WHITEPAPER

Accounts Payable Inefficiency is on the Rise

The high stakes of accounts payable —
and how it can slow you down, or catapult
you to world-class status

TUNGSTEN NETWORK

This whitepaper will address:

- ✓ **The conundrums of Accounts Payable (AP)**

- ✓ **The key causes of AP inefficiency**

- ✓ **The consequences of AP inefficiency**

- ✓ **The results of the 2018 AP Inefficiency Study**

- ✓ **The steps toward optimisation and world-class performance**

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 AP technology for a number of reasons:

1. They may want to focus on optimising departments with ostensibly greater opportunity for immediate return on investment.

2. Poor interconnectivity among disparate systems prevents full understanding of the scope of a potential problem.

3. Upfront investments and process disruptions — like software implementation and employee training — can be daunting.

4. They may feel, *'If AP ain't broke, don't fix it.'*

These trepidations, while understandable, should be considered in conjunction with the severity of your organization's AP inefficiency — and what this could mean for your ability to achieve world-class performance.

In 2018, companies spent 367 hours per week resolving purchase-to-pay (P2P) process issues. Meanwhile, the right electronic invoicing solution can be smoothly implemented and produce rapid return on initial investment.
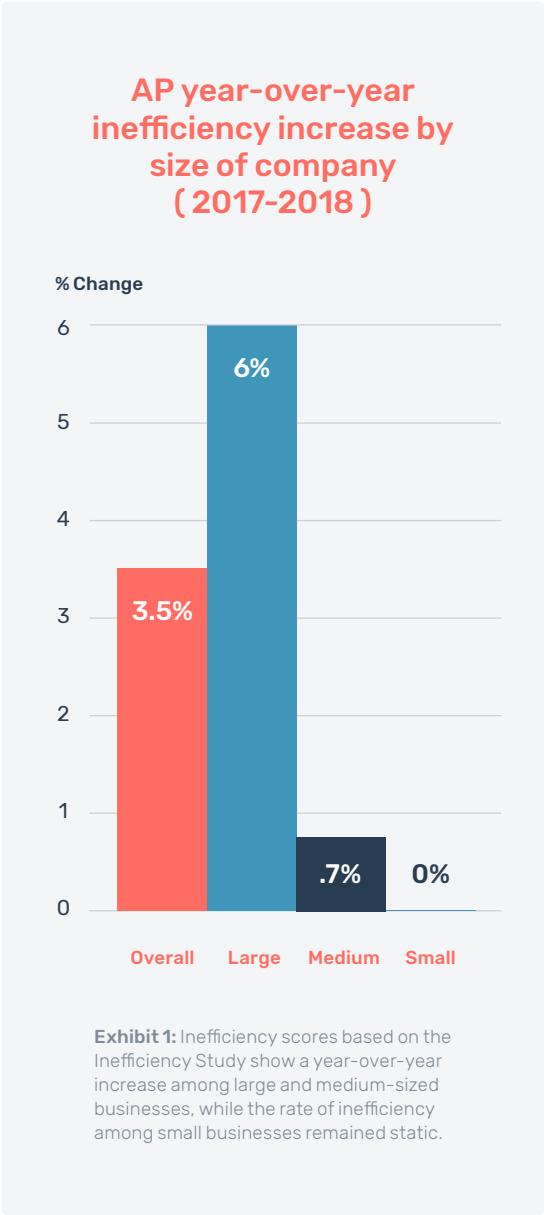
So, what is the cost of AP inefficiency?

AP is a high-stakes endeavour — with significant risk, and potentially massive consequences. **As the single channel through which incoming invoices arrive, AP is critical to maintaining cash flow and supplier relationships.** Human error and processing delays can have serious financial implications, including overpayment, regulatory noncompliance, and fraud.

It's no wonder AP departments are designed for security, rather than speed; however, in today's hypercompetitive business environment you need to be accurate *and fast.* For many companies this is a lot to ask, with vast networks of suppliers submitting an ever-growing number of invoices in varying formats, frequent delays in invoice approvals, increasingly stringent compliance demands, and paper-based processes that require manual data entry and fall prey to human error.

To gain insights into the most significant AP challenges facing today's businesses, Tungsten Network conducted its first AP Inefficiency Study in 2017, which allowed us to establish a baseline and determine the most common causes. In 2018, we reproduced the study, enabling year-over-year comparisons. And, remarkably, AP inefficiency *increased* — 3.5% overall, and 6% for large businesses.

The primary causes of the increase in AP inefficiency include the rising costs of invoice processing, slower processing speeds, and lack of visibility throughout the process. The study also revealed an uptick in dissatisfaction in the P2P process overall, among businesses and their suppliers. Since these issues overlap — with, for example, longer cycle times causing cost increases and stronger dissatisfaction — there is a clear need to address AP inefficiency with a holistic solution. ***So, what's a CFO to do?***

AP year-over-year inefficiency increase by size of company (2017–2018)

Exhibit 1: Inefficiency scores based on the Inefficiency Study show a year-over-year increase among large and medium-sized businesses, while the rate of inefficiency among small businesses remained static.

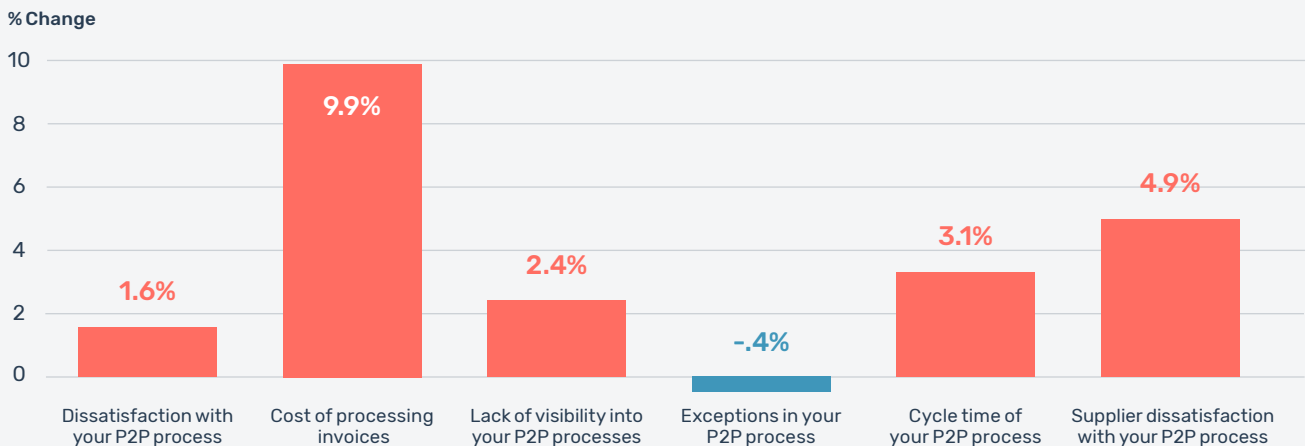## AP year-over-year inefficiency increase by causes of inefficiency (2017– 2018)

Exhibit 2: P2P professionals were asked to rank inefficiencies in their P2P in both 2017 and 2018, and the most recent results indicate an increase in multiple areas of inefficiency.

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 manufacturing equipment — that submit invoices in a variety of formats. Since AP's primary purpose is to ensure invoices are paid on schedule, AP departments are likely to spend a certain amount of time 'chasing invoices,' though the amount varies according to their level of confidence in their customers. With a paper- or PDF-based process, email and phone requests are frequent, due to a lack of visibility.

The top three causes of AP inefficiency	2017	2018	% point change
Number of supplier enquiries about 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 AP inefficiency, as reported by AP professionals responding to the 2018 Tungsten Network Inefficiency Study.

Supplier enquiries distract AP personnel from their core duties, and every phone call that needs to be answered, researched, and returned means less time spent processing and paying invoices, increasing the time and cost of handling each invoice. This time and money lost adds up, especially as companies grow and process more invoices. In fact, large businesses spend 2,340 hours and £31,941 per year handling supplier enquiries; and supplier enquiries were ranked highest among the top obstacles for AP professionals, with 61% citing it as their most serious concern.

Paper and PDF invoices are impossible for suppliers to track once they're sent, and difficult for businesses to track while they're being processed — straining the relationship between business and supplier. Clearly, **CFOs and their financial teams should be clamouring for rectification.**

The AP Paper Jam

While supplier enquiries were the top overall source of difficulty, respondents also identified the biggest hurdle to timely payment: slow internal approval processes, at 69%, which accounted for 8,580 hours — or about four full-time employees — in 2018.

So, what's the problem with AP processes? Paper invoices (and digital solutions that don't fully overcome 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 also increases the likelihood of costly errors. These errors make it difficult for CFOs and financial departments to predict and optimise company spend and manage working capital.

The top five causes of late payments

	2017	2018	% increase
Slow internal processes	64%	69%	+5
Lack of automation	39%	38%	–1
Administrative errors	27%	30%	+3
Team management capacity	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 Inefficiency Index.

Hours spent per week on P2P issues in 2018

Hours per week

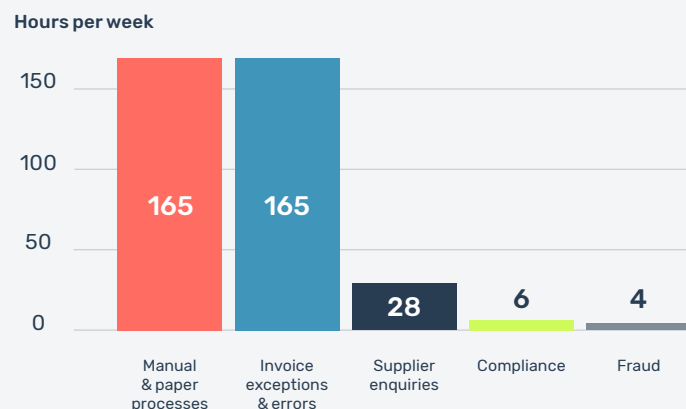|	Manual & paper processes	Invoice exceptions & errors	Supplier enquiries	Compliance	Fraud
	165	165	28	6	4

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

Fraud is on the Rise, and AP is Vulnerable

Another predominant issue facing AP departments is an increase in fraud. In 2018, 12% of large businesses reported invoice fraud as a major concern — up 50% from the previous year.

Manually processing paper and PDF invoices creates ample opportunity for fraud, accidental and otherwise, as duplicate invoices, incorrect pricing and inaccurate tax information are commonplace. In fact, 22% of all documents are lost or misfiled in a manual environment, according to the Association for Image and Information Management, and invoice fraud continues to increase, jumping 58% in the UK from 2017 to 2018, as reported by Lloyds Bank.

This means that **companies need to protect themselves against evolving and increasing scams — and the most effective method is automating your AP.**

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

Compliance is also critically important to world-class AP performance, and particularly difficult with high invoice volumes, cross-border trading and ever-changing regulations.

Italy, for example, has long been home to the largest Value-Added Tax (VAT) gap by total value in the European Union, with a £31-billion difference between expected and collected VAT revenue in 2018. So, what was the key culprit? Ineffective invoicing processes and inadequate reporting, resulting in frequent tax leakage and poor invoice monitoring. For impacted companies, this can result in massive non-compliance fines, even 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 toward smoother invoicing processes, lower operational costs and simpler tax compliance.

Furthermore, Italy is far from alone. VAT gaps are vast across the world — and Turkey, Mexico and several countries in Latin America have already introduced similar mandates for e-invoicing.

Businesses, and especially those that trade internationally, should expect compliance mandates and prepare accordingly to maintain compliance.

Invoice fraud increased 58% year over year in 2018, according to Lloyds Bank

Some companies have faced non-compliance fines of up to £380 million

The Solution is Within Reach

While the effects of inefficient invoicing are felt across the company, the problem starts in AP. So what does the head of the department or the company's CFO need to do to optimise AP?

In most cases, adopt e-invoicing. **Automated AP expedites slow processes, extricates employees from menial manual tasks, and saves the cost of non-compliance.**

Once suppliers have a transparent view of their invoices at every stage of the process, you'll experience a significant decrease in supplier enquiries. With no more manual tasks, like invoice validation, data entry, routing, filing and archiving, you'll benefit from improved process speed and accuracy, as well as AP employees suddenly free to focus on more strategic initiatives. And since invoice automation also includes the screening of invoices for errors and fraud, you'll avoid unnecessary payments and ensure tax and regulatory compliance.

In addition, **automating AP requires only minimal upfront investment**, and some e-invoicing providers — like Tungsten Network — offer white glove onboarding for your entire network, so **the transition from manual to touchless is smooth for you and your suppliers.**

Mohawk Industries, a commercial flooring supplies titan and Tungsten Network customer, was able to onboard 75% of its top suppliers in less than five months, producing £2.3 million in annual savings. Furthermore, with Tungsten's automated invoice screening, Mohawk reduced money lost to duplicate and incorrect payments from £1.1 million to £156,000 per year.

> **"**
>
> **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% to 15% in just three months. [This] 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

Average reported first-year benefits from working with Tungsten Network

25%
reduction in annual AP operating cost

300%
more invoices processed per full time-equivalent employee

25%
increase in on-time payments

60%
reduction in invoice-related calls

17%
reduction in AP staffing

Mohawk's success with e-invoicing, and meeting its goal of reducing costs through AP automation, is not uncommon. In fact, a recent Forrester survey of 150 software decision makers found that the top five drivers of e-invoicing purchase decisions are:

1. Reducing AP or procurement operating costs
2. Reducing error rates
3. Increasing invoice processing speed and efficiency
4. Improving compliance with tax regulations and requirements
5. Improving cash forecasting

Each of these aspirations can be quickly realised with the right automated AP solution; in other words, it's important to choose a provider carefully.

The Steps to Electronic Invoicing Success

While the answer to ineffective AP processes is e-invoicing, no two solutions are alike — and that's why it's important to take a measured approach to selecting your provider. To select the optimal provider for your business, follow these steps, determined to be most effective by a Forrester survey of invoicing and procurement leaders:
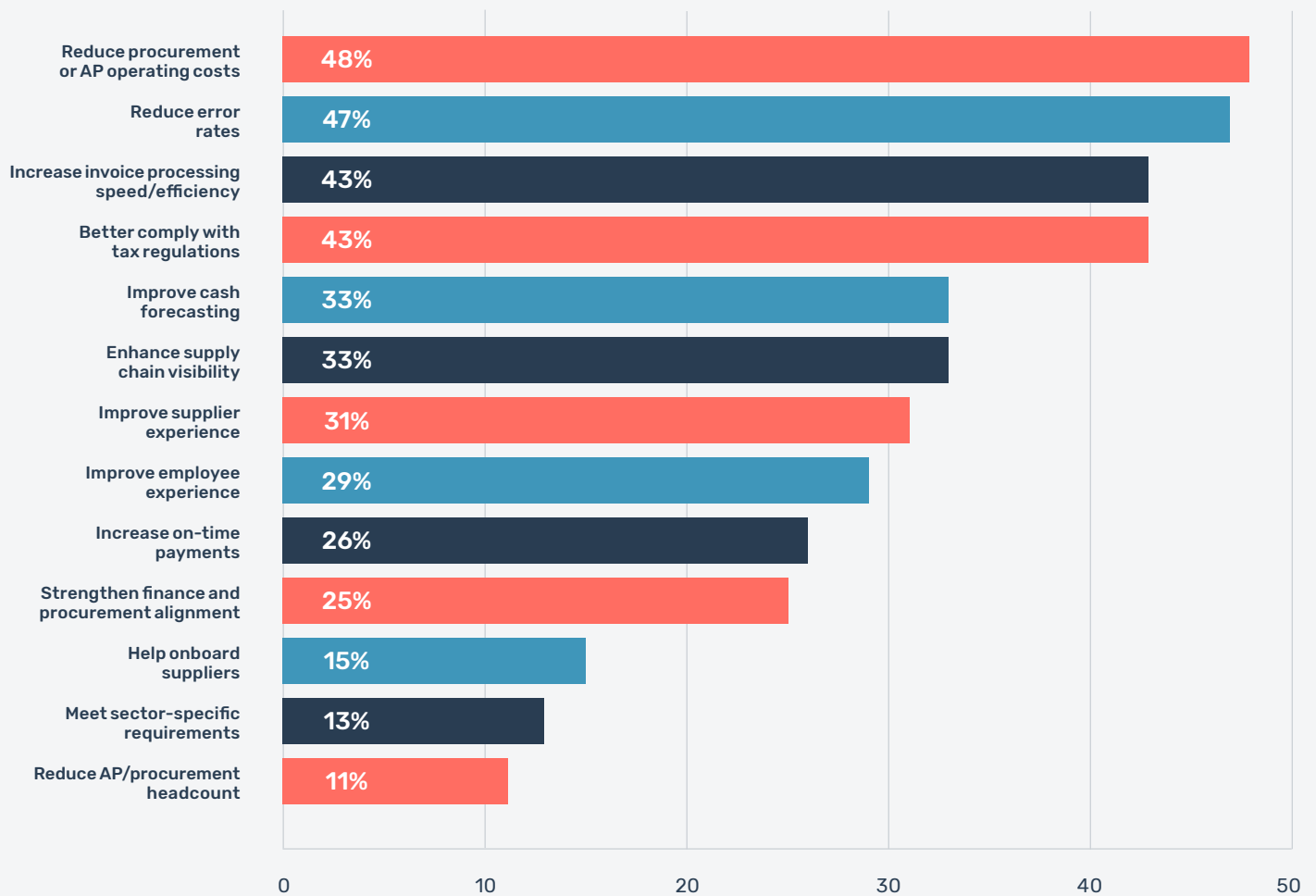
1. Focus on your needs, and find a provider that will cater to them
2. Compare the price points of the providers that meet the first criteria
3. Enquire about — and, if possible, experience — the customer service offered by each provider
4. Evaluate the breadth and depth of each solution's compliance network

Other Critical Considerations

When selecting a provider, you should also consider other crucial functionalities and services that are typically neglected during the provider vetting process, including:

- How will the provider interact with the supplier network? Does the solution include white glove supplier onboarding to ensure a smooth transition?
- Is the solution devoted solely to e-invoicing, providing powerful functionality, or does the provider offer an all-in-one solution that may sacrifice strength for breadth?
- Does the solution feature robust invoice conversion and matching? Does it accept any form of invoice and automatically digitise it?

The top 13 reasons companies switch to automated AP

Reason	Percentage
Reduce procurement or AP operating costs	48%
Reduce error rates	47%
Increase invoice processing speed/efficiency	43%
Better comply with tax regulations	43%
Improve cash forecasting	33%
Enhance supply chain visibility	33%
Improve supplier experience	31%
Improve employee experience	29%
Increase on-time payments	26%
Strengthen finance and procurement alignment	25%
Help onboard suppliers	15%
Meet sector-specific requirements	13%
Reduce AP/procurement headcount	11%

Source: Forrester Consulting, 2019

Getting The Team On Board

Building internal consensus can be difficult when dealing with decision makers with varying goals and priorities. Buying committees, for instance, often err on the side of caution, which can slow the transition to digital transformation. Change can be intimidating, especially when it involves implementing new technologies or breaking free of old processes.

But the benefits of automated AP are overwhelming, with positive impacts to all stakeholders, including the CFO and CEO, as supported by research and anecdotal evidence.

Plus, with the right provider and the best solution, the transition is seamless.

From Inefficiency to World-Class Status

The issues caused by manual processes have been around for a long time, which is probably why they've managed to fly under the radar. Hopefully, though, this has been a wakeup call that companies across industries and geographies are throwing money away because of dated, inefficient AP operations — and there is a solution!

The solution is digital transformation through e-invoicing and AP automation.


Go Digital with Tungsten Network

In today's hypercompetitive business environment you need to be accurate and fast to be world class.

We at Tungsten aim to be the world's most trusted business transaction network, by using data intelligently to strengthen the global supply chain. **Tungsten Network is a secure business transaction network that aligns businesses and their suppliers through unique technology that revolutionises invoice processing, maximises efficiency and improves cash flow.**

Tungsten Network processes invoices for 74% of the FTSE 100 and 71% of the Fortune 500; we enable suppliers to submit tax compliant e-invoices in 48 countries, and last year processed transactions worth more than £164 billion for organisations such as Alliance Data, GlaxoSmithKline, Henkel, Kellogg's, Mohawk Industries, Mondelēz International, Thermo Fisher and the US Federal Government.

For Accounts Payable, Tungsten Network is the digital foundation for world-class performance.

By enabling a touchless invoicing, we'll help you gain maximum value from your AP process. Through total invoice automation, you'll benefit from much more than cost-cutting — you'll position AP as a strategic partner to the greater organisation, realise genuine business agility, and establish yourself as a world-class operation.
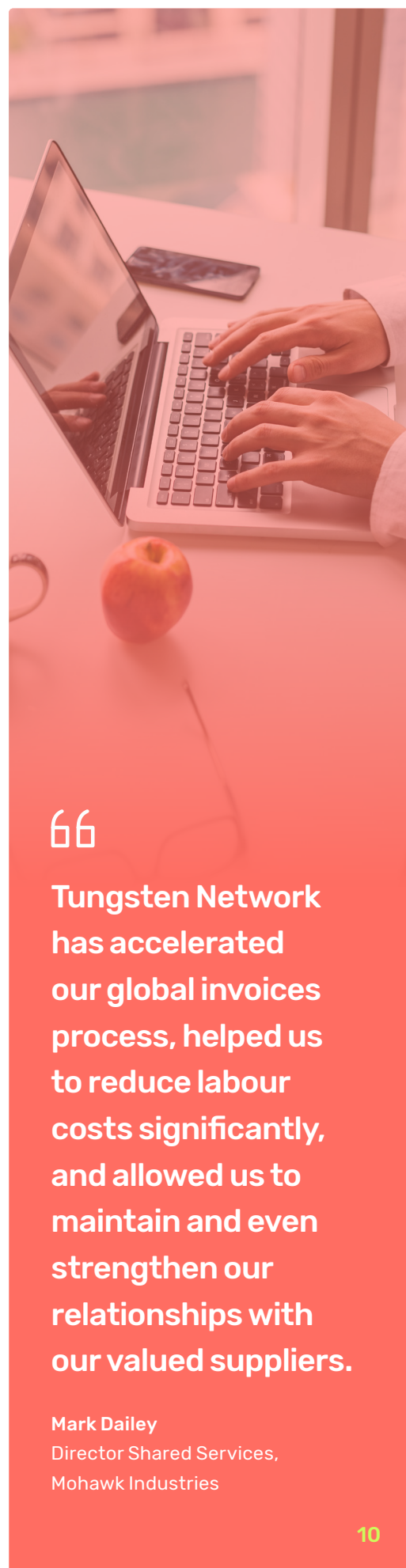
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Tungsten Network has accelerated our global invoices process, helped us to reduce labour costs significantly, and allowed us to maintain and even strengthen our relationships with our valued suppliers.

Mark Dailey
Director Shared Services,
Mohawk Industries

Start your journey to world-class and request a demo today

Schedule a free consultation

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