item/Serv Costs | Internal Service | Control Risk | Vendor Relations |
| 1 | Retailer           | Fear                        | Primary          |                 |                  |                 |                  |              |                  |
| 2 | Law Firm           | Pain                        |                  | Secondary       |                  |                 | Primary          |              |                  |
| 3 | Manufacturer       | Pain                        |                  |                 |                  | Secondary       |                  |              | Primary          |
| 4 | Car Rental         | Pain                        |                  |                 |                  | Secondary       |                  | Primary      |                  |
| 5 | Financial Services | Pain                        |                  |                 | Primary          |                 |                  |              |                  |
| 6 | Distributor        | Ambition                    |                  |                 |                  | Primary         |                  |              | Secondary        |

Linked with these concerns are the various impacts on their scorecards:

### Quantitative

*AP Payroll Costs* – direct AP payroll & benefits

*Other Payroll Costs* – internal IT staff, purchasing, receiving and other supply chain payroll & benefits

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*Expense & Investments* – supplies, paper, postage, bank fees, licenses, maintenance, hardware and BPO

*Item/Service Costs* – vendor commodity/service prices and discounts

### Qualitative

*Service to Internal Customers* – customer-friendly systems, quality actionable data, effective metrics and cycle time

*Control Risk* – control of fraud and other risks including Sarbanes-Oxley compliance

*Vendor Relations* – efforts to be an effective partner

The business environment dictates the priorities for each company.

### **Identify Best Practices**

To help determine where you want to be, you need an understanding of best practices—current workflow performance measurement analyses versus the organization best practices. Therefore, you need to benchmark and identify the best practices.

Best practices illustrate practical solutions to problems. Best practice technology that increases transaction visibility and reduces process time will usually resolve service issues and control weaknesses. For cost reduction, various best practices may be considered. Some technologies are inappropriate without basic automation. For example, it would be imprudent to obtain e-invoicing before e-matching technology. Therefore, envision the solution and determine which technology to implement first, second, etc., in the master plan.

Many organizations want to know how their performance compares to their peers, as well as to leading-edge companies. An easy way to obtain comparison data is to subscribe to or purchase an AP benchmarking study. One shortcoming of formal surveys is that participants are anonymous. Consequently, comprehensive data beyond the formal questionnaire is not available. Moreover, limited anonymous data in an industry and volume category may not be sufficiently representative or statistically sound. An in-house AP benchmarking study that details industry and volume data is usually more relevant for the sponsoring firm.

Alternatively, when organizations benchmark on an ad hoc basis, participants can consciously seek relevant details. This approach is particularly helpful when exploring world-class/industry leaders. A weakness with ad hoc benchmarking is that it usually relies on a limited number of contributors and is therefore not statistically representative.

The optimal benchmarking program employs both methodologies: the subscription/participant and the ad hoc approach.

A company enduring pain may be content to bring its unit on par with the industry. A fear-driven organization may want to exceed norms in order to anticipate the industry raising the bar. The ambitious company is not satisfied with industry norms and is more likely to experiment at the cutting edge.

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Figure 2 outlines several best practice technologies with illustrative data to reflect an organization's position relative to the industry/volume median (norms), industry leader and world-class performance (leaders). In this example, three of the six characteristics, e-invoicing, p-cards and workflow/imaging, are below the best practice standard, while e-travel reports, e-customer service and e-payments are above industry standards.

| <b>Figure 2. Benchmark and Identify Best Practices</b> |                     |                |                |                  |                     |
|--|---------------------|----------------|----------------|------------------|---------------------|
|  | Metric/<br>Criteria | Our<br>Company | World<br>Class | Industry<br>Best | Ind./Vol.<br>Median |
| E-Invoices   | % total             | 5              | 97             | 63               | 23                  |
| E-Payments   | % total             | 45             | 87             | 68               | 31                  |
| E-travel reports                                       | Y/N                 | Yes            | Yes            | Yes              | Few                 |
| E-customer service                                     | Y/N                 | Yes            | Yes            | Yes              | No                  |
| Workflow/Imaging                                       | Y/N                 | No             | Yes            | Yes              | Most                |
| P Cards  | % total             | 0              | 45             | 29               | 14                  |

It is also important to leverage industry leading features such as 5-way matching, business rules matching, integration with ERP/financial systems, ease of use, time to implement, reporting and analysis capabilities, multicompany and global capabilities, etc.

Tremendous savings potential comes from 5-way matching and business rules matching because they help provide accurate data for AP as well as ERP systems. In 5-way matching, automation can check the invoice against purchase orders, goods received, quality inspection, and the complete audit trail.

An automated solution should be able to check an invoice against established business rules, such as:

- Corporate policies and practices (virtual contracts)
- Legally binding contracts, also known as de jure, such as purchasing contracts
- Bookkeeping rules
- Purchasing documents (electronic purchase orders and/or goods received receipt)
- Basic data, e.g., supplier data

Some business rules may include early payment discounts or compliance-related issues, such as requiring an invoice for more than a certain amount of money to have two approvals from partner-level executives. These business rules help organizations correctly post/code invoices, and also enable early detection of exceptions based on erroneous, conflicting, or missing information.

A solution should also have the ability to handle logic such as determining how exceptions should be handled, ensuring that the invoice is handled with the right process, by the right owners, who take the right actions. For example, a company may have limits on cell phone usage depending on the employee's level within the organization. Based on these user-defined limits, a particular invoice might be sent to an employee's manager for approval or it may be approved automatically.

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This flexible approach not only saves time, but also enables efficient and easy implementation of company policies.

Integration is another key. The most effective Purchase-to-Pay solutions operate as part of the entire financial system. Whatever system is purchased it must be able to rapidly integrate with any of the more than 180 different ERP/accounting systems now in use, including those from SAP, Oracle, Lawson, Microsoft, and PeopleSoft. When combined with your organization's Purchase-to-Pay portfolio, information can be shared and seamlessly flow back and forth between Purchase-to-Pay solutions and ERP systems, payroll, and other types of legacy systems. Any technology you select should be able to seamlessly pull information from multiple back-ends to provide dynamic and accurate reporting, consistent information, and immediate access to key information driving a company's business. If you have more than one ERP or finance system, it is also important that your solution be able to work with multiple ERP/finance systems.

### 3. Identify Solutions

Once you have assessed your current processes and set objectives, it should be relatively easy to choose a solution or set of solutions that will be consistent with your organization's goals and will improve performance at the precise points in the invoicing cycle where the need for improvements is greatest. When the goals of the solution are clear and the interests of the stakeholders are well understood, you can begin to identify solutions.

#### What's Out There?

There is a vast array of solutions out in the marketplace to help you automate AP. You can choose to buy individual tools to build your own integrated solution or you can buy a packaged, best-of-breed, end-to-end application that has been specifically designed for AP and/or the entire procure-to-pay process. You will also have to decide whether you want to implement these solutions in-house or use a "hosted" solution, which is accessed via the Internet. Your company's main software supplier is a source of AP automation tools. There are also on-demand services, such as e-invoicing and third-party vendor payment networks. You can also look to your corporate credit card provider because many banks are beginning to extend their purchasing card services to handle a company's invoice processing. Each option has their merits, and you must decide which is best for your company.

One of the best ways to identify solutions is to attend a trade show or conference that showcases solutions that automate the AP process. You may also want to talk to your colleagues at similar companies to see what they are using.

#### RFP Process

While not always necessary or required, some companies choose to establish a formal RFP process. AP departments should expect to spend anywhere from several weeks to several months evaluating possible alternatives. Larger organizations will typically spend much of this time drafting a request for proposal (RFP) that specifies its requirements for a solution. The RFP may be preceded by a request for information (RFI) that asks companies to discuss their capabilities and approaches to the solutions.

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Smaller firms that do not have dedicated resources for projects of this size may lean more heavily on solution providers or on consultants to guide them through the process. Instead of preparing an RFP first, these companies often encourage solution providers to propose alternatives based on a general understanding of their goals and objectives.

Whether the RFP comes first, second, or not at all, as long as organizations evaluate solution alternatives, solution providers will play a more active role in the process. The degree to which solution providers are involved depends on the preferences of the project team. The purposes of these contacts will be to understand the various solution alternatives and to narrow the field of prospective solution providers.

### No Silver Bullet

There is no single solution that will meet all of your AP automation needs. You will need to design a portfolio of solutions—a “tool kit”—to do the entire job. These tools will include Web invoicing, imaging (because you will never get rid of every paper invoice) and workflow, EDI, third-party payment networks, corporate credit cards, outsourced solutions, just to name a few.

## 4. Do the Numbers

Once you’ve identified your specific problems, set objectives, and identified solutions, the next step is to evaluate the costs and benefits, particularly in light of your company’s “scorecard” – the dimensions in which a company measures its performance.

### Summary Costs vs. Benefits

Keep in mind that some of the benefits may be mitigated by additional costs such as training, system conversion, hardware, licensing, maintenance, or outsourcing of these technologies. Figure 3 provides a method to compare cost versus benefits based upon general data about the best practice. Costs and benefits are analyzed both quantitatively and qualitatively. Technologies rarely decrease quality issues, but when they do, their negative impact is noted.

| Figure 3. Summarize Costs vs. Benefits |                  |                   |                     |                 |                  |              |                  |
|--|------------------|-------------------|---------------------|-----------------|------------------|--------------|------------------|
|  | AP Payroll Costs | Other Payr. Costs | Expense Investments | Item/Serv Costs | Internal Service | Control Risk | Vendor Relations |
| Workflow/ Imaging                      | Decrease         | Decrease          | Increase            | Improve+        | Improve +        | Improve +    | Improve          |
| E-Payments                             | Decrease         | Decrease          | Decrease            | Decrease        | Improve          | Improve      | Improve          |
| E-travel reports                       | Decrease         | Decrease          | Increase            | Decrease        | Improve          | Improve      | Neutral          |
| E-customer service                     | Decrease         | Decrease          | Increase +          | Neutral         | Improve          | Improve      | Improve +        |
| E-Invoices                             | Decrease +       | Decrease          | Increase +          | Improve+        | Improve          | Neutral      | Improve          |
| P Cards                                | Decrease +       | Decrease +        | Neutral             | Neutral         | Improve +        | Concerns     | Improve          |

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In addition to cost and benefits, the organization should consider the ease with which it can implement the technology and the time required (speed) to realize the benefits, as well as ongoing costs and payback period. Business cultures and people differ between entities. Some organizations may find it easier than others to convert their external partners to sending invoices electronically. The former might require their vendors to prepare a web form, while others may have to convince their suppliers that this technology is best for both parties. Some environments may dictate immediate results, while other situations may be better served by implementing long-run solutions.

| <b>Figure 4. Detailed Cost vs. Benefits</b> |                         |               |              |
|---|-------------------------|---------------|--------------|
|   | Conversion/<br>Training | Short<br>Term | Long<br>Term |
| <b>Quantitative</b>                         |                         |               |              |
| AP Payroll Costs                            |                         |               |              |
| Other Payroll Costs                         |                         |               |              |
| Item/Service Savings                        |                         |               |              |
| <b>Expense &amp; Investments:</b>           |                         |               |              |
| Paper, Bank, Postage                        |                         |               |              |
| License                                     |                         |               |              |
| Maintenance                                 |                         |               |              |
| Hardware                                    |                         |               |              |
| Business Process Outsource                  |                         |               |              |
| <b>Qualitative</b>                          |                         |               |              |
| Service to Internal Customers               |                         |               |              |
| Control Risk                                |                         |               |              |
| Vendor Relations                            |                         |               |              |

Businesses today are more accustomed to change than they have been in the past, but some are energized by transformation, while others find it exhausting. Transformation succeeds when top management effectively supports the initiative.

| <b>Figure 4A. Characteristic Importance vs. Subset Delivery</b> |            |          |           |          |     |
|---|------------|----------|-----------|----------|-----|
| A-Highest B-Medium C-Lowest                                     |            |          |           |          |     |
|   | Importance | In-House | Outsource | Offshore | OCR |
| Image quality   | A          | B        | A         | B        | C   |
| User friendly   | A          | B        | A         | B        | B   |
| System integration  | C          | B        | A         | A        | B   |
| Confidentiality of data   | A+         | A        | C         | C        | C   |
| Data security   | A+         | A        | C         | C        | C   |
| Ease of retrieval   | A          | B        | A         | A        | C   |
| Routing   | B          | A        | A         | A        | A   |
| Downtime  | A          | B        | A         | B        | B   |
| Visibility  | C          | A        | B         | B        | B   |
| Password protection   | B          | A        | A         | A        | A   |
| Functionality   | B          | B        | A         | B        | A   |

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### Detailed Cost vs. Benefits

The summary above provides general conclusions such as decrease, decrease plus, increase, improve, etc. for each characteristic. The next step is to select and detail cost versus benefit analyses for the most attractive technologies. This identifies the dollar saving as well as additional costs, and the qualitative impact for both the short and long term. An internal process improvement specialist or an outside consultant will analyze cost and savings into conversion for the short term and long term.

The cost versus benefit structure is similar to the above step (Figure 3). It includes drilling down the expense & investment category into paper, postage, bank; license; maintenance; hardware; and BPO (Figure 4).

Example: Figure 4A illustrates a filled-in worksheet by the law firm described in Step 1 that is pursuing imaging and workflow as a solution. The way the worksheet is filled out reflects the law firm's main goal of providing high-quality service as opposed to reducing AP transaction costs.

### Back-of-the-Envelope Approach

Some AP departments may prefer to take a fast approach to building a dollars-and-cents case for automation. Here's how one hypothetical company—The Acme Company—does this.

Acme processes 10,000 invoices per month and makes \$500 million in vendor payments each year. The AP department has some degree of automation, but it is considered to be low-level automation. The AP manager wants to implement an automated invoicing solution that receives invoices electronically, routes them via e-mail for approvals, automatically extracts data for input to the AP system, and stores them in a Web-based repository for instant retrieval when needed.

The AP manager does not have the luxury of time to fully assess his/her department's operation but has collected some data. Based on this and what he/she has observed informally, he/she decides that the key areas that will see hard-dollar benefits from the new system are: labor, invoice discounts, duplicate payments, and document handling/storage.

**Labor costs:** Acme does not know its internal costs for processing a vendor payment, so it uses industry benchmark figures published in IOMA's AP Department Benchmarks and Analysis 2007. On an overall basis, it costs companies with a low level of automation an average of \$12.03 to process a vendor payment. Companies with a high level of automation report this cost on average to be \$8.58—a savings of \$3.45 per invoice. Acme assumes a conservative \$2 per-invoice savings. Therefore, since it processes 10,000 invoices per month, this will trigger an annual savings of \$240,000.

**Invoice discounts:** Because an automated invoice system reduces AP processing cycle time and allows for more control over timing of the payment process, more early-payment discounts can be captured. Acme, with its \$500 million worth of vendor payments each year, determines that 50% of the payments are eligible for a 1% discount; this translates into \$2.5 million in available discounts (half of \$500 million times 1%). Acme finds out that it is only capturing 60% of the discounts (\$1.5 million). Result: Acme can save an extra \$1 million if it captures all of the available discounts. To be conservative, it assumes that it can capture half of these lost discounts, or \$500,000.

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**Duplicate payments:** When paper invoices are lost or get stuck on someone's desk, the vendor often sends a duplicate invoice. The duplicate is paid, while the original is found and processed for payment. Unless the AP system has good controls, both invoices could be paid. According to IOMA's benchmarking study, 19% of companies surveyed report a duplicate payment rate from 0.1% to 0.5% (percentage of invoices paid twice).

Acme has a duplicate payment rate in the middle of this range—0.3%—which, when applied to its \$500 million worth of vendor payments each year, translates into \$1.5 million of duplicate payments annually. But Acme is not using this figure in its cost-savings calculation, because the CFO would simply say to pay an audit recovery firm to go out and retrieve those duplicate payments. However, audit recovery firms traditionally receive over one-third of the recovered amounts as payment for services. Therefore, the true savings would be \$500,000 (because it won't have to hire an audit recovery firm if the new system prevents duplicate payments).

**Document handling/storage:** Paper invoices need to be shipped, faxed, copied, routed, and shuffled from one location to another. An automated invoicing system slashes the costs of these various operations. In particular, shipping and postage charges, telephone, fax, printing, and copying costs can be cut or eliminated. For example, the average document is copied between nine and 11 times at a cost of about \$16, according to Electronic Document Management, a study by the Gartner Group.

Acme has no clue as to the amount it spends on physical invoice handling. Therefore, it takes Gartner's figure of \$16 of copying charges per document and simply uses a figure of \$1 per paper invoice it processes. At 10,000 invoices per month, this means a \$120,000 annual savings. Based on the \$16 benchmark cost for copying alone, it is difficult for anyone to argue with this assumption.

In terms of storage, the costs of storing paper documents can be high, and the risk of lost documents is significant. In addition to labor costs to file and retrieve documents, including the time it may take to find them if they are misfiled, there are overhead costs, such as rental on the space where the documents are kept. To keep it simple, Acme figures the cost savings to be the rental charge related to the storage area where the AP files are kept. The annual rent is \$5,000.

So the total savings for document handling/storage is \$125,000

The AP manager tallies up the cost savings so far:

|                            |             |
|----------------------------|-------------|
| Labor:                     | \$240,000   |
| Invoice discounts:         | 500,000     |
| Duplicate payments         | 500,000     |
| Document handling/storage: | 125,000     |
| Total                      | \$1,365,000 |

This is a substantial savings and is only taking into consideration a few of the benefits we've mentioned. Don't be surprised by these figures; there are many companies that have experienced this magnitude of savings from an automated invoicing system. A payback period (the time it takes to recoup the investment) of less than one year is not unusual.

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What's important in this exercise is to learn how to document a project's savings in a way that the top brass can understand and can use to compare with all of the other capital requests it receives from the entire company. If you can do that, your chances of getting your project funded will increase dramatically.

## 5. Evaluating and Selecting Vendors

Now that you've identified the technologies that can improve performance and determined the financial justification, you must decide which vendor(s) can best provide the solutions you need. Some of the criteria that prove useful in the evaluation process include:

- Value their experience – get references early
- Investigate the providers – look at their financials – well-run companies have good financials
- Understand what they offer – is it either a complete solution or pieces and parts?
- Ensure they can support the process
- Consider the entire cost – hardware, software, implementation, and ongoing support
- Evaluate their maintenance program – How is maintenance handled? What does maintenance include?

| <b>Figure 5. Evaluate Vendors</b> |                   |            |           |                   |            |           |                   |            |           |
|-----------------------------------|-------------------|------------|-----------|-------------------|------------|-----------|-------------------|------------|-----------|
|                                   | Vendor/Solution A |            |           | Vendor/Solution B |            |           | Vendor/Solution C |            |           |
|                                   | convert           | short term | long term | convert           | short term | long term | convert           | short term | long term |
| <b>Quantitative</b>               |                   |            |           |                   |            |           |                   |            |           |
| AP Payroll Costs                  |                   |            |           |                   |            |           |                   |            |           |
| Other Payroll Costs               |                   |            |           |                   |            |           |                   |            |           |
| Item/Service Vendor Price         |                   |            |           |                   |            |           |                   |            |           |
| <b>Expense &amp; Investments:</b> |                   |            |           |                   |            |           |                   |            |           |
| Paper, Bank, Postage              |                   |            |           |                   |            |           |                   |            |           |
| License                           |                   |            |           |                   |            |           |                   |            |           |
| Maintenance                       |                   |            |           |                   |            |           |                   |            |           |
| Hardware                          |                   |            |           |                   |            |           |                   |            |           |
| Business Process                  |                   |            |           |                   |            |           |                   |            |           |
| Outsource                         |                   |            |           |                   |            |           |                   |            |           |
| <b>Qualitative</b>                |                   |            |           |                   |            |           |                   |            |           |
| Service to Internal Customers     |                   |            |           |                   |            |           |                   |            |           |
| Control Risk                      |                   |            |           |                   |            |           |                   |            |           |
| Vendor Relations                  |                   |            |           |                   |            |           |                   |            |           |

## Building a Business Case for Accounts Payable Automation

- Assess long-term product viability – How is new functionality added and how often?
- Know how the product is supported
- Recognize how ROI changes with each solution set
- Request sample deliverables

Figure 5 provides a framework for laying out quantitative and qualitative considerations during the conversion phase, for both the short and long term.

### Vendor Demos

The vendor demo can be the make-or-break stage of your selection process. If a demo is managed effectively, the job of making a final recommendation will be much easier. Once a demo is scheduled, an agenda should be prepared. Along with the typical allotted time for the vendor to give a company and general software overview, include some specific items for the vendor to cover, including:

- Why it differs and is better than other vendors (e.g., another vendor that has been chosen for a demo)
- How many other clients it is working with at the same time (to determine if it'll be strapped for time)
- The next generation of software it is working on
- Potential customers that didn't select the vendor

A vendor should be given an idea of what's on the agenda, but it should not know all the questions it will be asked. It's important to see how it handles questions on the fly.

During the initial legwork, companies have developed detailed system requirements, selection drivers, and business processes. Most of this is included in the RFP sent to select vendors. Using these detailed requirements, a step-by-step script can be prepared for vendors to use when demonstrating their products. That way, it will be easy to score the vendors as to how well they meet the requirements.

To score the demo, a scoring model can be used that's patterned after what was developed for screening the RFPs. The scores can be entered on the corresponding demo script pages.

After the demo is completed, the scores can be summarized and vendors can be compared. Before a decision on a preferred vendor can be made, it is necessary to integrate subjective results with the objective results from the demo. Subjective results can include vendor reputation, reliability, and commitment to growth.

Figure 6 illustrates a filled-in vendor selection matrix framework that includes objective and subjective results.

### Final Step: Nail Down Your Budget

In order to secure the capital budget needed to implement an automation solution, a strong business case must be made. That is, all of the costs and benefits must be calculated and explained to show top management that the investment should be made. After all, a company's capital budget is limited, so the project that has the greatest return on investment will take priority.

## Building a Business Case for Accounts Payable Automation

Remember, management will typically allocate money to those departments that it considers “stars” within the organization, such as production, marketing, or IT. So AP needs to be especially thorough in its analysis in order to make its case for budget allocation.

Fortunately, AP technology projects can generate very healthy numbers, as we’ve demonstrated in this white paper.

Good luck!

| <b>Figure 6. Make Vendor/Solution Selection</b> |            |   |                   |                   |
|---|------------|---|-------------------|-------------------|
| A-most important                                |            | <i>Dollar amount annual cost/saving unless stated otherwise</i> |                   |                   |
|   | Importance | Vendor/Solution A   | Vendor/Solution B | Vendor/Solution C |
| <b>Quantitative</b>                             |            |   |                   |                   |
| Conversion/Training Costs                       | B          | + 28K yr one  | + 40K yr one      | + 50K yr one      |
| AP Payroll Costs                                | C          | +25K  | -20K              | -30K              |
| Other Payroll Costs                             | C          | -17K  | -17K              | -26K              |
| Item/Service Vendor Price                       | xx         | No Effect   | No Effect         | No Effect         |
| <b>Expense &amp; Investments:</b>               |            |   |                   |                   |
| Paper, Bank, Postage, Occup.                    | B          | -32K  | -32K              | -42K              |
| License   | B          | +25K yr 1; 15K yr 2+  | +30K              | +30K              |
| Maintenance                                     | B          | +22K  | +28K              | +40K              |
| Hardware  | B          | +60K  | +90K              | +95K              |
| Business Process Outsource                      | B          | None  | None              | None              |
| <b>Qualitative</b>                              |            |   |                   |                   |
| Service to Internal Customers                   | A          | High  | High              | High              |
| Risk Control                                    | A          | High  | Medium            | High              |
| Vendor Relations                                | B          | Strong  | Strong            | Strong            |
| <b>Vendor Quality</b>                           |            |   |                   |                   |
| Reputation                                      | A          | Good  | Unavailable-New   | Excellent         |
| Technical Capability                            | B          | Good  | Outstanding       | Excellent         |
| Ease/Time Implementation                        | A          | Fast  | Slower            | Fast              |
| Scalability & Extensibility                     | C          | Fair  | Good              | Good              |
| Maintenance & Reliability                       | A          | Good  | Uncertain         | Excellent         |
| Functionality                                   | B          | Fair  | Very Good         | Very Good         |
| Capability                                      | C          | Very Good   | Excellent         | Good              |

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