

The Impact of Accounts Payable Automation on Organisational Performance

January 2019

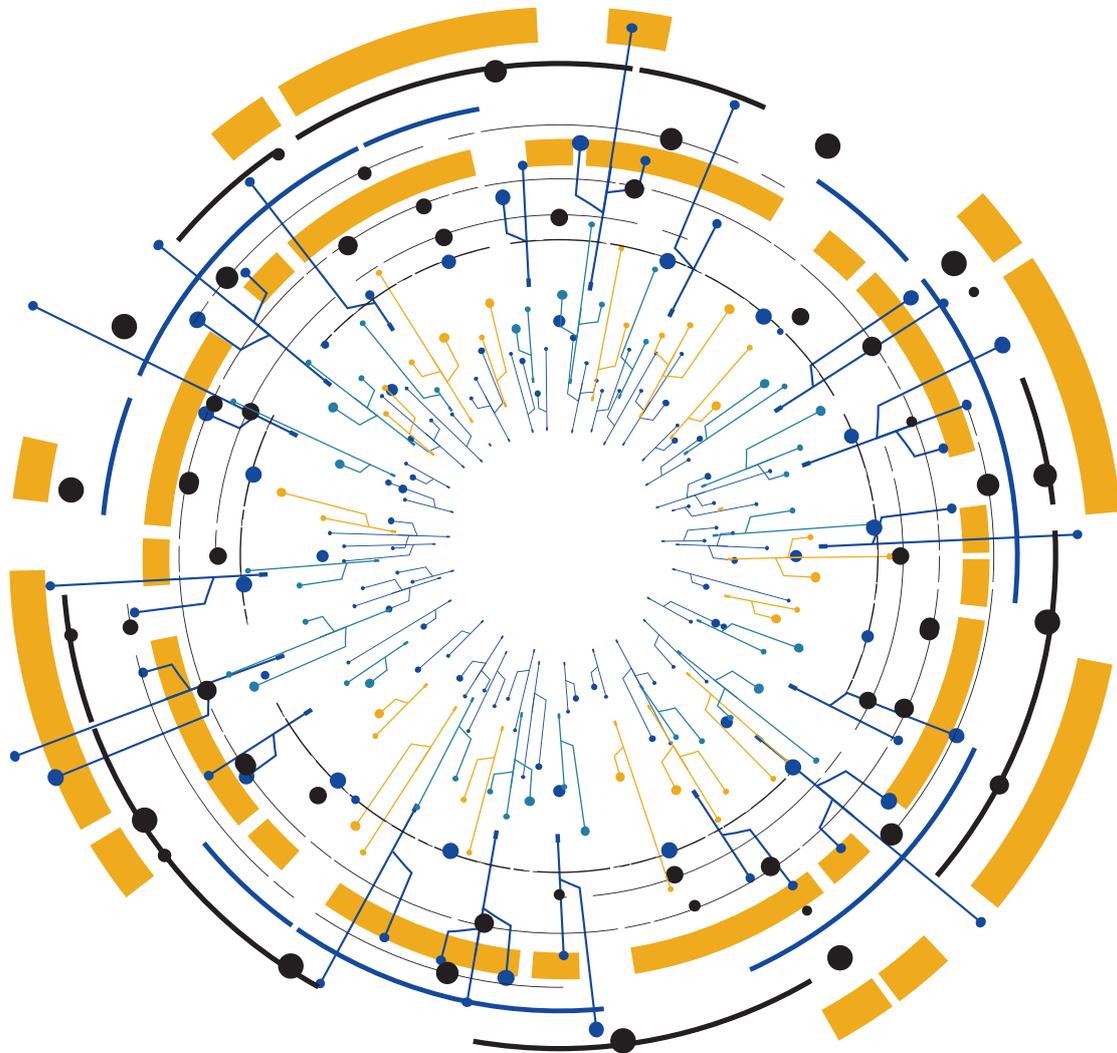


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Executive Summary

Digital trends have impacted almost every aspect of today's business world, from operational performance to customer service satisfaction. The payments department – the cash flow and working capital lifeline for an organisation – is no exception. Yet in Singapore and Malaysia, many organisations still have limited automation of the accounts payable (AP) process, or a heavy reliance on manual paper work. This report analyses the current AP landscape in Singapore and Malaysia, through surveys and interviews of 100 organisations in each country, across various industries.

The results from the survey confirm that automation is the top initiative organisations wish to implement to enhance financial operational performance, as they believe it would **increase both productivity and quality of life at work**. Respondents also share their top challenges such as integration of systems, as well as a lack of transparency. Specifically, with regards to the AP processing cycle, organisations shared that their top root causes for delays in the process are the unavailability of payment approval authorities and the lack of manpower for processing.

Overall, seeking automation of AP processes appears a favourable decision. Comparing organisations with low-levels of automation to those with high-levels of automation, high-level automation organisations clearly outperform in terms of invoice preparation and approval times and cost savings associated, as well as productivity per staff. For Large Enterprises (LE), time spent for the AP process is 19% lower and productivity per AP staff, calculated here as number of invoices processed per AP staff daily, is 1.2 times higher than organisations with low-level automation. For Small & Medium Enterprises (SME), time spent for the AP process is 55% lower and productivity per AP staff is 3.3 times higher than organisations with low-level automation. These data indicate, for either size of organisation, AP automation can empower decision-makers to release financial operational resources for additional projects. In addition, with **labour cost savings averaging up to SGD33,000 per year for organisations with high-levels of automation**, the tangible and intangible outcomes of AP automation should be strongly considered against the perceived barriers to improvement.

Overview

The operational efficiency of payments processes are often neglected or left on the backburners of organisational transformation and innovation initiatives. Long existing pain points of long cycle times, lack of visibility into payment obligations, inaccuracies in reporting, among others, are inherent in manual, paper-based activities and continue to plague organisations – often with undetected cost repercussions and negative impacts on the quality of life at work. Projects to improve the efficiency of the AP or Account Receivable (AR) processes often end up as piecemeal efforts.

There exist significant opportunities for enterprises to adopt holistic, practical, and comprehensive solutions which automate the entire procure-to-pay process from top-to-bottom. Enterprises which have embarked on such initiatives have obviously reaped the benefits on multiple fronts as this report demonstrates.

As this research methodology indicates, the current AP landscape in Singapore and Malaysia identifies key challenges and areas for improvement in processes. In addition, this report highlights benefits and potential performance outcomes to the organisations from AP automation.

Research Methodology

This report is based on contracted survey and analysis conducted by a third-party organisation, Deloitte Enterprise Risk Services Pte Ltd. "Deloitte". SAP Concur has not sought to influence or changed the results or data in any way. Survey responses were compiled from 200 executives actively involved in the AP process, 100 each in Singapore and Malaysia.

Of the 100 organisations in each country, 50 have annual revenues above 200 million USD and the other half below 200 million USD. For this report, organisations with annual revenue equal to or more than 200 million USD are classified as Large Enterprises (LE) while organisations below 200 million USD as Small and Medium Enterprises (SME).

Respondents were asked to rate the level of AP automation maturity in their organisations on a scale of 0 to 10, with 0 being manual processes only, and 10 being a fully-integrated and automated organisation. Based on the results of this poll, the survey consultant categorised organisations rating themselves from 0 to 4 as low-level automation, 5 to 7 as semi-level automation, and 8 to 10 as high-level automation.

The third-party further analysed results of the following variables based on the organisation profiles mentioned above:

- AP process cycle times and costs
- AP process challenges, and root causes for delays
- Areas of improvement, and initiatives for implementation
- Barriers to implementation

Current situation in AP processing

The AP process is broadly similar for many enterprises: from an invoice waiting in an in-tray or mailbox upon receipt, to invoice preparation for processing, to the approval process, to payment, and retrieval for references, if needed. Many touchpoints with multiple stakeholders exist from the point in which the invoice is first received to when payment is finally processed, as well as different workflows and systems, in both digital and physical format. An organisation's industry also plays a part in processes with nuances such as purchase approvals and three-way matching sometimes contributing to payment and processing workflows.

Depending on both the size of an organisation and its level of AP automation, processing timelines can vary considerably – as indicated by figure 1.

Figure1: Standard AP Process Flow



Stages of AP process	Invoice waiting in in-tray / mail room	Invoice preparation	Approval process	Retrieval for reference if needed
LE – Low Automation	1 - 3 days	3 - 4 days	3 - 4 days	< 1 hour
LE – High Automation	1 - 3 days	1 - 2 days	1 - 2 days	< 1 hour
SME – Low Automation	1 - 3 days	3 - 4 days	1 - 2 days	< 3.5 hours
SME – High Automation	< 1 day	3 - 4 days	1 - 2 days	< 1 hour

Note: The individual processing times at each stage do not match the overall time from receipt of invoice to issue of payments due to other factors such as batching sizes and accounting periods which are not studied in this paper.

Challenges of low-level automation organisations

An overview of the current AP process landscape shows an obvious gap between the performance of low-level automation organisations versus high-level automation organisations. The subsequent sections of this paper focus on better understanding the low-level automation organisations, their current challenges, identified areas of improvement, top initiatives for improvement, and barriers for improvement.

Top challenges to financial operational performance identified by LEs with low-level automation is related to the lack of information, tedious manual processes, and system integration issues.

**Top challenges:
(LE, low-level automation)**

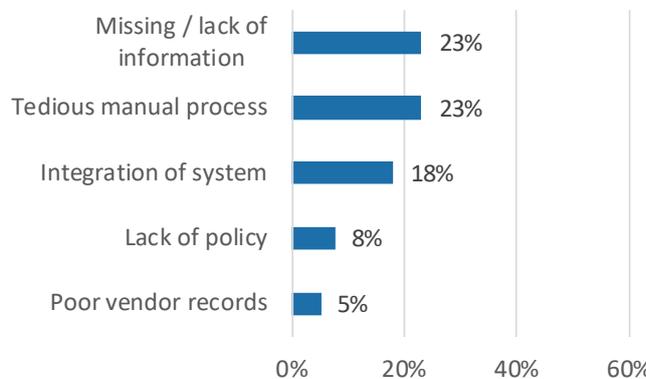


Figure 2: Top challenges in the AP process for LEs with low-level automation

SMEs with low-level automation identified top performance challenges of tedious manual processes and a lack of information. However, we noted a difference between SMEs' responses to LEs' responses with poor vendor records identified as a top challenge for SMEs. Hence, for SMEs, having a proper vendor records could improve payment accuracy and reduce the time required for payment processing – strengthening organisational visibility into cash flows.

**Top challenges:
(SME, low-level automation)**

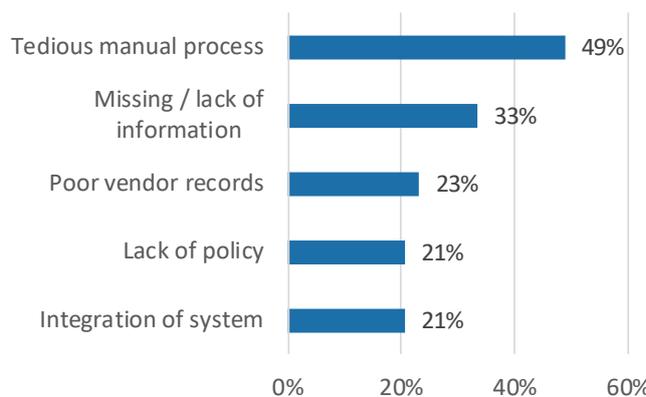


Figure 3: Top challenges in the AP process for SMEs with low-level automation

Top root causes of delayed payments

Delayed payments can negatively impact both financial and operational performance, let alone vendor relations and strategic procurement efforts. Focusing specifically on the causes for delayed payments, LEs and SMEs unanimously believe the top root cause stems from the payment approving authority not being available. Other root causes for delayed payments can be seen in figures 4 & 5. Having identified their current challenges and root causes for delayed payments, it is useful to examine the organisations’ intent to improve in the next section.

Top root causes of delayed payments (LE, Low-level automation)

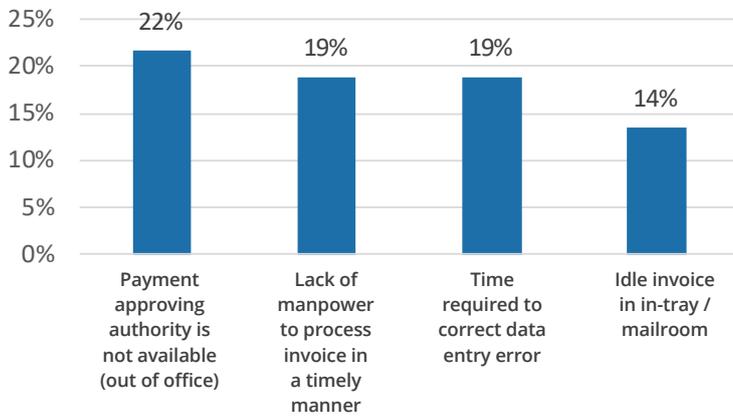


Figure 4: Top root causes of delayed payments for LEs with low-level automation

Top root causes of delayed payments (SME, Low-level automation)

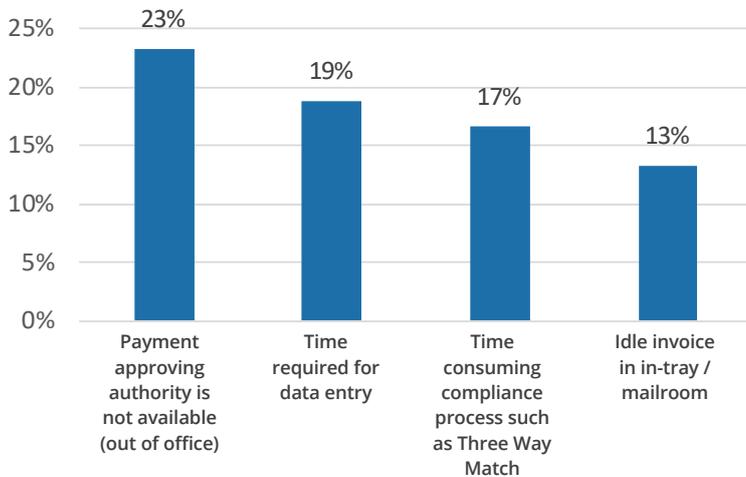


Figure 5: Top root causes of delayed payments for SMEs with low-level automation

Intent to improve financial operational performance

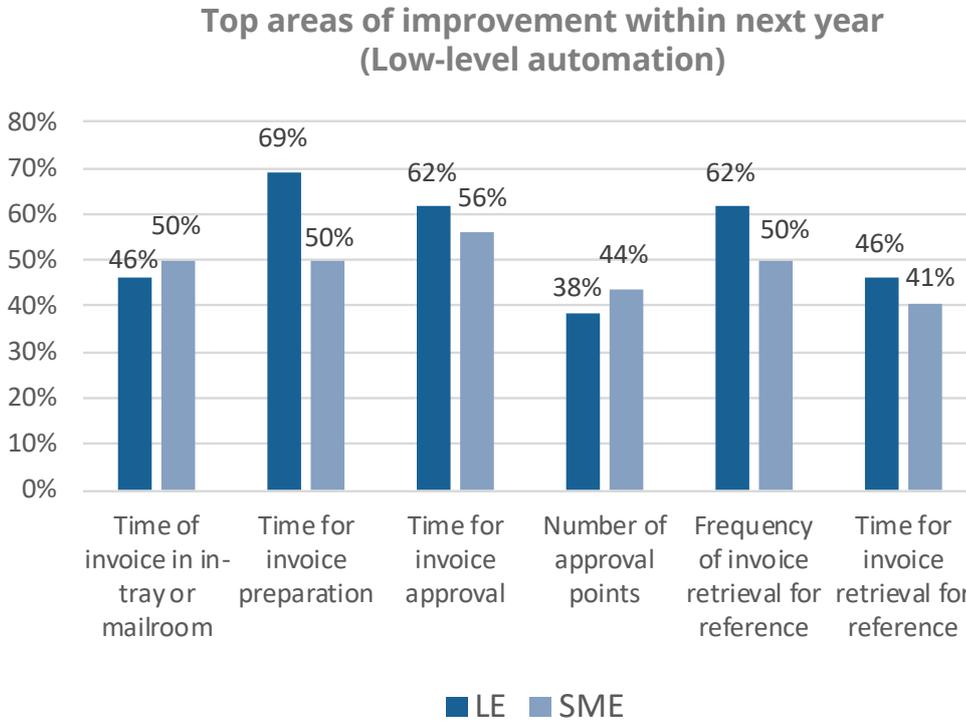


Figure 6: Top areas of improvement within next year between low-level automation LEs and SMEs

Considering these challenges, it is positive to note a majority of organisations expressed a desire to improve each stage of the AP process within the next year to enhance financial operations performance. The area of improvement most-prioritised by organisations was the invoice preparation time for LEs and time for invoice approval for SMEs, indicating opportunity for cost savings in labour and greater control of cash flows.

Organisations then identified the top initiatives for improvement, with automation and streamlining of AP processes as clearly the top two. The following figures 7 & 8 show the other top initiatives for improvement by LEs and SMEs.

In addition to the potential impact on cash flows and working capital, approximately 70% of organisations believe that implementing these varied initiatives will improve both productivity and quality of life at work.

Top improvement initiatives and their outcomes

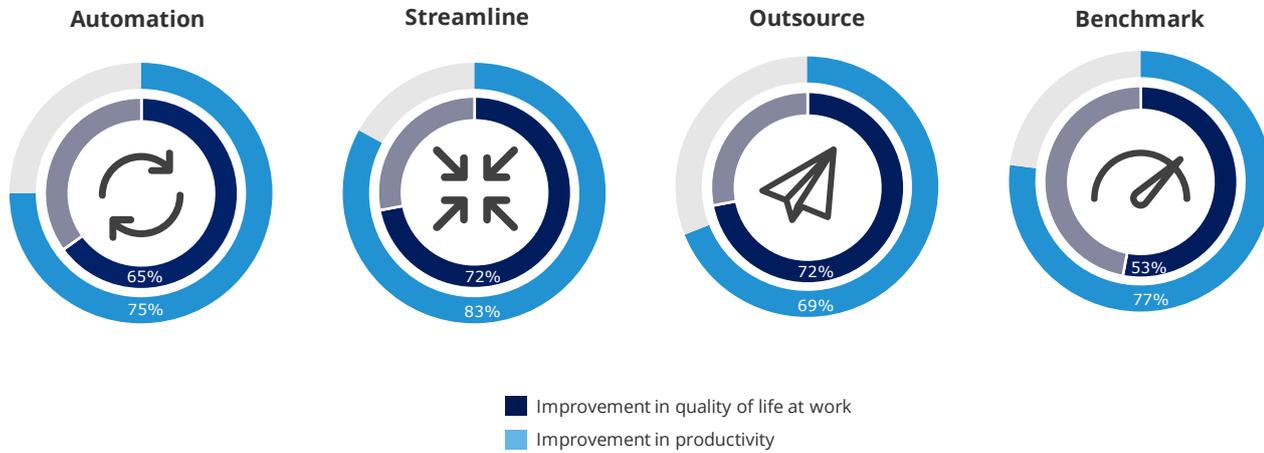


Fig.7: Top initiatives to enhance financial operational performance and poll of improvement in quality of life at work as well as productivity for LEs

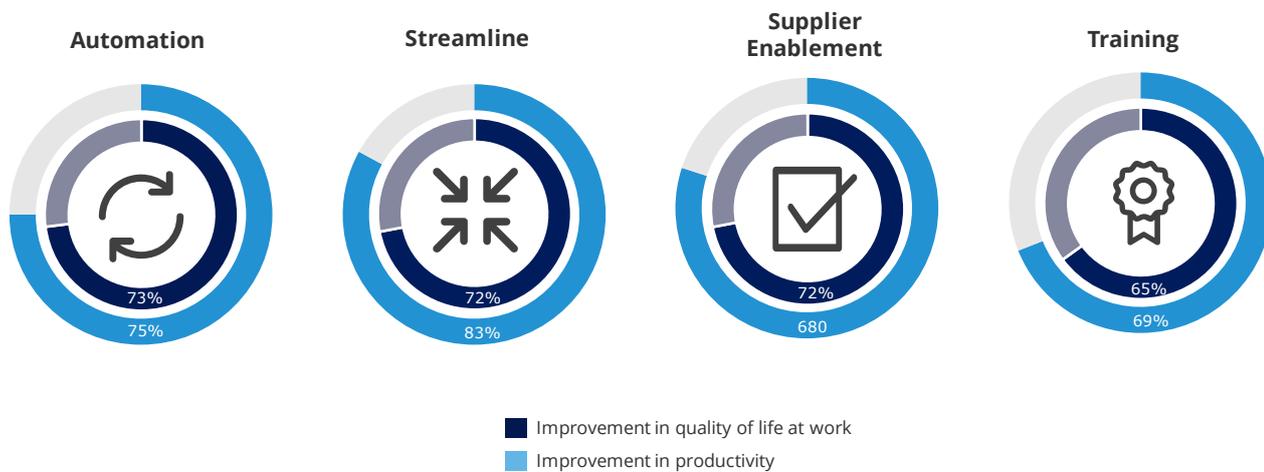


Fig.8: Top initiatives to enhance financial operational performance and poll of improvement in quality of life at work as well as productivity for SMEs

Top barriers to improvement

Despite the desire to improve and identifying initiatives to implement, understandably there is scepticism in the success of implementation of automation solutions, as with any operational project. There exist many barriers to improving the AP process, such as staff resistance, manpower constraints, technological constraints, etc. The following figures 9 & 10 show the top perceived barriers to improvement by low- level automation organisations.

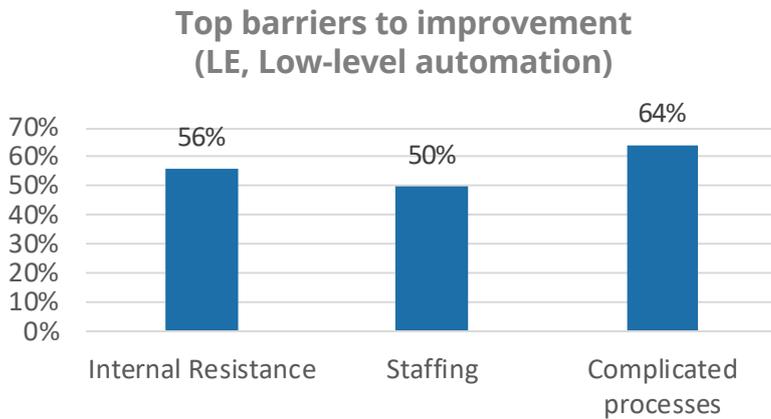


Figure 9: Top barriers to improvement for LEs with low-level automation

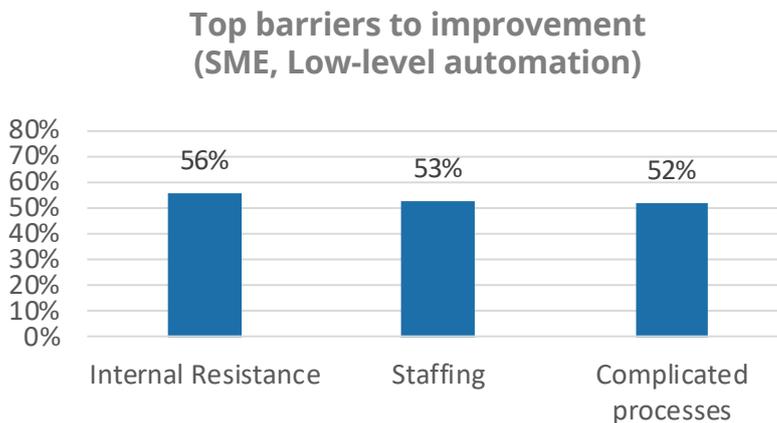


Figure 10: Top barriers to improvement for SMEs with low-level automation

Benefits of AP automation

Yet, with increasing sophistication of available solutions, improvement and automation of AP processes are significantly more accessible and easier to implement than many decision-makers realise. **The benefits of automation include the tangible improvement of productivity, reduction of cycle times and errors, extending into more value-adding potential such as financing, cash flow management and working capital.**

Figure 11 shows six benefits of AP process automation and the relative low adoption rate of each among the 200 organisations studied. One notable highlight is the extremely low number of organisations with on-the-go approvals – 7% - which is an obvious solution to the previously-expressed concern by both LE and SME of payment approval authorities not being available.

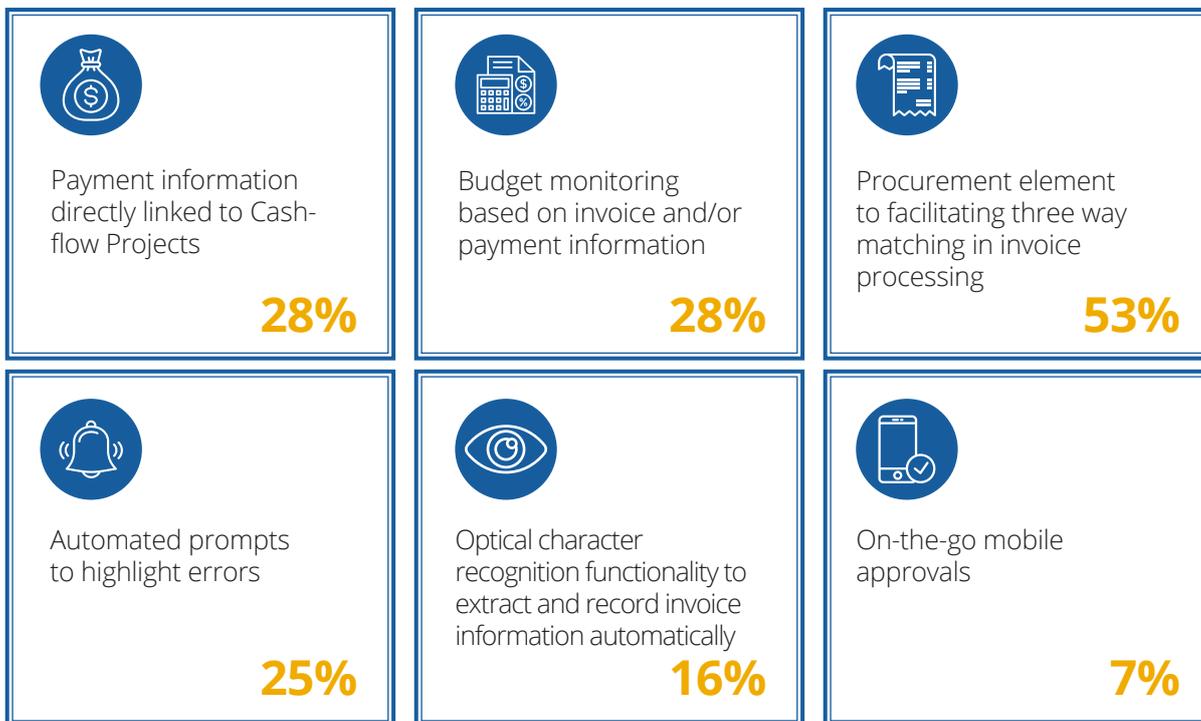


Figure 11: Six benefits of AP automation and current adoption rate of those in Singapore and Malaysia

Further, figure 12 indicates strong outcomes among those LE adopting specific aspects of technological automation available with some software solutions.



Figure 12: Key benefits noted amongst Large Enterprises with specific adoption of technological automation

Performance of AP automated organisations



Labor cost saving per year

With time saving per month in mind, labour cost savings can be estimated.

LEs with high-level automation save a total of **5,460 SGD** per year compared with LEs with low-level automation.

SME with high-level automation save a total of **33,408 SGD** compared with SMEs with low-level automation.



Time saving per month

For LEs, total time spent on invoices per month for high and low-level automation:

- LE's total time for AP process (low – level automation) = 21 days
- LE's total time for AP process (high – level automation) = 17 days

Therefore, LEs with high-level automation save a total of up to 4 days in invoice processing per month compared with low-level automation LEs, which is a time saving of 19%.

For SMEs, total time spent on invoices per month for high and low-level automation:

- SME's total time for AP process (low – level automation) = 32 days
- SME's total time for AP process (high – level automation) = 14.5 days

Therefore, SMEs with high-level automation save a total of 17.5 days in invoice processing per month compared with low-level automation SMEs, which is a time saving of 55%.



Number of invoices per AP staff per day

For LEs, the total number of invoices processed per AP staff per day:

- LE's number of invoice per AP staff per day (low-level automation) = 3.8
- LE's number of invoice per AP staff per day (high-level automation) = 4.7

Hence, productivity for LEs with high-level automation is 1.2 times higher than LEs with low-level automation.

For SMEs, the total number of invoices processed per AP staff per day:

- SME's number of invoice per AP staff per day (low-level automation) = 6.3
- SME's number of invoice per AP staff per day (high-level automation) = 20.7

Hence, productivity for SMEs with high-level automation is 3.3 times higher than SMEs with low-level automation.

Case Study – How automation improves cashflow management

Company A is a fast-growing SME providing AI/Machine learning solutions for M&A companies, with approximately 150 employees. Before using SAP Concur solutions, the company performed AP processing in a “very old school” manner – pure paper work, zero transparency, with no approval points at the management level. The responsibility of processing payments belongs to the financial team only.

Although the processing time was fast – 1-2 days average to disburse payment – Company A was not able to manage its cashflow due to lack of invoice and payment data. This gap became a concern for top management because invoice value is expected to increase and hence there is an increasing need to better manage its cashflow. As a result, the company sought for an automated solution to improve the transparency of AP processes and to link data from the AP processes to cash flow projections for better visibility and decision-making.

The company decided to use SAP Concur’s software solution. The **implementation was completed in two months**, delivering a prompt time-to-value. Upon implementation, the data from AP processes are linked to cashflow projections directly, system automates prompts to highlight errors, and leverages mobile approvals – allowing upper management to **better manage the cash flows** of the company. In addition, “It is important to push the responsibilities back to management team,” said the company spokesperson, “so that management would make better responsible decisions.”

In addition, the spokesperson highlights that once the organisation became familiar with the process, the number of **invoices processed per AP staff increased by 34%**. As a result, the company could get the business to work on time and better utilise the work potential.

Conclusion

This independent study supports the finding that automation is the top initiative identified by organisations to improve their AP process performance. Not only do organisations believe AP automation will improve productivity but results also demonstrate quality of life at work benefits as well. The financial operational performance of enterprises with high-level of automation outperform enterprises with low-level automation throughout the AP process with **labour cost savings, time savings, and daily staff productivity**.

Automation can help organisations with low-level AP automation solve their key challenges of tedious manual processes and missing / lack of information. Organisations also believe that the top root causes of payment delay lie in approval authorities not being available, the lack of manpower and time wasted in data entry. With the adoption of AP automation, features such as **on-the-go mobile approval** and optical character recognition to extract and record invoice information automatically would immediately address these root causes and improve payment delays – strengthening not only financial operational performance, but also visibility into an organisation's cash flow obligations.

In addition, between 40-70% of organisations with low-level automation show strong desire to improve the entire AP process within the next year. If organisations can overcome the potential barriers such as internal resistance, staffing, and process complexity, they will be able to enjoy the benefits of reduced process times and increased productivity between two to fourfold, freeing up resources to extend into other value-adding activities for improved organisational performance.

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Impact of AP Automation enSG (01/19)

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