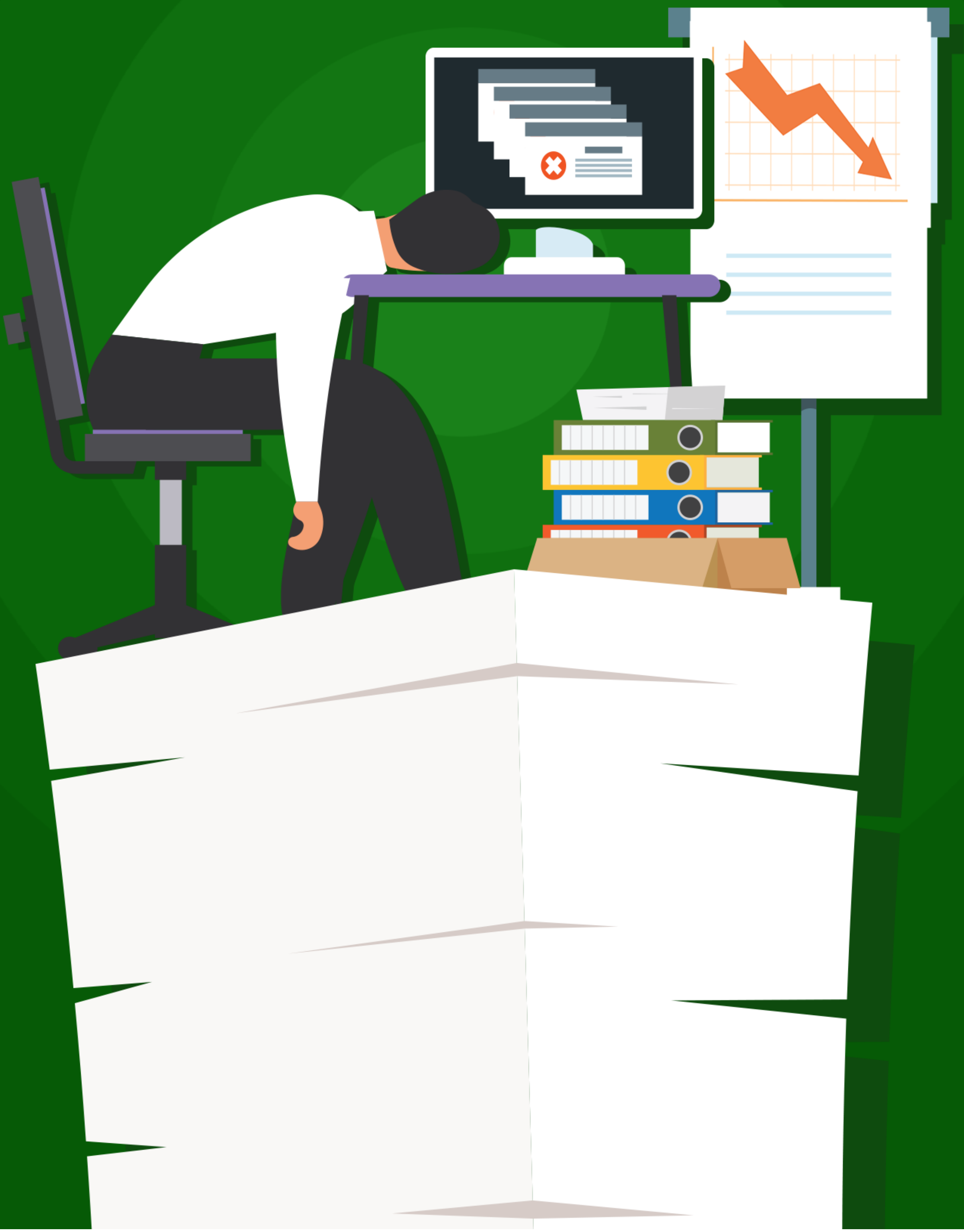
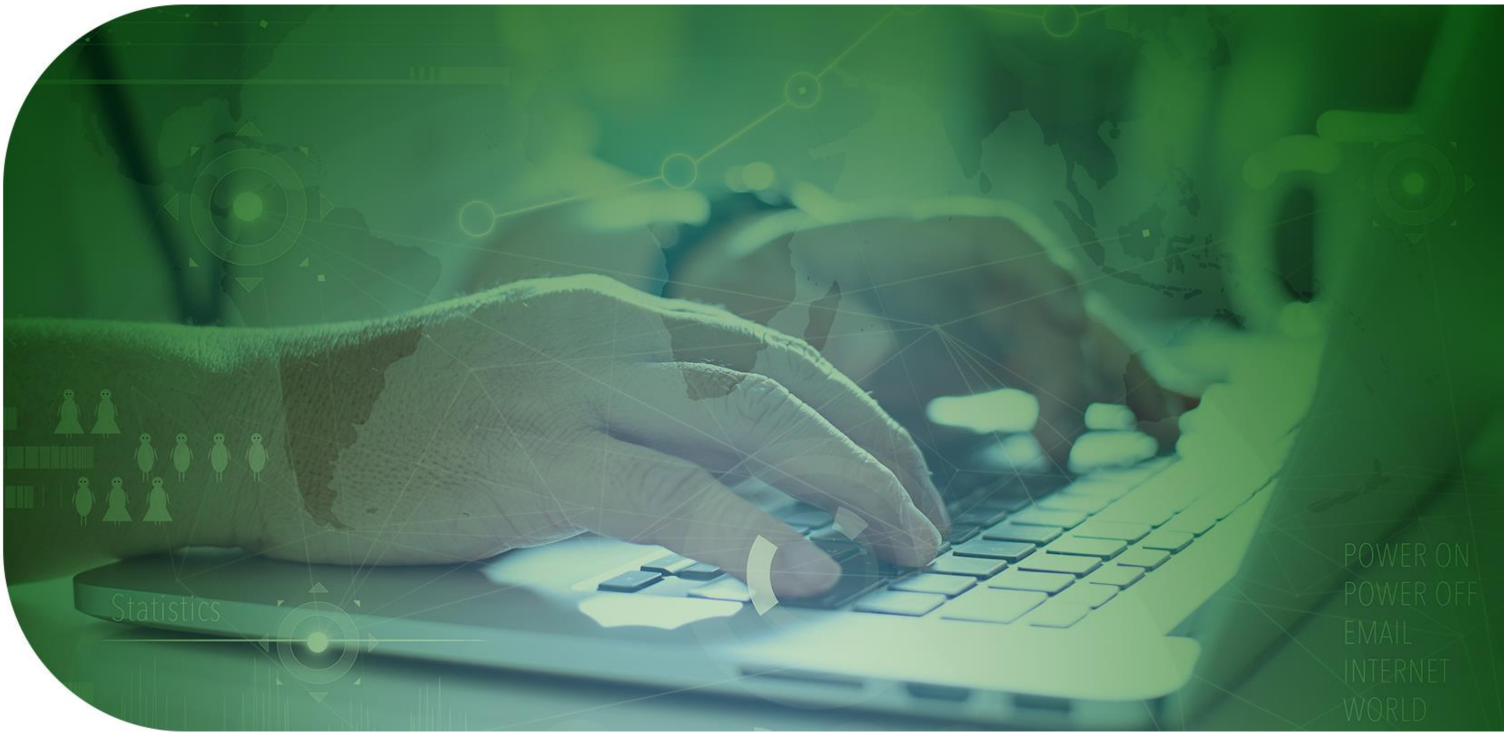
Technology Issues in Accounting

6 Hidden Costs in Accounts Payable

& How to Cut Data Entry By 95%





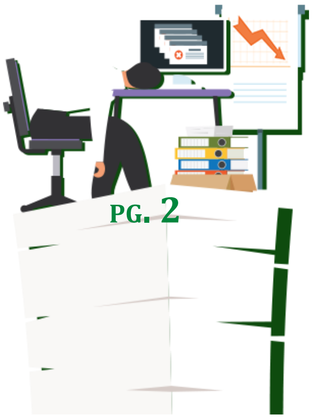
Digital transformation impacts every industry, and accountants payable is no different. This backbone to business functioning must evolve and adapt to new technologies, which could mean fresh challenges and overlooked costs in your accounts payble. Yet the advances also bring improved accuracy and efficiency. This ebook discusses available tech and how to safely incorporate it into your business.

Accounting in the Digital Age

Accounting started out with the abacus. Today, it's evolved to include automation and artificial intelligence (AI). Digital transformation can be daunting for the small business accountant, but technology offers many advantages. This ebook will examine:

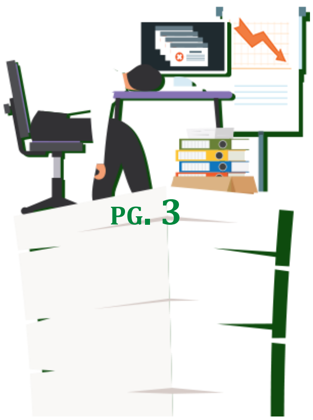
- what digital transformation looks like for accounting departments;
- challenges addressed incorporating IT into business processes;
- the advantages of digital workflows;
- best practices for keeping systems up and running.

Employee expectations have changed, and how accounting leaders and CFO’s fulfill their responsibilities continues to evolve. You can adapt more effectively using current IT.



Digital Transformation and Accounting Firms

The first mechanical calculator was developed in 1642. Astronauts on the Apollo 13 mission travelled to the moon with a slide rule. In 1961, the first desktop electronic calculator was released. Just eight years later, portable calculators were available. The speed of change has only picked up from there.



Best Practices to Keep Systems Up and Running

Is your AP workflow process bogged down by paper? If you're the head of an accounting department, controller or a CFO, the first place to start your process automation journey is by looking at your accounts payable workflow. How to Use Digital Workflows to Create a Paperless Office can provide some tips to start your journey.

Consider a manual Accounts Payable workflow where 100% of invoices are handled manually by a team within the accounting department. These invoices will come into the organization in a wide variety of formats – Fax, PDF, paper, and email to name a few. This begins a cascading set of manual AP workflow processes that create six primary sources of unnecessary and avoidable cost:

1. Regular approvals: Typically, 60-70% of the arriving invoices will be relatively easy to pay, albeit after a fairly manual matching process confirming the order and the approver. Invoices may need to be matched to purchase orders, and written approvals or signatures may be required before payments can be made. Even these relatively simple approvals – assuming the necessary paper documentation is immediately

available -- involve manual processing cost. According to APQC, for a typical organization, about 58% of invoices are manually keyed in.

risk.

2. Exceptions: The invoices that cannot be processed normally typically contain a set of exception issues that need to be resolved – related to tracking down the supplier, or status in the warehouse, or identifying the appropriate business "approver." Processing these manual exceptions is a huge source of additional cost and process pain.

3. Errors: It is not unreasonable to assume that normal and exception processing will involve a 10% error rate, creating additional costs to resolve the errors. People-intensive regular approvals, exception handling, and error corrections drive most organizations to spend 61% of their AP process costs on people.

4. Missed discounts: In order to take advantage of early payment discount opportunities, invoice information has to be entered into the payables system quickly. Discount opportunities often evaporate because of the time needed just to manually enter invoices into a payables system. The Aberdeen Group notes that bottom performing organizations capture only 18 percent of early payment discounts. Top performing organizations, on the other hand, capture 90 percent of early payment discounts — nearly twice the industry average.

5. Increased audit costs: At the core of the audit process is the need to quickly document who authorized payment, what was authorized, when it was authorized and paid, and why the payment was made. Quickly providing this audit trail at large scale in a paper world is challenging at best – if not impossible.

6. Lack of process accountability: In a manual AP workflow process, typically no one on the AP staff has a complete view into the approval process. Deadlines are missed, and there is no automatic mechanism to keep the process on track. While these process delay costs are often hard to calculate, they are real.

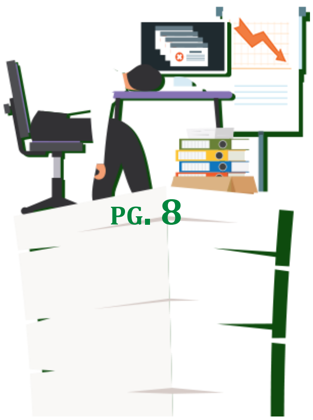
Digital workflows are highly effective in accounting, because the accounting processes follow a standardized set of steps that may be expressed in some combination of user tasks and unattended activities. One of the most effective ways to use digital workflows is for accounts payable (AP) invoice processing. By switching from a manual approval process to an automated paperless workflow, your accounting department could easily reduce the total time it takes to process an invoice by 60 to 70 percent. This gives your company opportunities to take advantage of early payment discounts or use on-time payment to negotiate better prices with large suppliers.

Unleashing the human value of automation Digital transformation unlocks new employee potential

Over the past several decades, the Internet has opened up opportunities to engage outsourced labor to handle manual finance processes, such as keying in invoices and matching

payments and contracts. While this has reduced costs in the past, it fails to address the underlying challenges brought on by a lack of automation, including increasing labor costs, inefficiencies and errors. Although there is an understandable anxiety about robots replacing people, accounting leaders and CFOs have to clearly communicate the message that process automation doesn't equate to a loss of jobs. Automation enables people to work smarter, focusing less on completing routine tasks in order to engage in activities that drive value and growth opportunities.

For the accounting leader and CFO, liberating staff from manual processes is critical to running a top-performing finance operation. But streamlining the finance function is just the beginning. Workflow automation reaches far beyond the finance team to include HR, procurement, sales, marketing and almost every business unit in an organization. The workflows and processes in these departments frequently interact and intersect with the finance function. This ebook highlights how accounting leaders and CFOs can take charge of their company's digital transformation and implement true process automation within their own finance organizations.

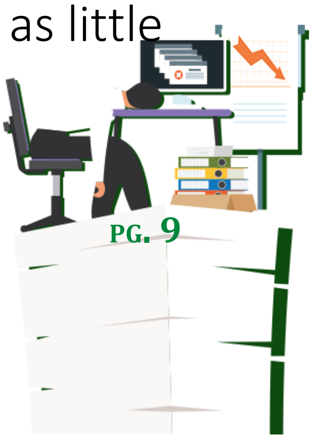


The Cost of Routine Task Without automation, processes are very expensive

Too many finance organizations are blowing their budgets to pay armies of people to do low-level work inefficiently, according to research from APQC, a nonprofit business benchmarking and research firm. Out of a total of 755 firms, bottom quartile performers spend at least $12.67 per $1,000 in revenue on staff to perform basic accounting functions, while the top quartile performers spend just $3.66 or less.

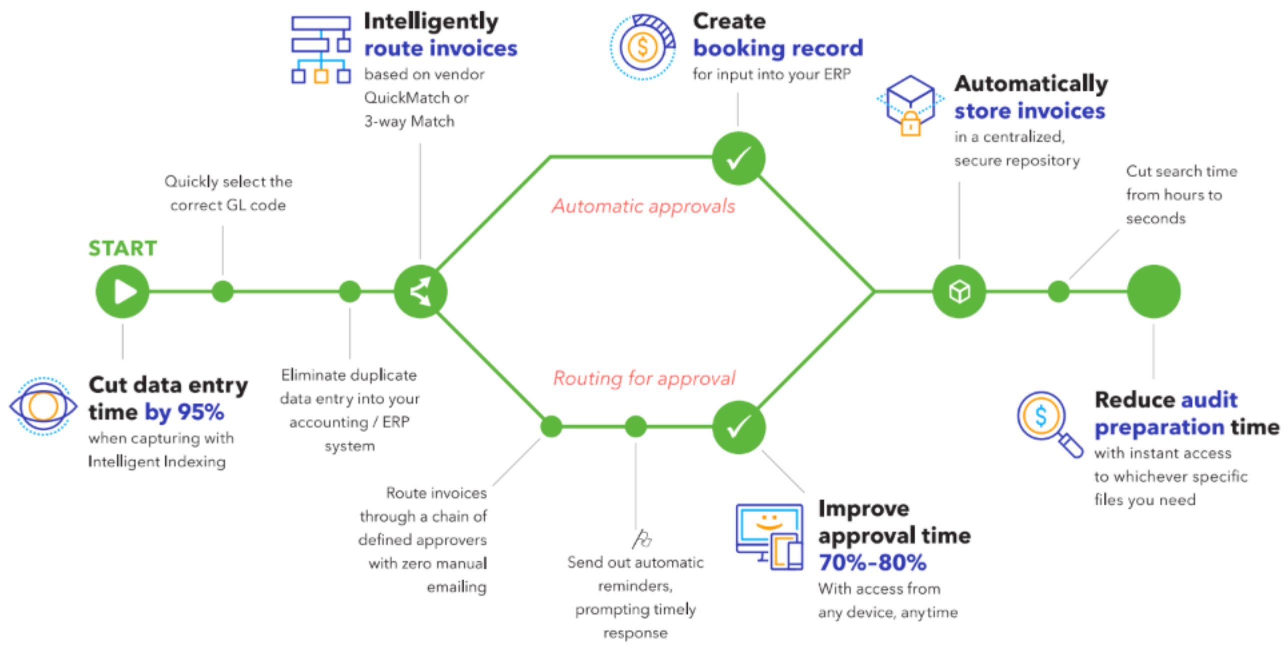
In short, low performers are paying a lot to manually re-key data, reconcile accounts, and clean up the general ledger, when they should be investing in automation and artificial intelligence to reduce the need for manual processing. While some routine data entry work has moved overseas, inexpensive labor doesn't solve the problem of error-prone and inefficient manual processes. In fact, in many cases it makes matters worse.

Workflow automation can certainly get the job done less expensively than manual data entry, even when performed offshore. Software for process automation can cost as little



as one-third the price of an offshore fulltime employee (FTE) and as little as one-fifth of the cost of an onshore FTE, according to the 2016 Robotic Process Automation report from Capgemini Consulting and Capgemini Business

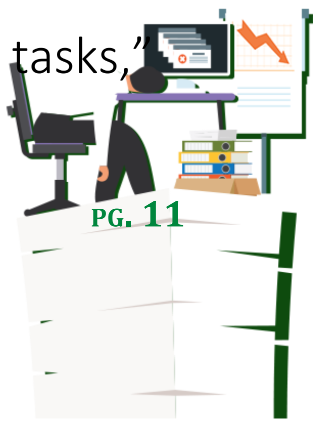
A practical workflow example: processing incoming invoices



How automation elevates the workforce Refocus on quality employees executing quality work

By dramatically shifting budget allocation, automation redefines the work that can and needs to be performed — which is less transactional and much more strategic. For example, instead of people spending time manually inputting expense reports, focus on analyzing expense trends that might drive policy change. Instead of manually processing invoices, research ways to improve vendor engagement. Instead of manually creating P&L reports, provide leadership insight into investing in new strategic projects.

Kenneth Fick of MorganFranklin Consulting said automation will realign the workforce by increasing the demand for flexible workers who can leverage unpredictability and exhibit independent decision-making to enrich the customer experience. As finance teams migrate toward a more strategic role in the organization, wages are expected to rise. “We see world-class organizations affording higher per-head compensation. Having automated many clerical activities, they are operating with a smaller staff that is focused on predictive analysis and other high-value tasks,”



said Bryan DeGraw, Associate Principal, The Hackett Group, a consultancy.

As the finance team takes on a more strategic role, job satisfaction is on the rise. “The true value of automation comes when the finance team is able to focus on analytics and collaborate with business leaders to improve performance,” said Nilly Essaides, Senior Research Director with The Hackett Group.

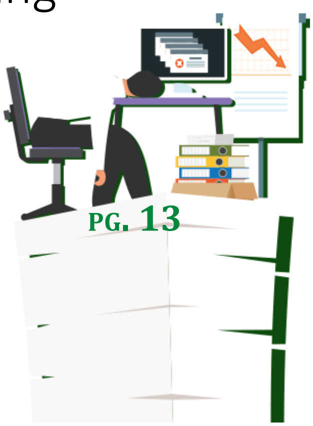
Establishing the first wave of automation: Overcoming Barriers to Change

While change is inevitable, it isn’t always welcome at first. People get comfortable doing things the way they have always done them. Their spreadsheets are set up the way they like them and since the job gets done — eventually — why mess with what they view as success? Even if it takes a little longer or mistakes are made, that’s just the way things work. Complacency exists at the user level, but some executives are also reluctant to take on bold workflow automation initiatives. A poorly executed technology investment can derail careers and put companies out of business. An annual survey from project management

company Innotas found that more than half of IT projects fail, a statistic that hasn't wavered significantly over the past three years. Failure is a result of poor resource allocation and the misalignment of resources with business goals, according to Tushar Patel, Senior Vice President of Marketing, Innotas

How can CFOs overcome some of the hurdles to maximizing automation?

First, there needs to be a clear objective — shave days off the close, be more responsive to customers, improve forecasting accuracy, or whatever is most critical to the business. Current processes need to be fully examined so that the company isn't just applying automation to antiquated workflows and practices. Once there is a commitment to investing in automation to improve processes, it is important to bring IT leadership, department heads and potential power users into the project early to ensure that everyone is on board and collaborating to maximize the value of the technology spending. Finally, continuous performance monitoring, including ROI and other metrics, provides a framework for success going forward.



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