

Case Study

Strategic Payables: Making AP a Powerhouse

What happens to accounts payable when invoices process themselves?

Long consumed with capturing-sorting-routing-validating-matching-coding-fixing-approving and paying a paper invoice, AP can't continue down that path. Organizations that continue to rely on paper payables will be the high cost operators, spending too much time resolving invoice errors and exceptions instead of on activities that help improve financial performance.

Today, the combination of smart business networks and collaborative payables applications, delivered in the cloud, are changing the face of AP. With this approach, invoice errors and exceptions can be detected upon invoice receipt, without business user intervention. Problem invoices are automatically rejected and returned to suppliers, so that they can fix them. This frees up resources in AP to help procurement enforce compliance and support finance and treasury efforts to improve bottom-line results.

At RELX Group, formerly Reed Elsevier, the scanning of paper invoices was a first step toward invoice automation, but the company needed to further streamline invoice processing to eliminate exception management and invoice rework. Through electronic invoicing over the Ariba Network, RELX Group today drives high levels of straight-through processing while laying the foundation for contract compliance and the expansion of early payment discounts.

"With SAP Ariba solutions, we no longer have to chase invoices and print duplicates," said Ed Aderman, financial program manager, global procurement for RELX Group. "And our suppliers love the new process. Once they get faster visibility into invoice status and receive payments, they are strong advocates."

AP as strategic resource

Being freed from the responsibility of managing transactions, AP staff are available for many higher value activities. These include weaning suppliers off paper, enforcing contract compliance, performing root cause analysis of recurring invoice errors, identifying early payment discount opportunities, and driving check-to-electronic payment initiatives.

Additional business value comes from integrating invoice automation into the larger procure-to-pay process.

For companies as diverse as AI-Futtaim Group headquartered in Dubai, and a U.S.-based provider of transportation and supply chain management solutions, a disconnected business process can be the source of many problems. Here's a partial list of the challenges these organizations faced:

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- Tedious PO approval process
- Field locations easily bypassing the contract process
- Many invoices with errors requiring extra attention
- Journal entries to correct and charge back cost centers
- Inability to control and monitor spend

Simplifying procure-to-pay operations over the Ariba Network was key to both organizations. For AI-Futtaim, one benefit was straight-through processing of orders and invoices. Before the change, AI-Futtaim would often fix errors relating to prices and general ledger entries. Today, 97 percent of POs go through without any rework, and the ability to flip a PO into an invoice provides a level of accuracy the firm didn't have before. In addition, users now handle the goods receipt notifications to further expedite transaction processing, and there is better visibility into spend.

Meanwhile, the transportation and supply chain management company reported that 98 percent of its invoice volume was being processed electronically through the Ariba Network, with strong validation rules to ensure invoice accuracy. The ability to map commodity codes to the general ledger and automate accruals are other business process improvements that have helped the company to run simple. Accruals occur upon goods receipt, not invoice receipt, which is a boon to the finance group. Furthermore, by ordering off catalogs—a valuable complement to invoice processing—one negotiated price is enforced at all locations, and reports on spend data identify sourcing opportunities that further lower costs.

Then, there's the case of a leading refinery and chemicals company, which had a recurring problem with a large supplier over invoice-PO match errors. Once the company and the supplier began transacting over the Ariba Network, the bottlenecks became clear (they were supplier issues), the problems were solved, and these invoices processed straight-through. Since the collaborative process saved the supplier time and lowered billing costs, that supplier reduced its prices for orders flowing through the network.

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Delivering value to suppliers

Lower transaction costs is a major advantage to suppliers on the Ariba Network. One feature in particular that helps suppliers is PO-Flip®, a registered trademark of SAP Ariba that is now an industry standard for “flipping” a PO into an invoice.

Then, there’s SAP Ariba Discovery, the premier service for helping suppliers find new customers globally. There’s also the opportunity for suppliers to expand business with existing customers over the Ariba Network. For the transportation and supply chain company referenced earlier, one supplier working with a few locations expanded that business by simply offering its catalog to nearly 1,000 locations.

Organizations without a true network or with limited network capabilities often cite supplier fees as a concern. But as one executive from a global printing company related, “When suppliers tell us it will take more time and cost them money (to connect), we ask them to do a process map, and count every step that they take to process our PO and send us an invoice. That quiets them down.”

For a leading sportswear company, value to suppliers of a true business network comes from the ability to see real-time payment status, and reduce their Days Sales Outstanding (DSO). What about supplier fees? According to a procurement manager there, “The cost of capital for seven or eight days faster payment offsets any fees that suppliers may be charged.”

New potential for collaboration

Business networks enable supplier self-service for viewing invoice and payment status, eliminating phone calls to AP. Some supplier portals offer this self-service capability, but these typically require separate connections for each customer, which increases the cost and complexity. A true business network provides single sign-on for all customers.

In addition, networks such as the Ariba Network extend visibility and collaboration to many document types, including purchase orders, order confirmations, and advance ship notices, along with invoices. And with SAP Ariba’s payment capability, organizations can deliver detailed remittance advice to suppliers with every electronic payment. These capabilities provide much greater value than an e-invoice only network.

“With Ariba, we can match electronic invoices to catalogs, purchase orders and contracts that ensure a perfect payable without human intervention,” said Patricia Hutton, director of procurement, GAF.

“This is helping GAF reduce rogue spend, enforce contracted pricing on invoices, and maximize spend with key suppliers to lower our costs.”

A global transportation and logistics company is strengthening compliance and streamlining invoice processing through user-configurable electronic workflow, expansion of catalogs, and the ability to match invoices to contracts. The contract matching capabilities with SAP Ariba--enabling line-level matching, not just the header-level matching like other providers—simplify invoice approval and exception management of non-PO invoices. And with the cloud-based SAP Ariba Invoice Management solution, the company can configure workflow routing by spend type or supplier category, and tailor workflows according to business need; for example, adding tax experts in the review of invoices that contain tax estimates. In addition, suppliers, not the company’s AP staff, fix invoice exceptions, which expedites invoice processing to improve on-time payment performance.

New ways to manage cash

In today’s low interest rate environment, early payment discounts are attracting attention to lower costs and increase earnings on short-term cash.

With the ability to accelerate invoice processing over the Ariba Network, organizations can capture virtually all of these discounts, as well as a new form of “dynamic discounts” up to the invoice due date. According to SAP Ariba customer results, average cost savings from these discounts come to \$2 million for every \$1 billion of spend. The best performers also find that about 20 percent of targeted suppliers will participate in early payment discount programs.

American Electric Power is among the organizations taking advantage of discount opportunities over the Ariba Network. In addition to cost savings and cash earnings from discounts, the utility consolidated 150 payment terms down to 4 and generated a 2-day extension of its DPO. Another world-class utility experienced costs savings of over \$18 million annually from better management of their payables. Much of these savings came from early payment discounts.

Building the business case

If streamlining invoice processing and procure-to-pay operations remain low priorities for you, it’s likely that key stakeholders don’t understand the true cost of a business transaction. They may not know about the large number of problem invoices requiring rework or the drain on business result from off-contract spend.

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In building the business case, note that the 60 to 80 percent cost savings from e-invoicing is only a small portion of the return on investment. Even greater savings come from expanding early payment discounts, freeing up working capital, and enforcing contract compliance. According to procure-to-pay industry studies and SAP Ariba customer results, the savings from these areas are conservatively estimated to be \$10 million per billion in spend.

As you embrace a business network to automate payables, you'll experience a breakthrough in the AP function. There's more time for business analysis, and less time needed for data entry, exception management, and answering supplier inquiries about payments. This elevates the role of accounts payable from a cost center to a strategic asset, where AP gets recognized for making valuable contributions to bottom line results.

(This article first appeared in the P2P Automation Guide 2016 published by the Institute of Finance & Management (IOFM). For more information about SAP Ariba electronic invoicing and payables solutions, visit <http://www.ariba.com/solutions/financial-supply-chain-management>.)