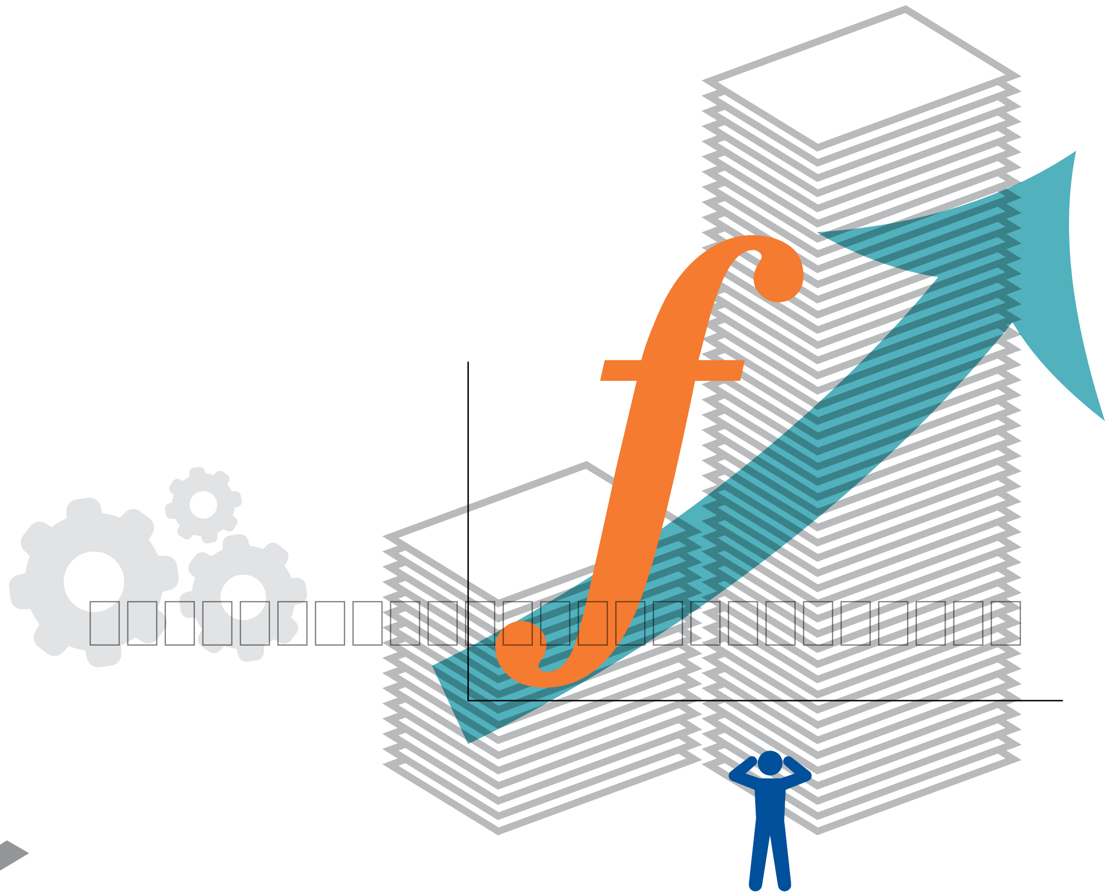
Whitepaper

Accounts Payable Issues Are On the Rise

The high stakes of AP inefficiency, its causes, and the steps to a frictionless future



TUNGSTEN NETWORK
Trusted connections. Streamlined transactions.

This Whitepaper will address:

- The conundrums of Accounts Payable
- The consequences of Accounts Payable inefficiency
- The results of the 2018 Friction Index Study
- Key causes of AP friction
- The steps towards optimisation

The difficulty of processing invoices is well-known to AP professionals, and most likely to CFOs as well, due to the major company-wide financial implications. Nevertheless, companies have been hesitant to update operations with straight-through automated solutions. Why?

CFOs especially may hesitate to implement new technology for a number of reasons. First, finance teams may want to focus on optimising departments with ostensibly faster ROI. Additionally, poor interoperability between disparate systems makes it difficult to see the full scope of the potential problem. Furthermore, upfront investments and process disruptions—like software implementation and employee training—can be daunting for finance executives. Lastly, they may simply feel that "if AP ain't broke, don't fix it."

These trepidations, while understandable, should be considered in conjunction with the severity of AP inefficiency. Recent surveys indicate that in 2018, companies spent a total of 367 hours each week resolving P2P process issues. The right electronic invoicing solution can ensure a rapid return on initial investment and can be smoothly implemented with the provider's support. With that in mind, what exactly is AP friction costing businesses?

In 2018, large businesses experienced a 6% increase in AP friction from 2017.

Accounts Payable is a high stakes endeavour—the risk of errors is everywhere, and the consequences of miscues are significant. As the single channel through which incoming invoices arrive, AP is a critical part maintaining both the company's cashflow and healthy supplier relationships. Carelessness or inefficiency in AP can have serious financial consequences, like overpayment, or fraud. Additionally, auditability is paramount, as a company's payments must comply with any tax regulations imposed by governing bodies.

With that level of critical responsibility, it's no wonder then that AP departments are designed for security rather than for speed. Unfortunately for AP personnel, today's hypercompetitive business environments put pressure on them to work faster without sacrificing accuracy. It's a lot to ask given the difficulties of the department: invoice approvals that create opportunities for delays, increasing compliance demands that complicate the process, large networks of suppliers submitting high numbers of invoices in various formats, and manual, paper-based processes.

To gain insights into AP challenges, Tungsten Network initiated its Friction Index Study in 2017. This first-of-its-kind study was designed to measure the difficulties impeding AP departments around the globe. While the 2017 study was helpful in establishing a baseline and sorting out the root causes of AP friction, the 2018 study allowed for year over year comparisons. Remarkably, overall AP friction jumped 3.5%, and for large business there was a 6% increase. The increases are illustrated in Exhibit 1, below

As the chart in Exhibit 2 shows, the primary causes of this overall jump in the Friction Index were major increases in a few areas of P2P, as determined by responses from P2P professionals ranking friction in certain aspects of invoicing, The biggest rise was in the cost of processing invoices. Respondents noted that, compared to last year, they felt invoices were becoming more expensive to handle. The next biggest change was that suppliers were less satisfied with respondents' P2P processes than they were a year ago. Beyond that, overall processing time increased, while visibility and overall satisfaction with the P2P process decreased. The only area that didn't show an increase was the frequency of invoice exceptions, which remained roughly the same. These issues overlap to some degree—for example, a higher cost likely relates to a longer cycle time, which also decreases supplier satisfaction, pointing to the need to address the situation with a holistic solution.

What's astonishing about the new numbers is that the difficulties appear to be increasing, not decreasing. On average, respondents are saying that it was harder and more expensive to process an invoice in 2018 than it was in 2017. What's a CFO to do about it?

AP friction increase by size of company from 2017 to 2018

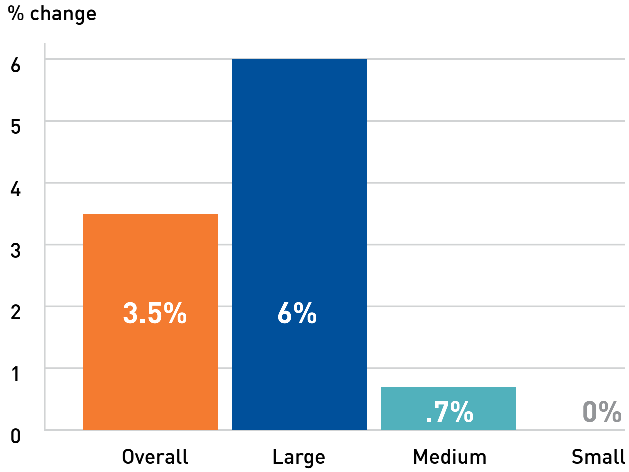


Exhibit 1:
Friction scores based on the Friction Index Study show an increase among Large and Medium businesses year over year, while Small business friction scores remained the same.

Change in AP friction from 2017 to 2018

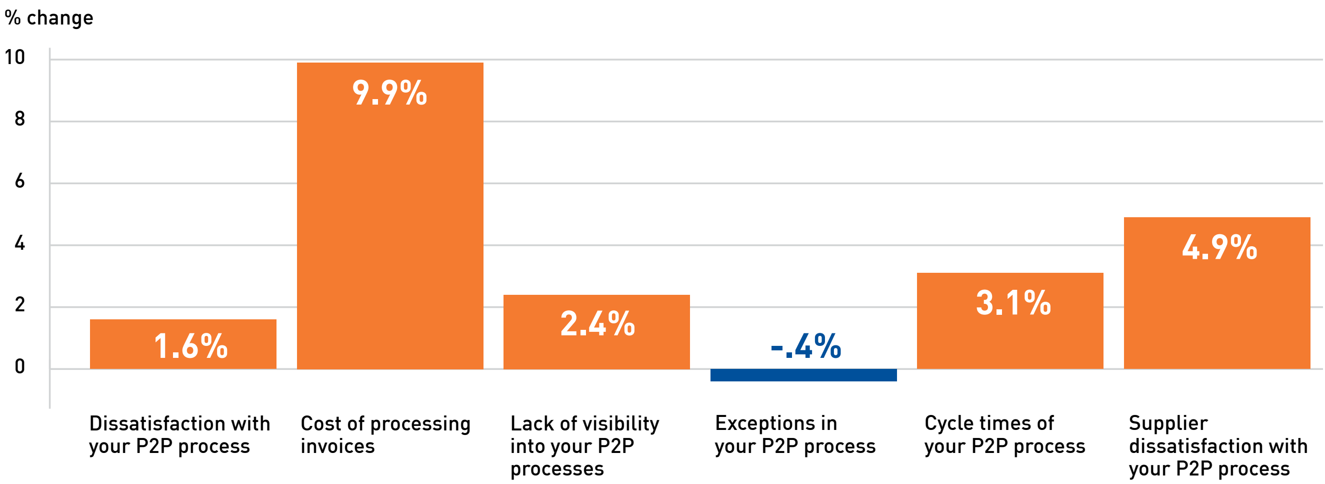
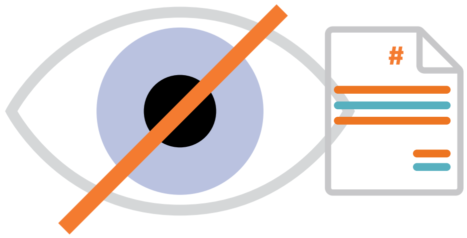


Exhibit 2:
P2P professionals were asked to rank friction in certain areas of their procure-to-pay process in both 2017 and 2018, and the most recent results indicate an increase in friction, visualised above.



Poor Visibility Is Wasting Company Time

Even medium-sized businesses that produce relatively simple products often rely on a wide network of suppliers—whether for contracted services, specialised materials or equipment needed for manufacturing—who submit their invoices in diverse formats and media. Because Accounts Receivable's top concern is to ensure their invoices are paid on schedule, they're likely to spend a certain amount of time "chasing invoices", although this amount surely varies according to their level of confidence and trust in their customers. While the necessity of these phone or email enquiries is obvious to AR, those communications are likely to be regarded as an unnecessary nuisance by AP departments. In a paper- or PDF-based environment, these communications are frequent. This is because paper and PDF invoices offer no visibility for trading partners.

Top three friction factors

	2017	2018	% point change
Number of supplier enquiries regarding invoice or payment	47%	54%	+7
Too many non- PO-based invoices	48%	52%	+4
Lack of automated approval workflows	43%	45%	+2

Exhibit 3:
The top three causes of overall internal friction, as reported by AP professionals responding to the 2018 Tungsten Network Friction Index Study.

Manual processes tied to paper invoices and checks ate up

8,580 hours

—roughly 4 full-time employees—in 2018.

Supplier enquiries take AP personnel away from their core duties. Every phone call that needs to be answered, researched and returned means less time to spend on actually processing and paying invoices, meaning that the time and cost of handling each invoice increases with every enquiry. The time lost can really add up, especially as a company grows and receives more invoices. In fact, the handling of supplier enquiries was reported as the top obstacle in 2018—61% of large businesses surveyed cited it as the biggest pain point. According to the latest Friction Index Study, large businesses spend 2,340 hours and £31,941 per year handling those supplier enquiries. This number is concerning, and makes it clear that AP is receiving too many costly invoice enquiries, and is ill-equipped to handle them. Clearly, CFOs and their financial teams should be clamoring to rectify this unnecessary and sizeable financial drain.

Surely this puts a strain not only on AP, but on the relationship between a business and its suppliers. In fact, though, neither party is to blame. Rather, it's the use of paper and PDF invoices that is the problem. These formats are impossible for suppliers to track once they're sent and are difficult for businesses to keep track of while they're being processed.

The Paper Jam In AP

While supplier enquiries were reported as the top overall source of difficulty, respondents also answered questions regarding the biggest hurdle to timely payment. Slow internal approval processes were reported by 69% of respondents as the biggest impediment to on-time payments. This large umbrella of "slow internal processes" covers a range of inefficiencies, but refers generally to the time spent handling manual, paper-based processes and checks—8,580 hours—or approximately 4 FTE—in 2018.

What's the problem with AP processes? Largely, it's the presence of paper, as well as digital solutions that don't fully deal with paper's inefficiencies. It's not only time-consuming and expensive to manually record, file, validate, route and archive paper invoices and their data; it's also difficult, and increases the likelihood of costly errors. Manually keying in data read from invoices, tracking down a paper or PDF invoice for audit purposes—the time spent on manual processes like these can begin to add up as more invoices are received. Additionally, these manual processes often result in inaccurate data or incorrect invoices due to simple human error. These errors can make it hard for CFOs and their financial teams to predict and optimise company spend and manage working capital.

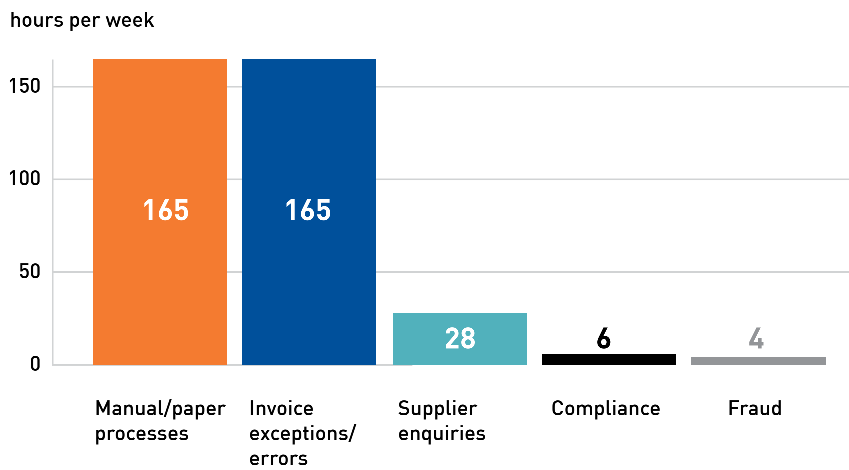
Top five causes of late payments

Issue	2017	2018	% increase
Slow internal processes	64%	69%	+5
Lack of automation	39%	38%	-1
Administrative errors	27%	30%	+3
Team capacity to manage the volume	20%	27%	+7
Managing cash flow	16%	20%	+4

Exhibit 4:
The top five impediments to paying vendors on time, as reported by AP professionals responding to the 2018 Tungsten Network Friction Index Study.

In 2018, the Friction Index Study found that only 3 of 10 business were making more than 90% of their payments on time. It's been a common belief that cash flow issues are the main cause of late payments. In fact, as this research shows, slow processes are the main obstacle to timely payments, suggesting that companies need to consider revaluating their priorities and begin working to streamline their operations. If making timely payments is the end goal, then paper and manual processes are the obstacles to reaching it.

Hours spent per week on P2P issues in 2018



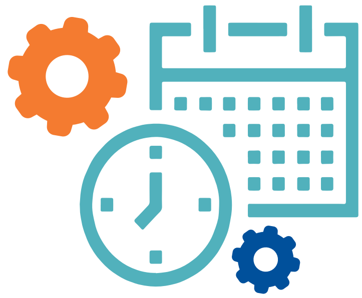


Exhibit 5:
Businesses are spending considerable amounts of time on various aspects of the P2P process.

Fraud Is On the Rise, and AP Is Vulnerable

Fraudulent invoices are a permanent issue—and AP departments are having to deal with more of them each year. In 2018's Friction Index Study, 12% of large businesses reported invoice fraud as a major point of friction—a sizeable jump from 2017's 8%.

Manual invoice processing creates an environment conducive to successful fraud—in a paper environment, 22% of all documents end up lost or misfiled, according to research from the Association for Image and Information Management. As businesses grow larger receive more invoices, and as scam tactics evolve and attempts increase in number—Lloyd's Bank found UK invoice fraud was up 58% in 2018 from 2017—it's important that companies protect themselves. Paper and PDF invoices make it much easier for fraudulent invoices to slip through. Similarly, inefficient manual screening means honest mistakes from trading partners such as duplicate invoices, incorrect pricing, or inaccurate tax information, can also enter the system.

Unnecessary payments are a worst-case scenario for AP departments. Even with multiple levels of validation and screening, they are still a major issue, and will continue to be so as long as AP departments continue to rely on manual processes.

Lloyd's Bank reported that invoice fraud in 2018 is up

58% from 2017.

The Regulatory Landscape Is Shifting, and Non-Compliance Is Costly

Compliance is constantly changing, and companies are devoting large amounts of time and resources to ensuring their AP departments can adjust, an especially difficult task with high invoice volumes and cross-border trading.

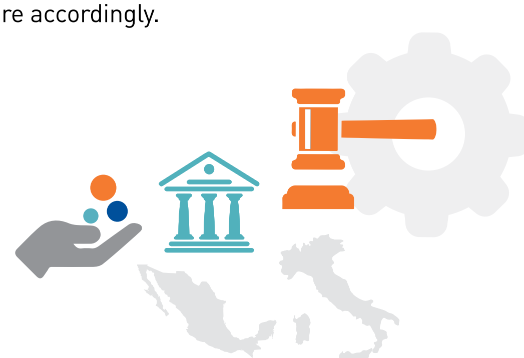
Italy has, for a long time, been home to the largest Value-Added Tax (VAT) gap in the EU by total value—the difference between expected VAT revenue and collected VAT revenue was an incredible £31 billion in 2018. The key culprit was ineffective invoicing processes and inadequate reporting, which resulted in frequent tax leakage and poor invoice monitoring. Often, these problems can result in massive fees—some companies have faced non-compliance fines upwards of £380 million.

To combat these inefficiencies, the Italian government mandated the use of electronic invoicing as of January 1, 2019—helping guide companies towards smoother invoicing processes, lower operational costs, and simpler tax compliance.

Some companies have faced non-compliance fines of up to

£380 million.

Italy's mandate was far from the first of its kind: Turkey, Mexico, and several countries in Latin America have introduced mandates for some form of e-invoicing. Furthermore, VAT gaps are a widespread issue that governments worldwide will need to address—In 2018, Italy had only the 3rd largest VAT gap in the EU by percent, and many other member countries face similar issues in the absence of e-invoicing. Businesses, especially those that trade internationally, should expect and prepare for these mandates to be commonplace in the future, and should prepare accordingly.



The Solution Is Within Reach

While the effects of inefficient invoicing are felt across the company, the problem starts in Accounts Payable. Given the financial function of AP, and the risks of cash flow interruption and capital loss that come with inefficiency, the CFO stands out as a strong candidate to lead the charge for Accounts Payable optimisation. But how?

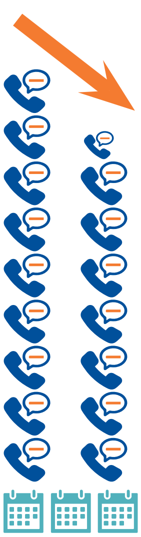
Between slow processes, employee hours wasted on menial tasks, money lost to incorrect payments or duplicate invoices, and time spent on compliance (or, failing that, money lost to severe non-compliance fines), Accounts Payable is an area rife with points of friction that can be swept away through e-invoicing.

For instance, supplier enquiries can be reduced once suppliers have a transparent view of their invoices at every step of the process. The right e-invoicing solution can provide an online portal where invoice status can be tracked, meaning no more time wasted on unnecessary phone calls and emails. Similar menial tasks, like invoice validation, data entry, routing, filing and archiving, can be automated, freeing up valuable employee time, while improving process speed and accuracy. This process automation can also screen invoices for errors or fraud, thus preventing unnecessary payments, and ensure tax and regulatory compliance.

Furthermore, rebates can be a tremendous boon to businesses, but they often result in a higher volume of received invoices that often require additional AP staff to handle, thus offsetting the value of the rebate. An automated e-invoicing system could easily handle this sort of unpredictable invoice volume, thus preserving the value of the rebate.

Mohawk Industries saved
£2.3 million
annually with e-invoicing, and reduced money lost to incorrect payments by
£1 million

The case for e-invoicing is stronger than ever: low upfront investment coupled with significant boosts to efficiency mean a rapid ROI is readily attainable. With assistance implementing the solution, the process can also be relatively stress free. Some e-invoicing solutions, like Tungsten Network's, offer white glove onboarding for your network of suppliers on a single, easy-to-use online platform. One recent Tungsten Network customer, Mohawk Industries, a commercial flooring supplies titan, was able to onboard 75% of their top suppliers in less than 5 months and was able to realise £2.3 million in annual savings. Additionally, with Tungsten's automated invoice screening, Mohawk Industries was able to reduce money lost to duplicate or incorrect payments annually from £1.1 million to £156,000. Those savings go directly to the company's bottom line, and represent the resolution of completely unnecessary payments.



"Through e-invoicing, vendors have transparency of the whole process and can find answers to any questions they might have. As a result, the number of calls coming through to our helpdesk has reduced by 10-15% in just three months. While this is not a material cost saving, it allows the business to do what it should be doing, rather than spending time on vendor enquiries."

Paul Harvey, Head of Procurement Operations and Infrastructure, Marsh McLennan Companies

Mohawk's goal to reduce costs through AP automation is typical one. A recent Forrester survey of 150 software decision makers found the top five drivers in an e-invoicing purchase decision to be, in order: reducing AP or procurement operating costs, reducing error rates, increasing invoice processing speed and efficiency, improving compliance with tax regulations and requirements, and improving cash forecasting. Each of these can be quickly realised with certain e-invoicing solutions, so it's important to choose a provider carefully.

The Steps to E-Invoicing Success

While the answer to ineffective AP processes is e-invoicing, no two solutions are alike—that's why it's important to take a measured approach to selecting your provider. The following steps are based on a Forrester survey of invoicing/procurement software decision makers, and what they considered important prior to purchase. First, focus on what your needs are, and find a company that caters to those, specifically. Second, evaluate the price points of matching service providers. Third, enquire about and, if possible, experience the customer service. It's important to know that their support staff will be there when you need them. Finally, try to gauge the solution's compliance network—how many countries can they check for tax and government compliance in. Following this basic guideline is the best way to find an optimal e-invoicing vendor.

Things You'll Wish You Considered

Some functionalities and services can prove crucial later on, but are often neglected during the purchase process. For example, companies should consider how their provider will interact with their supplier network. It can be challenging to get a large network of suppliers to use any e-invoicing platform, so make sure potential providers can offer white glove supplier onboarding to ensure a smooth transition. This service can streamline the implementation process while also improving supplier satisfaction, yet another crucial area that is often undervalued.

Another consideration—many larger companies offer a full-suite of services, like procurement, invoicing, and enterprise resource planning. However, those all-in-one solutions frequently sacrifice strength for breadth. For example, a solution devoted solely to e-invoicing will provide more powerful functionality than a broader offering with limited invoicing capabilities. Lastly, remember to look for robust invoice conversion and matching, that can accept any form of invoice and automatically digitise it.

Tungsten Network Average Reported Benefits

Tungsten Network's customers have been able to sharply reduce inefficiency caused by the previously mentioned issues. The top-reported cause of friction was one of the first things to improve: online visibility into invoice status was able to cut 60% of invoice-related calls in the first year of implementation due to improved transparency and a vast reduction in error rates.

25%
reduction in annual AP operating cost

300%
more invoices processed per FTE than in non-automated AP departments

25%
increase in on-time payments

60%
reduction in invoice-related calls

17%
reduction in AP headcount

E-invoicing top drivers

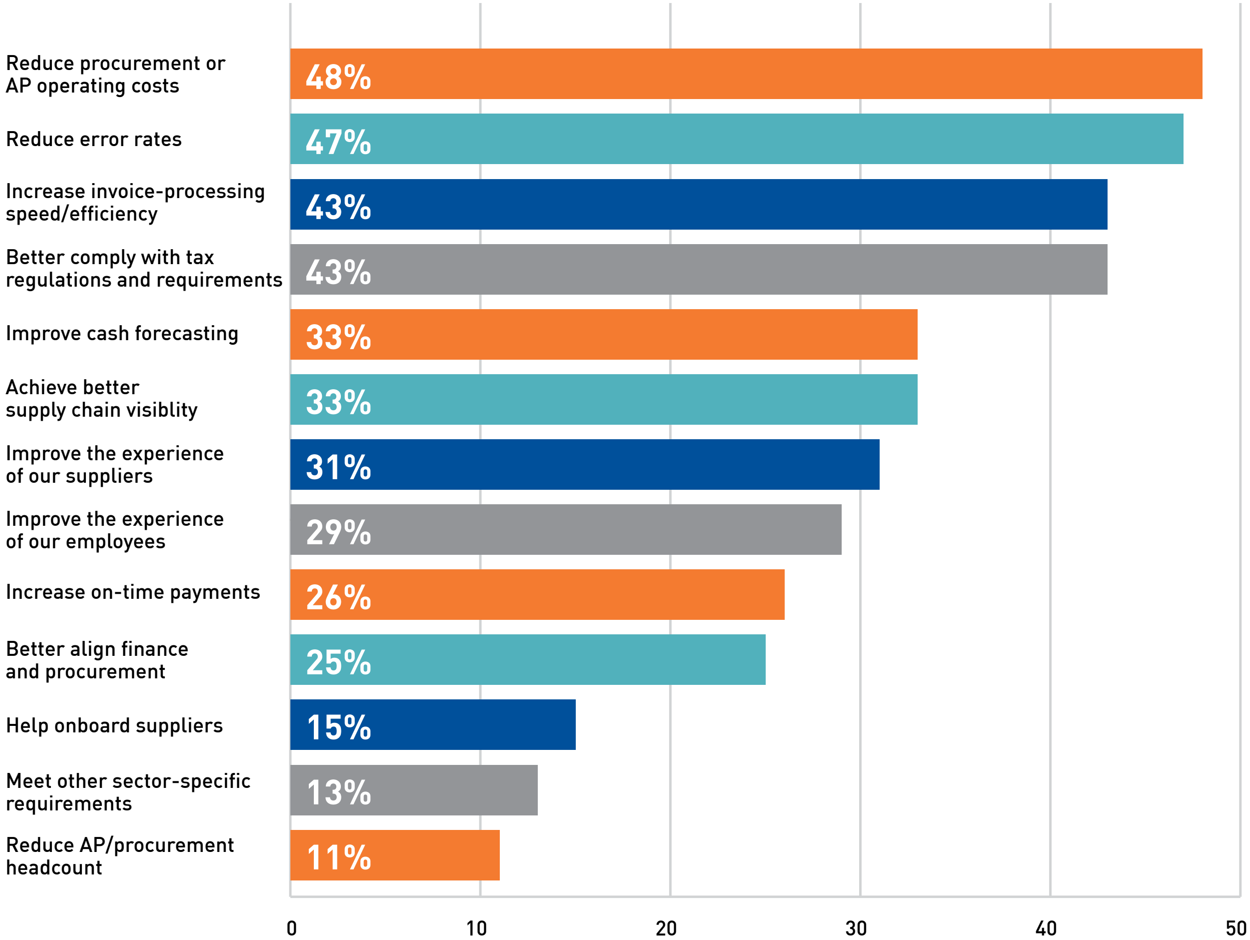


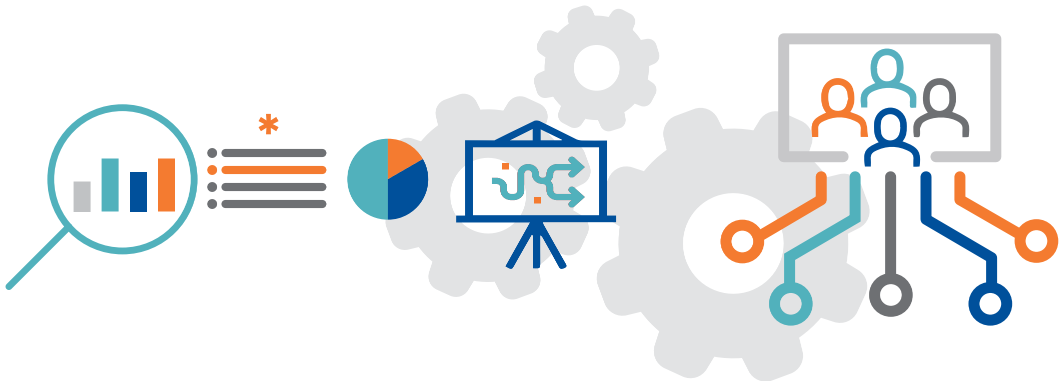
Exhibit 6:
Forrester Consulting cites top drivers for invoicing and procurement decision makers when choosing an invoicing or procurement solution in the US and EMEA are:

Base: 150 invoicing/procurement software decision makers
Source: A commissioned study conducted by Forrester Consulting on behalf of Tungsten Network, January 2019

Getting the Team on Board

Building internal consensus can be difficult when dealing with decisionmakers who have varying goals and priorities. Consequently, buying committees often err on the side of being overly cautious or slow. That alone can make the thought of a new technology intimidating, but the vast benefits, and lower costs of tech like e-invoicing, are sure to appeal to each stakeholder, ranging from the CEO to the CFO, to leaders in areas such as Digital Transformation or IT.

The spirit of digital transformation is sweeping across businesses of every size, across every industry, but the realities of business can make change difficult for some. The primary barrier to change is the challenge of breaking free from old processes—many would call this 'growing pains'. Issues can arise when training employees on new systems or rolling out new software, but with the right company, implementation can be swift and simple.



Talk to Tungsten Network About Improving AP Processes

The issues caused by manual processes have been around for a long time, which is partially why they've managed to fly under the radar, even today. The research covered in this white paper should serve as a wakeup call for companies that are unknowingly throwing money away because of dated, inefficient AP operations.

The solution is, without a doubt, e-invoicing and AP automation, but finding the right provider is key. Tungsten Network is an e-invoicing specialist that currently serves 71% of the Fortune 500 and 74% of the FTSE 100. Tungsten's powerful software solution and attentive, expert customer service easily resolve the friction of AP. With industry-leading e-invoicing tech, tax compliance in 48 countries, and the world's largest business transaction network, extending to 192 countries, Tungsten Network is equipped to turn inefficiency-riddled accounts payable departments into streamlined operations that boost growth and help bolster company coffers.

To see how e-invoicing works, [request a demo:]

Or, reach out to our team to learn how e-invoicing can help your company:

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"Tungsten Network has accelerated our global invoices process, helped us to reduce labour costs significantly, and allowed us to maintain and even strengthen our relationships with our valued suppliers."

Mark Dailey, Director Shared Services,
Mohawk Industries

Friction Index

The Tungsten Network Friction Index serves as a method for gauging the difficulties faced by businesses of various sizes due to issues with P2P processes.

The baseline for The Friction Index was established in 2017 after surveying 422 procure-to-pay professionals. Each respondent was asked six multiple-choice questions assessing areas like satisfaction, costs, visibility, exceptions, cycle times and the satisfaction with suppliers in the P2P process. Each answer was assigned a point value (the higher the perceived friction, the higher the score) and these were totalled and averaged. The average score became the baseline against which individual companies, segments and any subsequent surveys can be indexed.