WNS
Extending Your Enterprise

Accounts Payable Automation

Realize Sustainable Benefits with a Well-constructed AP Automation Strategy

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AP Automation – The Market for Paperless Tools

Political and economic turmoil, the sovereign debt crisis in the Eurozone and the tsunami in Japan in 2011 created volatility in commodity prices and disruption in supply chains across the globe. This led to general uncertainty and impacted businesses, the world over, slowing down recovery across both developed and developing markets. Although, global economic prospects are gradually improving, downside risks are not allowing economic growth. A recent Grant Thornton International Business Report predicts growth is projected to drop from about 4 percent in 2011 to about 3½ percent in 2012.

Within this environment, pressures to realize real cost savings continue to intensify.

Accounts Payable (AP) automation can be an answer to the delivery of such real short-term efficiency savings. A Hackett report[1] established that top performers are processing over 40,000 invoices per FTE per annum, whereas non-top performers are processing less than 10,000. With reduced cycle times also comes the opportunity to earn early payment discounts, the potential value of which is highlighted in an early 2006 Accenture report 'Dynamic Discounting – Transaction cost savings of 50 percent are not enough'. WNS BizAps leading capabilities in this area were highlighted as far back as 2008 in the Paystream Report 'Dynamic Payables

Discounting and Supply Chain Finance – A Buyers Guide to Working Capital Solutions.

In a January 2011 article on 'Current Trends in Paperless Receivables', Craig Varream, Managing Director, J.P. Morgan Treasury Services, states that the movement to paperless receivables is being driven by three factors:

■ The need to become more efficient, especially in a tough economic cycle

■ The need for better risk management and business continuity program

■ Advances in electronic technology

Why a Strategy?

The market today is filled with solutions purporting to deliver paperless, problem-free processing of supplier invoices – but to pick the solution(s) which would make sense for you, you need to consider:

■ The particular pain points in your current process

■ The willingness and ability of the business to manage change

■ The readiness of suppliers to adopt different ways of working

■ The suitability of different solutions for different supplier categories

■ Alignment with your technical infrastructure and skills

■ Do the sums add up? What are the relative costs and benefits?

[1]AP Performance and the Role of Automation, December 2009

It is also important to adopt a holistic approach through making reference to the whole purchase-to-pay cycle based on the maxim **'Good purchasing means easy payment'**. 'Good purchasing' in this context means:

- Supplier rationalization
- Good contract coverage and compliance
- High PO compliance
- Negotiated early payment discounts

Establish Clear Goals and Objectives

Align your AP goals with corporate goals and priorities. If the corporate drive is for sales growth, then perhaps now is not the time to drive major change in the 'back-office'. Is there a budget available? What are the primary objectives of automation?
Is it simply cost reduction, on-time payment, improved supplier relations, discount realization, audit compliance, fraud control – or a combination of all of these?

Understand Your Business

Analyze your data. Gain a real understanding of your process dynamics – do you have too many finance (non-PO) invoices? Do you make duplicate payments? Do you pay on time (not just on average)? How do you compare to industry benchmarks? Who is responsible for invoice entries – how efficient are they?

Questions You Should be Asking Yourself

- What is your level of PO compliance?
- Do you need to rationalize your supplier base?
- Should you have a central AP function?

- How much does it cost your organization to process an invoice today?
- Which categories of suppliers account for the greatest share of the cost?
- How long does it take to process an invoice?
- Could you move to self-billing with key suppliers?
- Who are your 'problem' suppliers?
- How much time do you spend answering supplier enquiries?
- What is the value of available discounts that are missed due to delayed processing or approvals?
- How many invoices do you expect to receive each year for the next three years?
- What are the strengths and weaknesses of the relationships between AP and the lines of business?
- How long is the tail of infrequent suppliers?
- Do 80 percent of your invoices come from 10 percent of your suppliers?

WNS advises organizations what data to extract (and how) from their Enterprise Resource Planning (ERP), and then analyzes the data and reports findings.

Benchmark against the Best-in-Class – Know Where You Should Be

WNS has access to a range of benchmark metrics to help your organization establish realistic target levels of performance. Efficiencies will be based on the types of solutions you are able to effectively deploy. E-invoicing, Self-billing and Purchase Cards are among the most labor-efficient solutions. OCR and image scanning are perhaps the most flexible. With certain categories of supplier, a self-service portal may be the best invoice entry mechanism.

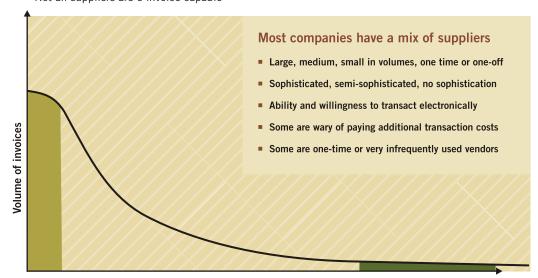## What Can AP Automation Do for Your Organization?

Below is a list of benefits – quantified and unquantified – from a variety of analyst sources:

- Reduction in invoice processing costs

- Reduction in errors and exceptions

- Increase in capture of trade discounts due to faster processing and approval

- Reduction in time spent answering suppliers' questions

- Reduction in routing and circulation costs for invoice approval

- Reduction in archival, storage and retrieval costs

- Increase in the value of AP department services

- Increase in compliance with audit requirements, Sarbanes-Oxley, among others

- Demonstrate the organization's commitment to sustainability

- Improve relations with suppliers with highly efficient processes

- Improve organization's brand image in the market

Think Invoice Capture – The Big Challenge

Not all suppliers are e-invoice capable

Most companies have a mix of suppliers

- Large, medium, small in volumes, one time or one-off

- Sophisticated, semi-sophisticated, no sophistication

- Ability and willingness to transact electronically

- Some are wary of paying additional transaction costs

- Some are one-time or very infrequently used vendors

Volume of invoices

Distribution of suppliers

- What is the distribution of invoice volumes? Typically, 10-20 percent of suppliers account for 80 percent of invoices

- What are the suppliers' capabilities? It **is** surprising how many suppliers are not capable of e-invoicing

- What types of suppliers exist? Temporary labor suppliers, consultants, goods for resale, utilities

- Do they offer / are they interested in early payment discounts?

WNS typically runs a supplier survey to establish supplier technical capability.

Invoicing Hubs and OCR

On-boarding suppliers – getting them to submit e-invoices directly to your system is a very challenging proposition. You may be fortunate and find that your major suppliers are already e-invoice capable, but a recent survey for a WNS client showed that only six percent of its suppliers were so capable.

A number of invoicing hubs exist with a varied presence in different geographical markets. These hubs can offer real value in committing to on-board your major (invoice volume) suppliers to e-invoicing via their hub. You then receive a single consolidated file from the hub. This route to invoice capture is growing in popularity. Unfortunately, these hubs do not generally offer interoperability – so it can be all your eggs in one basket!

Clearly, some suppliers will never be on-boarded and will insist on sticking to paper. This is where OCR delivers value to 'mop up' non-compliant suppliers.
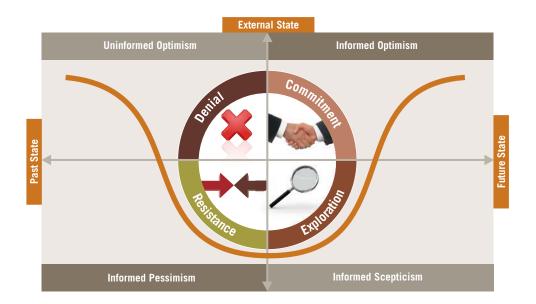
Some organizations have simply redirected all their paper invoices to an OCR scanning bureau – receiving a consolidated e-invoice file from the bureau. Although OCR will arguably be arguably more error-prone than a hub, it has the merit of not disrupting the suppliers' processes (they continue to print and mail invoices).

Some hubs use OCR bureau to capture the tail of suppliers they cannot on-board electronically. Other hubs leave management of the tail to you.

Assess Institutional Readiness

Typically, an AP shared-service center is central to optimum efficiency, as is the central scanning and workflow of invoice images. Are these acceptable concepts within your organization? Are standard processes an anathema to your business users? Do you have the skills in your organization to handle greater automation? Where are your blockers? Is a no-PO no-pay policy realistic?
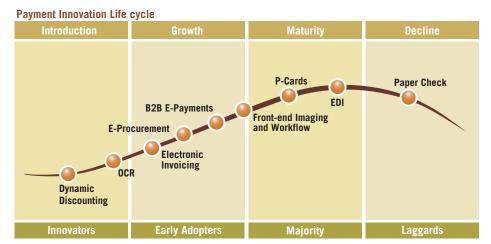
You need to consider:

- Current processes and organization
- Institutional ability to change
- Current solutions deployed
- Competing priorities
- Internal competencies

Review Available Solutions

New solutions are constantly being offered and existing solutions are gaining in maturity. The analysis below explores current solution maturity.
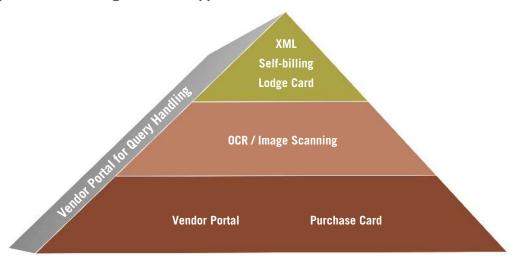
Payment Innovation Life cycle

The Market for Paperless Tools is Expanding but is Still in Its Infancy

Despite this range of solutions, uptake remains stubbornly low. Some specific findings by research firm Gartner, Inc. include the following: U.S. companies spend as much as USD 150 to process each accounts payable invoice. More than 95 percent of all business-to-business transactions are still settled with paper invoices and checks. As much as 70 percent of invoice processing costs involve document handling, data entry and related manual tasks.

An early Accenture Report (focusing on dynamic discounting) has noted that: "For many companies, invoice settlement processes are, well, unsettling. For one thing, the processes are paper- and people-intensive, which is why the full invoice-to-pay cycle takes between 30 and 120 days. In fact, up to 50 percent of paper invoices are past due when they arrive in accounts payable…[and]…between 10 and 40 percent of invoices involve an exception process, which can triple the transaction's timeline and cost."

Typical Solution Alignment to Supplier Base

Pyramid diagram — Top tier: **XML / Self-billing / Lodge Card**; Middle tier: **OCR / Image Scanning**; Bottom tier: **Vendor Portal** and **Purchase Card**. Left edge labeled: **Vendor Portal for Query Handling**.

Typically, high invoice-volume suppliers should be targeted for e-invoicing. Infrequent or small suppliers may be suitable for purchase cards or supplier portal. The objective is to squeeze paper invoices out of the process by expanding the adoption of the aforementioned solutions.

Paper will inevitably remain and will need to be processed as efficiently as possible – hence OCR or simple image scanning and key-from-image workflows. As re-assurance, we have a client who is using key-from-image and processing 38,000 invoices per FTE.

We will explain the solutions available – their relative merits, costs and complexity. The objective is to align solutions to your supplier base to deliver the best possible outcome for the organization.

Solutions Available

The range of solutions currently in the market includes, but is not limited to:

Electronic Invoices
XML or EDI e-invoices with and without suitable middleware to enable automatic ERP posting.

Without line-item-matching, middleware automatic posting rates of only 20 percent are likely. With suitable middleware automatic posting, success of 85 percent can be realized.

ERS (Self-billing)

This functionality exists as a standard in many ERP. It enables the payment of suppliers on receipt of goods or services – without having to receive an invoice. This process is often ideal for temporary labor where timesheets can be received and approved electronically. The timesheet approval would trigger payment without the need for an invoice.

OCR with SAP Middleware (in-house or through a scanning bureau)

OCR offers a non-disruptive route to paperless processing; this is realized through a suitable outsourced scanning bureau.

Key from Image

This involves the central capture and scanning of paper invoices. Each image then triggers a workflow to an input operative who keys the invoice to your ERP from the image. The image is automatically linked to invoice transaction and thereby retained to support exception workflows and audit.

Purchasing Cards

Purchasing Cards are designed to be used for low-value purchases where in most cases they reduce the need to create purchase orders and process invoices. The chosen bank will send a periodic statement to each cardholder to reconcile. These statements are electronic and can be automatically processed within SAP, thereby reducing the amount of paper received. There are a number of councils using Purchasing Cards effectively. The best case study is Manchester City Council, which will spend GBP 70 Million through

cards with over 400 suppliers. It is estimated that the cost of process in GBP 12 per payment using the traditional method to less than GBP 1 per payment. All departments use cards for various types of purchasing. The Council saved over GBP 6 Million in 2004 / 2005.

Supplier Portal

This can be a means of invoice entry for small suppliers. It can also deflect telephone queries from larger suppliers by providing Web access to their accounts. Surveys indicate that an average AP department spends 20 percent of its time responding to supplier payment queries (Aberdeen Group, May 2009).

Business Process Outsourcing

The BizAps suite of solutions is owned by WNS, a major business process outsourcing firm. WNS runs the finance and accounting back-offices for global organizations such as British Airways, KLM, Aviva, T-Mobile, lastminute.com, FedEx and Centrica. WNS is able to offer BizAps solutions and BPO services using outcome-based pricing or transaction-based pricing.

Captive Shared Services

Here, an organization sets up a centralized function typically for transaction processing.

E-Invoicing Hubs

Some companies commit to ensuring that your key suppliers submit e-invoices to their hub. The hub then periodically sends a consolidated file of invoices to you. It is important to realize that you will require a middleware to enable the automatic posting of invoices to your ERP. Automatic posting levels of 70-95 percent can realistically be achieved with suitable middleware.

Approval and Coding Workflows

Combined with invoice imaging, these simple workflows expedite invoice exception management.
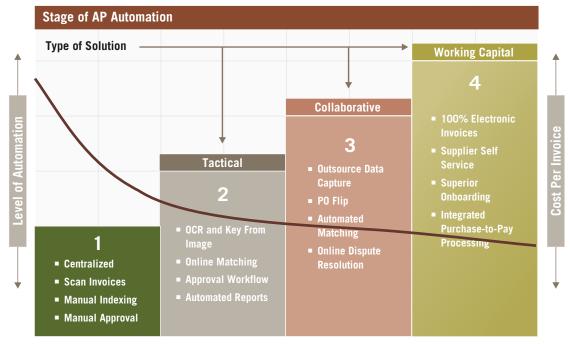
Purchasing Solutions

It should not be forgotten that the purchasing solutions deployed can have a significant impact on the efficient processing of resultant invoices. High PO compliance results in efficient payables. Catalog procurement results in fewer pricing exceptions.

WNS has developed an ROI spreadsheet to help organizations model possible outcomes based on the use of differing automation tools.

Establish a Roadmap

Having established which solutions should be deployed and developed for a viable business case, it is necessary to establish a realistic implementation strategy. The strategy typically includes consideration of:

- Governance
- Rollout Plan (organizational phasing, solution phasing, big bang)
- Internal Resource Requirement
- Risks / Dependencies
- Timelines / Milestones

Stage of AP Automation

Type of Solution

Level of Automation

Cost Per Invoice

Working Capital

4
- 100% Electronic Invoices
- Supplier Self Service
- Superior Onboarding
- Integrated Purchase-to-Pay Processing

Collaborative

3
- Outsource Data Capture
- PO Flip
- Automated Matching
- Online Dispute Resolution

Tactical

2
- OCR and Key From Image
- Online Matching
- Approval Workflow
- Automated Reports

1
- Centralized
- Scan Invoices
- Manual Indexing
- Manual Approval

Source: Paystream Advisors Viewpoint

About WNS's BizAps Solutions

BizAps, a member of the WNS group, and leading SAP consultancy and SAP packaged-service partner, was acquired by WNS in October 2008.

The BizAps suite of integrated ERP technology solutions have been deployed for a variety of global Fortune 500 companies. These SAP and Oracle-certified solutions range from end-to-end Accounts Payable optimization tools, Vendor Portals, ERP-Card program management software and SAP SRM deployments. All BizAps P2P solutions are designed to promote enterprise-wide procurement effectiveness, payments control and process efficiency.

About WNS

WNS is a leading global business process solutions company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including Travel, Insurance, Banking and Financial Services, Manufacturing, Retail and Consumer Packaged Goods, Shipping and Logistics, Healthcare and Utilities. WNS delivers an entire spectrum of business process outsourcing services such as finance and accounting, customer care, technology solutions, research and analytics and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including Costa Rica, India, the Philippines, Romania, South Africa, Sri Lanka, UK and US.

To learn more, please write to us at **marketing@wns.com**

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