



## Making the Case for AP Automation: An ROI Guide

How do you know if your organization can benefit from AP automation? Here's an easy way to evaluate the impact—and find out how long it will take for your company to reap the benefits.

The [AP Automation Calculator](#) helps you create a brief, customized ROI snapshot that incorporates the unique attributes of your company. You'll end up with an estimate for how long it will take your company to realize a return on investment, and a better understanding of the best practices that can help your AP department work more efficiently.

Here is an overview of the key metrics needed to calculate your company's ROI for investing in an AP automation solution.

### 1. Current Invoice Volume:

#### Supplier invoices per year

Whether your company is large or small, a key metric is how many paper invoices you process each year. As a general rule, companies who process 60,000 invoices or more often see the greatest impact of AP automation. This invoice volume size usually indicates a level of cash flow that can reap the benefits of better payment terms and discounts—and feel the negative effect of invoice errors. A small percentage of efficiency improvement at this level can have a big impact on the bottom line.

Companies who process more than 60,000 invoices each year can improve invoice efficiency by fivefold with AP automation—leading to a corresponding improvement in cash management.

#### Percentage of invoices that are purchase order based

Tying invoices to purchase orders provides your business with a formal, “pre-approved” record of what was ordered and, ultimately, a baseline for billing comparisons. The industry standard level for requiring a PO is 50%, or one PO for every two invoices.\* This offers your AP department a record of purchase once the invoice is received, and gives Finance greater control over spending.

Increasing the number of POs may seem like a cumbersome process, but as a rule, this practice provides a way of centralizing purchases and gaining more control.

**Audit Your Accounts Payable Process**

Learn how automating your current AP process can reduce your personnel costs and improve your operational efficiency. Enter each value below to calculate your projected savings. After entering your information, click on "See How Much You Can Save" to generate your custom report.

**Current invoice information:**

Enter the # of invoices your AP staff processes per year:

**Personnel information:**

Enter the number of AP employees:

Enter the number of hours per day each AP employee spends invoice processing (including supplier interaction):

Enter the number of AP employees approving invoices:

**Operational Expense:**

Enter the dollar amount of 3rd party invoice storage service per year:

Enter in the dollar amount of 3rd party invoice scanning service per year:

**SEE HOW MUCH YOU CAN SAVE**

Kofax AP Calculator

## THE TOOLS OF THE TRADE HAVE CHANGED

### AP Automation Best Practices

**Establish imaging early in the process:** At least 90% of all invoices should be automatically input into the system electronically.

**Improve invoice handling accuracy:** Eliminate human errors and mismatches—goal is 98% accuracy.

**Reduce invoice cycle time:** Input all invoices into system within 1-3 days by electronic means. This compares to 15-45 days for manual environments.

**Improve on-time payment rate:** Invoices should be paid on time 95% of the time to improve payment terms and discounts. Both early and late payments should be avoided.

\*IOFM AP Department benchmarks and analysis, 2011

## 2. Current Invoice Processing

Your AP department's invoice processing metrics have a profound impact on efficiency, productivity and cashflow. If your company processes invoices manually, each invoice—whether it is paper, fax, XML or image file—must be sorted, entered, verified and matched against the purchase order. Errors and discrepancies must be rekeyed and verified.

The more invoices you have, the larger this bottleneck is—and the more complex the workflow process to keep things moving. Inefficient invoice processing leads to delays, errors, duplicate payments—and a lack of accountability for all stakeholders.

A best practice goal for invoice processing is to have over 90% of all invoices handled automatically. This includes traditional paper-based invoices, which can be effectively handled electronically with today's AP automation systems.

### **Days from invoice arrival to “ready for payment” status:**

Invoice cycle time is an important metric for establishing a healthy cash flow. It identifies the number of days it takes an invoice to be received in the field, delivered to accounts payable, entered into the system and ultimately paid to a supplier.

Shortening this cycle leads to more favorable terms and discounts, improving your bottom line. Many companies have seen cycle times decrease substantially after implementing AP automation. For example, University Hospitals reduced invoice approval time by 83% after automating processes.

### **Centralized vs. decentralized:**

A central repository for all invoices, PO information and approval routes helps companies gain visibility into the workflow and identify where errors and discrepancies arise. Many companies do not have centralized operations, leading to inconsistent and inefficient practices.

In addition, a centralized system helps companies meet audit and compliance requirements by offering access to invoice status at any point in the payment process. It also supports more accurate financial reporting and timely monthly closings.



## Stamp Out Inefficiency

### **AP Automation Best Practices**

**Reduce duplicate payments:** Duplicates are made when impatient vendors resend invoices and inefficient processes do not detect them.

**Improved terms:** Pay quickly and enable procurement to negotiate early payment discounts.

**Reduce cost per invoice:** Keep processing costs below \$3.00 per invoice, as compared to \$8.00 for manual processing.

**Improve decision-making:** Stay on top of terms, authorizations, outstanding liabilities and more, by making sure you have access to real-time information.

#### **OCR/ICR Automatic verification/validation:**

Manual invoice processing requires rekeying and data entry, often leading to errors and mismatches that can have an impact on the bottom line. Optical character recognition (OCR) capabilities allow you to input all hard copy invoices into the system electronically, where information is extracted and validated in a very short timeframe.

Today's efficient OCR systems can often accurately read up to 90% of all invoices, and speed up the biggest bottleneck for AP—getting invoices into the system.

#### **Workflow for allocation and approval:**

Automated workflows are a critical part of shortening the purchase-to-pay process. These workflows should include automated approvals, escalation and problem resolution. An efficient workflow process should provide seamless integration with a company's ERP system.

#### **Automated PO matching:**

A large number of mismatches are caused by a lack of receipt or failure to enter the delivery receipt. Matching the invoice to the PO and invoice line items to PO line items is a critical part of managing vendors, budgets and payments, and requires more efficient processes by both AP and all stakeholders.

Errors and discrepancies need to be investigated, and resolution often requires manual routing to buyers, suppliers and approvers. Multiple entries often cause duplicate invoices and payments—resulting in money going out that should be staying in your organization.

### **3. Current Handling**

The number and costs of handlers and approvers associated with AP processing are also important factors to consider when determining potential ROI. AP department employees obviously dedicate the most time to processing, but their productivity impacts additional departments from accounting to purchasing to production, and even legal and tax.

By eliminating manual sorting data entry and invoice searches, AP automation can significantly improve staff productivity levels—enabling a greater volume of invoices to be processed in less time, with a faster return, as University Hospitals discovered with a \$1.2 million staff productivity gain and a 32% return on investment from their AP automation project.

### **4. Interpreting The Results**

Because AP automation solutions can help reduce payment cycle times, improve payment terms and increase financial control and visibility, many companies have found that they can achieve an ROI as quickly as 6-9 months after moving to automated AP processing.

The AP Automation Calculator from Kofax can help you determine how quickly your company could see a return, plus estimate general cost and time savings, based on your current invoice volume, processing and handling. In addition to these metrics, it's also important to consider other expenses associated with manual processing, such as invoice storage, postage, telephone lines and equipment rentals. These can all be reduced with the implementation of AP automation, further supporting a significant—and timely—ROI.

By accurately assessing the state of your current AP processes, you can set benchmarks and identify financial and efficiency goals, which can be used in building the case for AP automation among your company's executives and key stakeholders.

Audit your accounts payable process and see how much you could save with automation. [Try our](#) 5-minute calculator now.

### **Make The Switch From Manual Processing.**

For more information on how Kofax can help your company boost its bottom line with automated AP processing, visit our website at [www.kofax.com/finance](http://www.kofax.com/finance)

