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White Paper

Making Accounts Payable Pay

How Finance and Procurement Can Benefit by Moving to the Next Level of Performance and Maturity

A Basware Executive Brief

Many organizations continue to treat Accounts Payable (A/P) as a transactional type of teller window, the sort that requires both parties to slide paper or cash back and forth between slots and communicate through microphones and listening devices. But some companies are beginning to look at A/P from a different vantage point. These organizations look at the function as both a window to the outside world and an internal automated kiosk that can connect and align internal functions and stakeholders. These are the types of organizations that are interested in better understanding how they can benefit by moving their A/P capabilities to the next level of performance and maturity. Rather than simply reduce transactional hours (or close other teller windows, extending the time to wait in line), these companies want to redefine the basis for how they manage payables interactions to take advantage of new opportunities without alienating or otherwise angering stakeholders or suppliers.

Whether these organizations are prioritizing A/P initiatives as a means to capitalize on opportunities to improve working capital management, reduce supply risk and/or eliminate exposure to procurement and payables non-compliance and fraud - or a combination of these goals - they have collectively realized that underlying automation and process visibility and transformation is central to driving new levels of performance. At its most basic level, invoice automation can enable A/P organizations to improve their invoice processing efficiency by over 50% while also gaining visibility into both PO and non-PO-based liabilities. But perhaps more important, it can also become a tool to help companies implement strategies to improve both working capital and supplier management. Still, the strategies that companies choose will differ based on organizational maturity and priorities. We typically observe that companies fall into one of three stages of A/P sophistication. These are: Foundational, Building and Leading. At each stage, organizations hope to achieve specific goals and outcomes by improving their overall A/P performance and underlying technology and process platforms.

Organizations at the Foundational stage of maturity are often looking to put into place A/P processes and technology that enable them to gain greater visibility into where and how they are spending and to gain greater control over liabilities. For companies at this level of A/P maturity, Foundational technology and processes can ultimately help drive the centralization of invoice handling and can help reduce unintentional late payments. It can also enable organizations to create a shared services model for the entire A/P process, improving invoice handling and ultimately, working capital management. Many organizations at the Foundational stage of maturity look at technology as a means of doing more with fewer resources as a result of job or budget cutbacks in the current recessionary environment. By implementing invoice automation tools, foundationally mature organizations can:

- Expect to gain significant staffing efficiencies which can enable better workforce optimization, lowering costs and/or enabling team members to focus on higher value activities
- Eliminate A/P errors and improve compliance
- Drive future A/P opportunities including shared services and enhanced working capital management

As organizations move to the Building stage of A/P sophistication, invoice automation technology and process programs provide the means to improve visibility across often a broad set of often decentralized systems and processes, providing, in the words of one executive, a “mile high” view into all of the payables activity in the organization. While companies at this stage of maturity will often already have limited programs in place around invoice automation elements, they lack the ability to gain an integrated view over all of their process and paper elements. With a common invoice automation approach and platform, Building organizations can create a common process and standardization through both regional and global operations, enabling finance and procurement leaders to measure relative metrics and performance despite underlying localized or cultural differences (e.g. payment terms in different regions). Invoice automation tools enable companies at the Building stage of maturity to:

- Achieve significant savings from centralizing the control and management of the A/P process (even when decentralized execution remains a fixture in an organization)
- Begin to bring together finance and procurement executives through common metrics, measurement and process visibility to better manage and determine supply management strategies
- Better define and implement optimal procure-to-pay processes and strategies (e.g. working capital management, cash flow management, head-count rationalization and optimization)
- Reduce overall business risk by providing a single viewpoint into payables liabilities
- Drive better supplier relationships through beginning to offer greater flexibility in the payables process (e.g. discounting)

Companies at the Leading level of A/P maturity are looking to achieve or maintain world class levels of A/P performance. At this level, invoice automation technologies and processes become the bricks and mortar that can build additional stories onto an already successful structure. By providing visibility to drive continuous process improvement, accountability, internal performance management and the means to quickly react to rapidly changing external market conditions (e.g. the deterioration of the credit markets), invoice automation platforms can help the Leading A/P organizations to further accelerate their value contribution to the business. Many companies at this stage of sophistication turn to advanced invoice automation capabilities to solve very specific needs and challenges, especially when they have previously put in place core management and visibility capabilities. Companies at the Leading level of maturity use invoice automation capabilities to:

- Continuously benchmark and improve performance
- Further refine and improve operating and straight through processing and automation capabilities to drive end-to-end lean processes across the payables function
- Drive advanced and highly flexible working capital management strategies (e.g. providing complete visibility into payables to enable material extensions of payables terms without impacting supplier cash flow through third-party financing or to reduce working capital requirements by an order of magnitude; or some combination thereof based on specific operating requirements, circumstances and geographies)

- Unite procurement and finance leadership to better take advantage of - and respond to - rapidly changing market conditions
- Close the supplier risk management loop by closely monitoring, measuring and reporting on supplier activities (e.g. taking early payment discounts more frequently) to proactively predict potential bankruptcies or supply disruptions
- To meet and respond to evolving local regulatory and tax requirements (e.g. VAT policy)

Regardless of company sophistication, technology and process platform enhancements can enable A/P to become an asset stream for the business and its suppliers. With the right technology and process underpinnings, A/P can transform and extend its role and overall mission, helping organizations to perform better even in tough economic climates. Nearly every organization would agree that A/P is most effective when serving as both a window to the outside world and as a self-service kiosk, providing support and key process and financial visibility to key stakeholders inside a company. While transactional teller windows might have their place inside banks and government agencies, do you really want your stakeholders waiting in line and taking a number? Until recently, it was generally (though quietly) acceptable for organizations to harbor a "to do" list of projects to increase overall efficiency and productivity - a pile of stones that would ultimately need to be overturned. With the recession, this time has passed very abruptly. Enabling Finance and Procurement to the next level of A/P performance and maturity is now pre-requisite to enabling new levels of savings and shareholder value.

To find out more about how Procurement and Finance can benefit from collaboration, please contact juha.hakamies@basware.com



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