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Five Signs You're Ready for an AP Transformation:

A Guide to Mid-Sized and Growing Businesses Looking to Scale

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Five Signs You're Ready for an AP Transformation

Change happens, businesses grow, and transformations become necessary to adapt and enable continued success. Processes that once worked well can quickly become inadequate, obsolete, and generally unable to handle the changing or increasing workloads and expectations thrust upon them. For growing and mid-sized organizations, an inability to scale operations can constrain growth potential and impact attainment of organizational goals and objectives. This is particularly true for Accounts Payable ("AP") operations which are frequently overlooked and/or relegated to the bottom of the list when technology investment decisions are made. To succeed in today's competitive market, leaders at growing and mid-size enterprises need to understand the warning signs that indicate when it is time to pursue a transformation initiative and how to successfully launch and drive the process.

In today's digital age, opportunities abound for enterprises to innovate and disrupt the status quo. There are fewer obstacles than ever for a growing business to increase market share and even create new markets. But, while the ability to make an immediate impact is more straightforward, the window to leave your mark is much smaller. As such, newer businesses have to be more aggressive and be willing to go all-in from the start. If the enterprise stalls in a promising market, others are usually well-positioned to fill the void.

While excitement surrounds events like getting a new round of funding, the truth is that there is daily pressure to ensure the business not only stays afloat, but continues to innovate, move forward, and gain market share. Businesses now, more than ever, have the opportunity to leverage modern, cloud-based solutions to manage key business processes, reduce costs, and improve productivity while gaining better control and visibility. Company size is no longer an acceptable excuse for sub-par performance in any area of operation. Businesses that fail to leverage today's technology bear the risk of being left behind by the next start-up that does.

One area that presents a significant opportunity for automation is the AP process. Accounts Payable, often thought of as a back-office, tactical function, presents a unique opportunity for many of today's enterprises. All spend, regardless of who makes a purchase or where it is made — whether in the line of business, procurement, or elsewhere in the organization — must flow through AP. As a result, AP is sitting on a wealth of spend data that can be extremely valuable if it can be accessed and analyzed. Manual AP processes, spreadsheets, and paper checks that may have worked initially can quickly become outdated and be a constraint to an organization's growth and development. Changes and challenges (read: opportunities) arise over time, and organizations need to know what to look for in order to ensure things keep working smoothly, relationships with suppliers remain strong, cash flow is managed properly, and visibility and controls are in place to help the organization continue on its trajectory. Here are five telltale signs that an AP transformation is needed.

Sign #1: An Inability to Keep Up With Demand

Successful enterprises are able to grow quickly by their ability to scale operations as needed. The inability to respond to increased demand has significant ramifications for growing businesses. When enterprises can no longer keep up with growth, many challenges and threats arise that can impact long-term success. With respect to AP, this usually manifests itself by having more invoices, payments, and inbound inquiries than can realistically be managed. When invoice volumes outstrip capacity, AP departments begin to drown in paper, invoices, payments, checks, inquiries, etc. When this happens, invoices start to get mishandled, delayed, and/or lost, which in turn results in late payments and unhappy suppliers. No matter how fast a person is at validating invoices, there are only so many that an AP team member can handle. Since the AP process within most growing and medium-sized businesses is still largely manual and paper-based, there is a general lack of visibility and high inefficiency, and there are costly invoice/payment processes that can be a disadvantage. These can ultimately impact growth.

As enterprises grow, it is not uncommon for many to start doing business with more non-US based suppliers. With a growing international supplier base comes a corresponding increase in cross-border payments. This adds another level of complexity to the AP process that can challenge an organizations' ability to scale and keep pace with these often complex payment requirements.

The ability to process invoices and pay suppliers on time should not be a struggle for organizations – not with the help of AP automation. Today, a growing enterprise can establish an efficient AP department through ePayables solutions (Ardent Partners' term for the applications and services that automate all or part of the AP process). Organizations that do not leverage the power of AP automation to improve processes related to invoice receipt, approval workflow, and payments lose out not only on efficiency gains but also cost savings that can help a business as it continues to grow.

Businesses using cloud-based ePayables solutions can establish a robust operational infrastructure, gain visibility into cash positions and liabilities, and reduce processing costs. In fact, Best-in-Class AP departments process invoices more than 5x less expensively ($2.52 vs $14.38) than all other organizations according to Ardent Partners' 2018 State of ePayables research survey. The result is a more focused and efficient operation that can perform more competitively and accelerate into the future. An ePayables solution can provide a platform to enable AP to handle future growth without the need for additional resources and staffing. Automating AP operations also enables AP teams to transform from tactical units to value-adding strategic partners to the other parts of the organization.

Sign #2: Lack of Financial Controls and Visibility

Sustaining high growth is not an easy task for most enterprises. Many growing and mid-sized businesses can expand, and expand very quickly…until they cannot. For businesses that are experiencing rapid growth, a key difference between long-term success and failure is having visibility into operations, and having financial controls in place to ensure compliance and minimize leakage and loss. Organizations can begin to struggle when they lack the visibility into the invoice and payments processes. Lacking visibility can also obscure issues with overall control, audits, and cash forecasting. The AP department sits on a potential goldmine of information, including data held across thousands of suppliers, invoices, and payments. But more often than not, mid-market organizations have limited access to and visibility into this data. It is critical to the enduring success of an organization that it can track and monitor how money is being spent. Are they overpaying for certain goods and services? Are potential invoice discounts being earned? Are there bottlenecks within the invoice approval cycle? Businesses that lack the proper visibility and controls unnecessarily expose their organizations to financial risks and could hinder future growth. Finding and fixing these shortcomings is key to creating a more efficient and cost-effective finance department.

For a business, being able to turn financial data into intelligence and automating financial controls can help fuel organizational growth. Automated, cloud-based ePayables solutions provide businesses with visibility and insights into this data that they previously lacked. Many AP automation solutions offer deeper analytics platforms that can provide more information and better reporting into areas like enterprise spend, supplier information, and financial transactions (such as invoices). This data, when transformed into real, actionable intelligence, provides a fantastic link to internal stakeholders, external partners/suppliers, and key business executives. If AP is able to get more out of this data, business leaders will have the necessary intelligence to react to new and unseen market pressures. Through increased financial control and visibility, ePayables solutions will help an enterprise manage and limit risk, and be better able to foster and support growth.

Sign #3: Sub-Optimal Cash Management

From hard coinage to electronic funds, cash has been the basic building block of business success for centuries. Cash allows enterprises to pay employees, fulfill debt obligations, invest in new projects, and purchase goods and services. In some regards, managing cash is the most important job of the managers of growing businesses. The finances of growing and mid-market enterprises are more precarious and need to be managed much more closely to minimize the risk of failure. The prospect of this consequence alone should be reason enough for companies to put significant resources and effort into managing its cash. But, cash management means more than just preventing the threat of bankruptcy. Companies that suffer from cash problems have no margin for error. If there are unanticipated expenses, or plans for innovation and/or expansion, companies with cash flow issues find it difficult to locate the funds necessary to cover other costs, like paying suppliers. Not having money on hand to pay suppliers on time is an all too common issue for growing organizations; this makes it tougher to maintain important supplier relationships.

Only 31%...

of AP teams currently support cash management and corporate liquidity.

Accounts Payable is one of, if not the largest cash distribution function within an organization. As such, it is in a position to create a better understanding of a company's finances. That is why it is still surprising to see that in 2018, only 31% of AP departments manage/support cash management and corporate liquidity. AP teams that can leverage the power of cash can improve their own standing within the enterprise and provide more strategic value as the enterprise grows. By deploying automated AP solutions, businesses can better evaluate current cash positions and forecast what will be required to meet current and future expenses. Understanding current and future cash flow can also help executives make key financing decisions and better plan and fund investments that will help support and grow the business. Furthermore, automation in AP can result in direct bottom line improvements due to the increased opportunity to capture early payment discounts and strengthen relationships with vendors. However, these strategic activities can only be carried out if there is efficiency and visibility across the entire AP process. An AP process that is efficient and can provide visibility into current and future liabilities can be a great asset to a cash-conscious enterprise. Seeking out new cash management strategies and solutions can help an enterprise maintain just the right amount of liquidity to survive in an increasingly competitive marketplace – now and in the future.

Sign #4: Poor Supplier Relations

The speed at which business moves today requires a different level of engagement and alignment with suppliers than was needed previously. With new markets and newer enterprises, the power in the buyer-supplier relationship lies with the supplier. While cash is the lifeline of a growing organization, its relationship with its supplier base is a critical support system to help it survive and grow. There is a higher risk potential for suppliers who give smaller customers its business. Orders tend to be more specialized for growing and medium-sized organizations than with large ones, and there is always concern if the supplier will be paid on time, or get paid at all. If issues start to arise, and suppliers do not get paid on time (or paid at all), the chances the supplier agrees to deliver a new order or execute a new contract become very slim. In a highly competitive marketplace, enterprises do not want to be the high-cost, problematic customer, so being responsive and avoiding payment issues is a long-term benefit to an operation. If the enterprise is struggling to maintain its relationships with suppliers and get them paid on time, automating key processes across the AP workflow can help solve those problems and ultimately help strengthen supplier relationships.

> ***24%***
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> *The average time spent by AP staffers working directly with suppliers to fix invoice, processing and payment errors.*

Suppliers should be viewed as a source of knowledge and expertise that can be leveraged for a competitive advantage and mutual gain. Accounts Payable teams should work to build stronger relationships with suppliers in order to improve enterprise operations and overall performance. Ardent Partners' State of ePayables 2018 market research study found that 24% of the average AP staff's time is spent working directly with suppliers to fix invoice, processing, and payment errors. Applying ePayables technology increases touchless, straightthrough processing of invoices and payments, and can reduce the need for time-consuming, costly, manual-handling, and error-prone processes. Automated processes translate to having more time to ensure invoices get approved quickly and suppliers get paid on time. When that happens, AP leaders can spend less time tracking down lost payments and more time improving contract compliance, reducing maverick spend, tracking supplier performance, and strengthening supplier relationships.

Sign #5: Failure to Project a Desired 'Appearance' to Customers and Suppliers

The axiom that perception is reality is especially true for growing and mid-sized organizations. Appearances matter, and enterprises need to project a positive image in the marketplace. As businesses grow, this can be overlooked and forgotten. It is important to appear successful, stable, and profitable for prospects, customers, and suppliers. Enterprises that are "bursting at the seams" can be identified when an AP department struggles to pay invoices on time, responds very slowly to supplier inquiries, and/or fails to pay suppliers in an accurate and timely manner. The truth is, the appearance that an enterprise puts out often ends up being its reality. Businesses need to be viewed as bigger than they are, and cannot, at any time, appear to be struggling. If customers and suppliers sense weakness, it can have a significant impact on the payment terms and credit they offer, and it can reduce their willingness to continue to collaborate and work together. This in turn can negatively impact growth and profitability.

Accounts Payable automation can help mid-market enterprises improve both internal processes and external appearances. Having efficient internal processes like paying bills on time, answering inquiries quickly, and maintaining strong relationships with suppliers, can help a growing organization establish itself as a trusted partner. An automated and efficient AP process can work wonders for how a business is viewed, and positively impact not only the perception the outside world has of the organization, but also those who want to do business with it.

Conclusion

Signs are everywhere, if you just know what to look for. As businesses grow, the strategies, processes, and approaches that helped them achieve current success may not be able to support continued growth. Gone are the days when being small meant having to deal with disjointed (and generally inefficient) paper-based processes. There is tremendous value in automating processes like AP in order to move key resources away from the more tedious and tactical tasks to the higher value activities that have a greater business impact. The enterprise must constantly be looking to position itself with the right tools and processes in order to fuel growth and provide insights into how to create more value.

As with any technology investment decision, it is essential to have an understanding as to the benefits and impact that an AP automation initiative can have, and understand how an AP transformation project can help the enterprise as a whole continue to improve and grow. Business leaders must look for key signs – like the inability to scale, lack of financial controls, poor cash management and supplier relationships, and a weak company appearance – that may indicate it is ready, or soon will be ready, for a transformation within AP. Once there is an understanding of the telltale signs, a transformation plan can be emplaced and ePayables automation options explored to provide the company with the technology it needs to handle the increased demands being placed upon it. If the enterprise is straining at the seams and struggling to keep pace, it is time to transform, and the AP department can be a wise place to start.

Appendix

About The Authors

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Bob Cohen is a globally recognized expert in accounts payable, payments, business networks, Procure-to-Pay, supply chain finance, and strategic marketing. For more than 15 years, he has focused on helping enterprises develop and execute strategies to achieve operational excellence in their finance, procurement, and marketing organizations.

As an analyst, Bob has benchmarked thousands of enterprises across all facets of their accounts payable, business networks, supply chain finance, and payments operations and leverages these insights in his role as Research Director. His real-world buy-side experience in ePayables and P2P transformations, solution adoption, and customer use cases provides him with a unique context for his research, writing, and advisory services. Bob is also the editor of Payables Place, the global source for ePayables news, research, and analysis for AP, Shared Services, P2P, and Treasury leaders.

Prior to becoming an analyst, Bob helped hundreds of AP and P2P teams achieve Best-in-Class performance via their use of ePayables, P2P, and Business Network solutions. He spent 12 years working as the Vice President of Marketing at Basware where he helped establish the firm's U.S. presence as a major player in the AP and P2P automation spaces. Bob also worked at American Express where he helped the commercial card giant better align its products and services with a continually evolving market.

Bob is a sought-after presenter, having presented more than 100 times over the past decade. He holds a B.A. in Marketing from Bryant University and an M.B.A. in Finance from the University of Connecticut. Bob welcomes your comments at rcohen@ardentpartners.com or 203.403.7109.

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About Ardent Partners

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. It also hosts the prestigious annual CPO Rising Summit. Register for exclusive access to Ardent Partners research and events at ardentpartners.com/newsletter-registration/.