



Maximizing the ROI of P2P Automation

Transforming Procurement, AP, and Payables into Profit Centers

2019 | Featuring Insights On...

- » Current Trends in Procurement, AP, and Payables
- » Savings Achieved by Automating P2P
- » Best Practices for Approaching a P2P Transformation

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Introduction

A company's Procure-to-Pay (P2P) life cycle has many moving parts, which means that indirect spend can easily slip through the cracks. Traditional, manual P2P processes for business-to-business (B2B) transactions rely heavily on email and phone-based requisitions and order management, as well as paper-based invoice management and payment processing. Organizations using these manual methods experience higher rates of process errors, limited visibility into the status of orders and payments, and limited insight into and control over spend.

Manual P2P processes are inefficient and costly, especially when segmented and not integrated into one system. They are also prone to error and unwanted spend. Most notably, manual P2P processes mean high hard costs and high soft costs for organizations, whether to support the labor necessary for operations, maintain current processes, or address errors.

Procurement, AP, and Finance departments can become more than just back-office, resource-consuming PO or invoice processing points. They can be transformed into profit centers that drive strategic work within their organizations. With the right steps, organizations can implement a P2P solution, maximize the ROI of their software, and optimize their P2P operations as a whole.

This whitepaper will offer guidance for organizations that are looking to transform their P2P by delineating the soft and hard costs of manual methods and discussing the possible ROI from automation. It will also present steps for securing buy-in for a solution and a roadmap for those on their P2P implementation and optimization journey.



The Price of Manual P2P Operations Today

Level Research recently surveyed more than 400 organizations to determine current trends in the Procure-to-Pay (P2P) life cycle. A deep dive into each segment of P2P operations (Procurement, AP, and Payments) makes it clear that traditional, manual methods are high in both soft costs and hard costs.

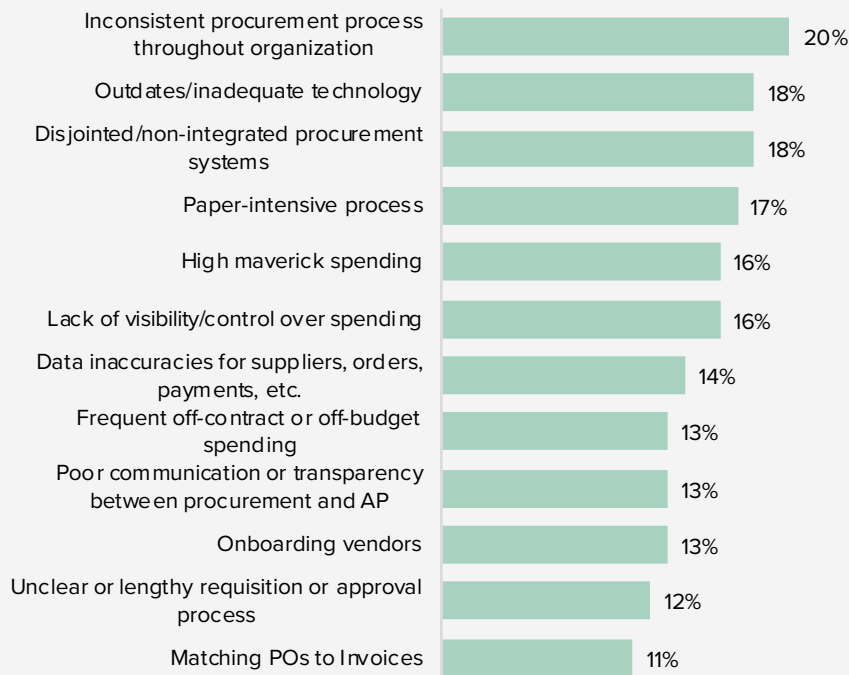
Procurement

Soft Costs

Costly procurement problems for organizations without eProcurement software include inconsistent purchasing throughout the organization, which can often be attributed to decentralized procurement (see Figure 1). This often leads to disjointed and inconsistent efforts, which can cause redundancies and errors that impact fulfillment and payment, as well as lengthen process life cycles.

FIGURE 1

Procurement Pain Points



SOURCE: LEVEL RESEARCH PROCUREMENT SURVEY, 2019

Most Organizations Deal with Inconsistent Processes

When thinking about the level of collaboration between your organization's procurement and finance departments, how challenging or difficult is each of the following?



Other procurement pain points include outdated or inadequate technology and a paper-intensive process, both of which can increase cycle times and limit visibility into spend. Maverick, off-budget, and off-contract spend present additional problems. The exact amount of maverick and off-budget spend is difficult to properly measure, but it can reach hundreds of thousands a year depending on the size of the company.

Hard Costs

Procurement costs can be evaluated by the cost per PO, which is highest when purchasing is completed manually in an organization. By automating procurement processes, organizations are able to complete purchasing more efficiently and process more purchase orders per procurement employee. Using a cloud-based eProcurement tool can cut the cost per PO by nearly 65% (see Table 1).

TABLE 1
COST PER PO FOR PROCUREMENT AUTOMATION TOOL TYPES

Procurement Automation Tool	Cost Per PO
No tool	\$89.73
ERP / homegrown solution	\$65.05
Cloud-based eProcurement software	\$30.72

Accounts Payable

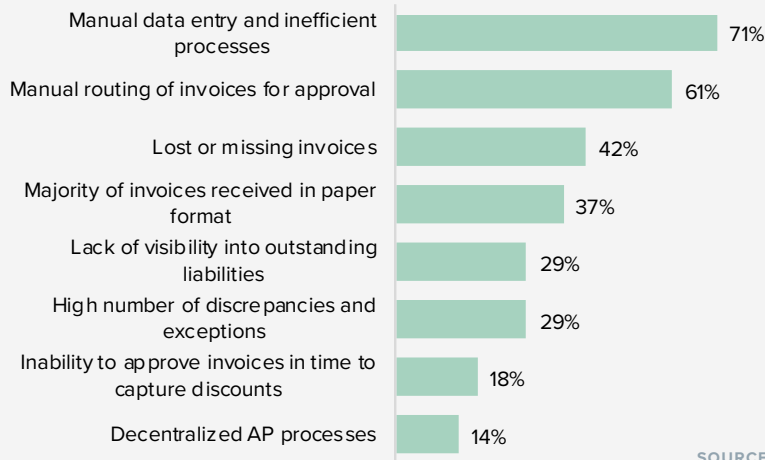
Soft Costs

AP departments face high invoice processing costs, which are perpetuated by high paper volume and manual workflows; the top pain points in invoice management are manual data entry and routing, lost or missing invoices, and high paper invoice volumes (see Figure 2). Manual data entry and routing requires lengthy workflows, which leads to missed early payment discounts, weakens financial stability, and threatens relationships with suppliers. Lost or missing invoices can lead to further issues with suppliers, late payment fees, missed early payment discounts, duplicate payments, and data security issues. High paper invoice volume is costly in terms of labor costs, security risks, and for some companies, the costs incurred to purchase additional tools to combat paper, such as outsourced labor or data capture technology.



FIGURE 2

AP Pain Points



SOURCE: LEVEL RESEARCH AP SURVEY, 2019

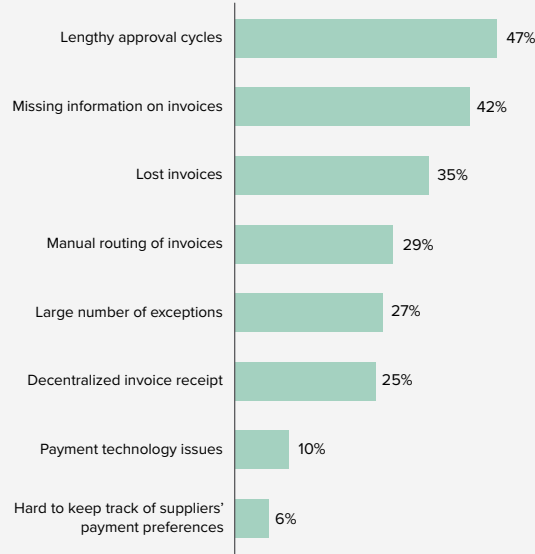
Manual Data Entry and Routing Are the Greatest AP Pain Points

What are the top three biggest pain points you experience in your workflow process?

When organizations keep themselves from automating their AP operations, they continue to overspend on processing costs and miss out on potential savings from early-payment discounts and dynamic discounting. The top reason organizations miss discounts is lengthy invoice approval life cycles (see Figure 3).

FIGURE 3

Top Causes of Late Payments and Missed Discounts



SOURCE: LEVEL RESEARCH PAYABLES SURVEY, 2018

Organizations Suffer from Lengthy Approval Cycles

What are the top causes of late payments and missed discounts in your organization?



When invoices are managed inefficiently and are not processed in a timely manner, organizations could miss out on significant amounts in early payment discounts. They could also be penalized with late payment fees. Manual processes are more likely to result in missing information on invoices, which is another common reason for missed discounts. These challenges arise from a lack of synchronization and automation across processes, limiting organizations' visibility into and control over purchasing and AP activity.

Hard Costs

As with POs and procurement, the cost per invoice reflects the high price tag of manual AP. Organizations' cost per invoice decreases, however, with increased automation (see Table 2). Lower average processing times and higher percentages of electronic invoice receipts lead to lower invoice processing costs and higher rates of discount capture. (According to internal research conducted by AP automation software provider, SoftCo, removing checks from the AP process typically saves \$3-5 per invoice.)

TABLE 2
AP AUTOMATION MATURITY AND PERFORMANCE

Metrics	Novice	Mainstream	Innovator
Average processing time (from invoice receipt to approval)	45 days	23 days	5 days
Percentage of invoices received electronically	3%	9%	32%
Average processing cost per invoice (combination of paper and electronic)	\$15.00	\$6.70	\$2.36
Percentage of invoice terms discounts captured	18%	40%	75%



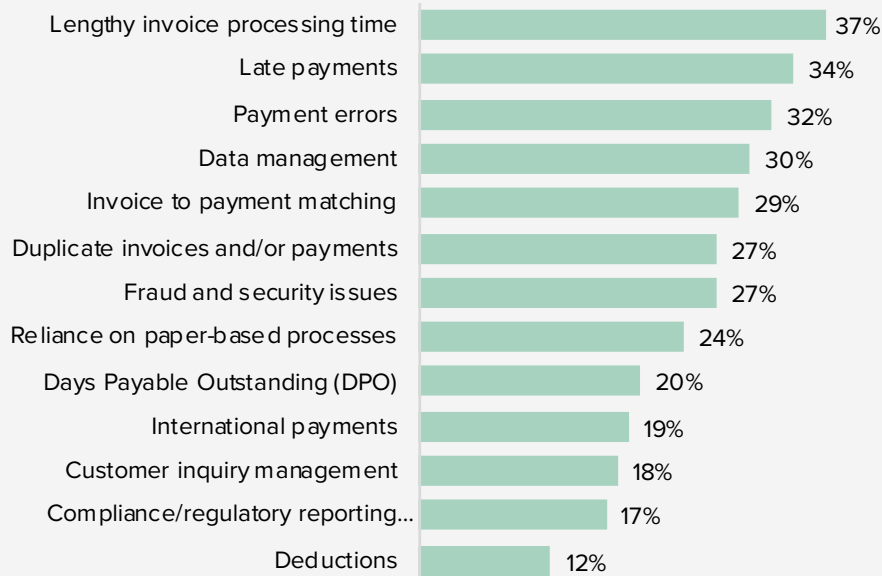
Payments

Soft Costs

Top B2B payments-related challenges, such as lengthy processing times, late payments, and payment errors, are directly linked to loss of revenue (see Figure 4). The most damaging consequence of lengthy invoice processing times is late payments. These delays can force organizations to pay a significant amount in late fees, as well as miss out on potential early payment discounts. Missing these early payment discounts opportunities can heavily cost organizations.

FIGURE 4

Payment Challenges



SOURCE: LEVEL RESEARCH EPAYMENTS SURVEY, 2019

Lengthy Processing Time is the Top Payment-Related Challenge

What are your top three payment-related pain points?

Manual payment management methods can also lead to a higher rate of payment errors and challenges with data management. The disjointed activity of manual methods leads to a high cost per payment and poor visibility into vital payment data.

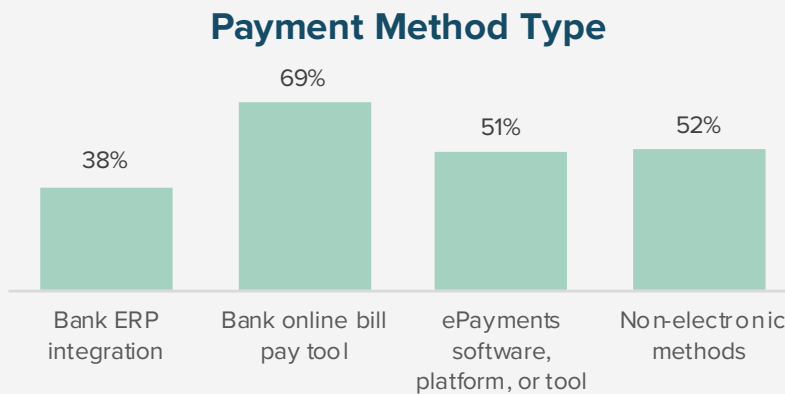


Hard Costs

Manual B2B payments can also result in high processing costs, which occur when organizations handle payments via check or through different platforms for each methods. In terms of hard costs, wire and non-electronic methods are the costliest payment types, due to the fees associated with wire transfers (average \$10–\$30 per payment) and mailing and handling fees for checks (average \$1.74 per payment).

Despite these costs, 52% of organizations still use non-electronic payment methods (see Figure 5). Non-electronic methods are highly susceptible to risk: 78% of companies surveyed by the Association for Financial Professionals indicated that they experienced check fraud in 2018¹.

FIGURE 5



SOURCE: LEVEL RESEARCH EPAYMENTS SURVEY, 2019

Bank Online Bill Pay Tools are the Most Popular Payment Method

Which of the following payment methods does your organization currently use?

Fortunately, trends show growing digitization of B2B payments. About 80% of organizations are transitioning their payments from paper checks to electronic payments. ACH is cheaper, with an average cost of \$0.29 per transaction², and is a common option available from most ePayment automation tools. It also offers greater security and can be used to both send and request payments.

In fact, 69% of organizations use online bill pay tools, which include ACH, wire, and corporate card options, and 38% use bank ERP integrations to process

¹ Source: 2018 AFP Payments Fraud Survey

² Source: 2015 AFP Payments Cost Benchmarking Survey



payment transactions. However, these methods manage payments separately instead of together on a single, integrated ePayments platform. ePayments software automates organizations' payments to suppliers by centralizing and streamlining the payment process and providing tools such as ACH, wire, commercial cards, and check writing.

ePayment solutions also offer commercial cards, whose payments offer savings and other benefits to organizations. Purchasing cards, or P-cards, are one of the most common ways to enable employees to make low-dollar business purchases without following a multi-step procurement process. P-cards grant administrators visibility into employee spend, enabling the setting of restrictions on dollar thresholds, vendor type, and monthly spending. Other commercial card types include corporate cards, virtual cards, and single-use cards. According to the CFO Daily News, P-cards can generally give organizations 1–3% in savings on purchases through rebates³. Table 3 presents a savings scenario using CFO Daily's rebate metric and possible fixed cost-per-payment metrics in column 2⁴.

TABLE 3
PROCESS COST SAVINGS WITH P-CARDS OR ACH VERSUS CHECKS

	Cost to Process a Single Payment	Daily Cost of:	Monthly Cost of:	Yearly Cost of:
Check	\$3	\$1,500	\$45,000	\$540,000
Purchasing Card	\$1.50	\$750	\$22,500	\$270,000
ACH	\$0.29	\$145	\$4,350	\$52,200

³ Source: <https://www.cfodailynews.com/news/keys-to-cashing-in-on-p-card-rebates/>

⁴ Cost-per-payments are dependent on the above savings scenario and are not representative of Level's official cost-per-payment metric.



Benefits and Savings with P2P Automation

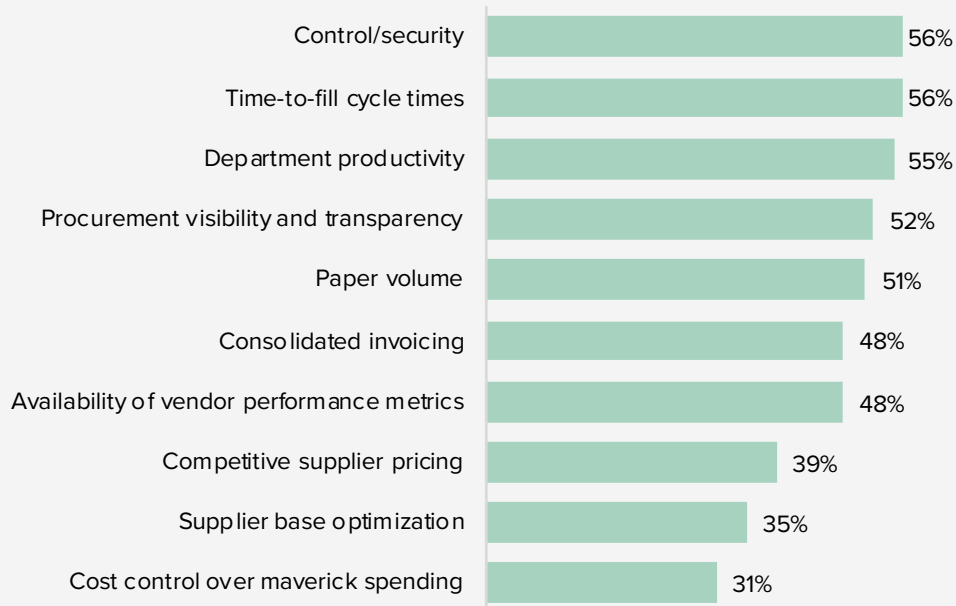
Beyond the hard cost savings, Level Research survey data indicates many other reported benefits of adopting an automation solution. All of these benefits drive an organization toward profitability by improving various parts of the P2P process. The greatest benefits from procurement and AP automation are reduced paper volume and accelerated approval times.

Procurement Automation

Organizations that implement an eProcurement solution report several primary improvements (see Figure 6). Organizations cite improved control/security and time-to-fill cycle times as the greatest benefits. Both of these contribute to a better handle on spend and make processes more efficient. eProcurement software eliminates the need for organizations to expend time and resources on the tactical issues linked with disjointed manual purchasing processes.

FIGURE 6

Improvements from Procurement Automation



SOURCE: LEVEL RESEARCH PROCUREMENT SURVEY, 2019

Greater Control, Better Cycle Times, and Department Productivity Cited as the Greatest Improvements from an eProcurement Solution

How has each of the following improved with your organization's automated procurement solution vs prior manual procurement processes?

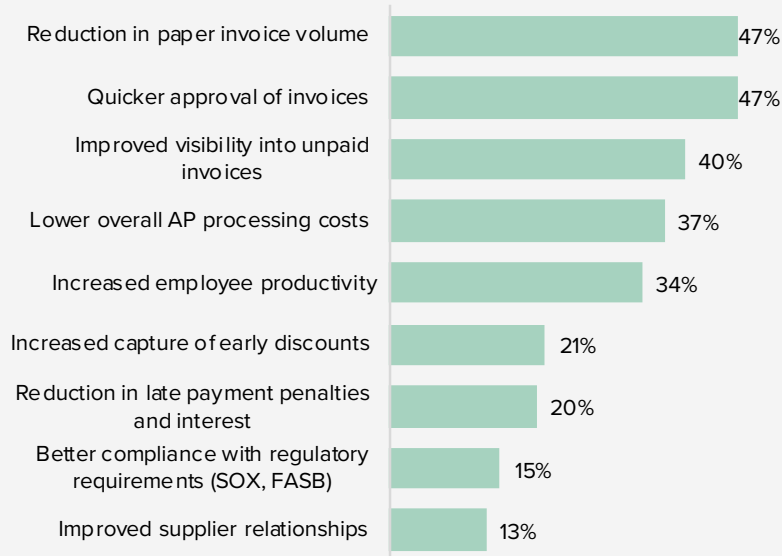


Accounts Payable Automation

The greatest overall reported improvements resulting from automating AP are a reduction in paper invoice volume and faster invoice approvals (see Figure 7). Like procurement, these improvements make invoice processing more efficient and ultimately result in greater savings.

FIGURE 7

Improvements from AP Automation



SOURCE: LEVEL RESEARCH AP SURVEY, 2019

Reduction in Paper, Quicker Approval Times, and Increased Visibility Are the Top Benefits of Automation

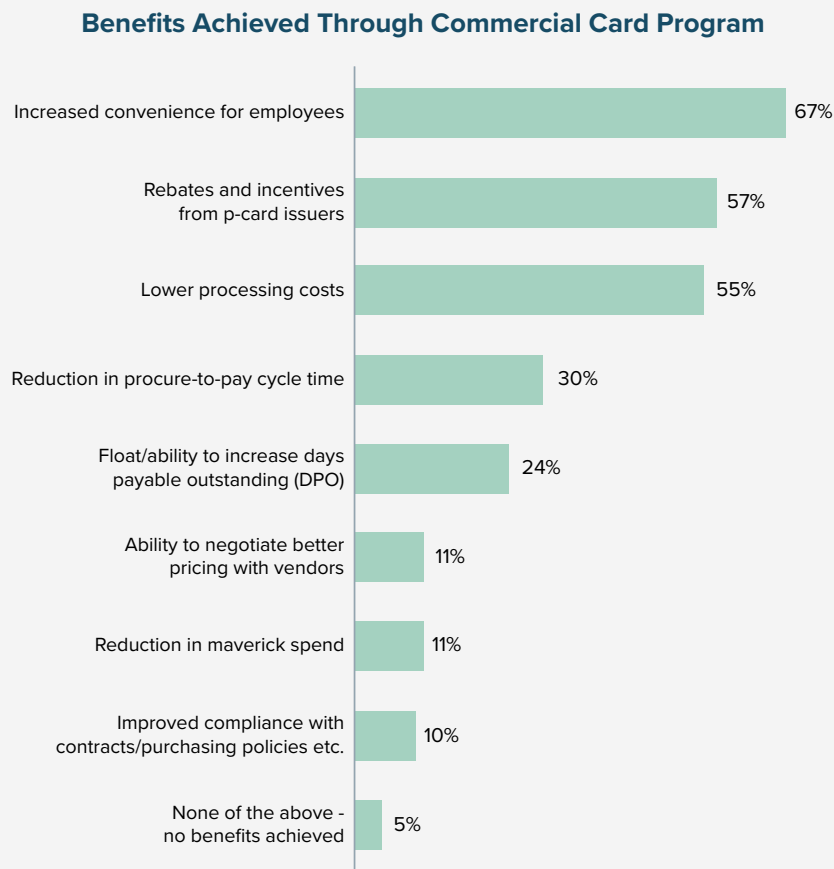
What are the greatest improvements you have seen since implementing an AP management solution?



Payments Automation

When it comes to payments, commercial and P-card programs can yield many benefits. According to Levvel Research survey data, the greatest benefit achieved through a commercial card program is increased convenience for employees, followed by hard cost savings in the form of rebates and incentives (see Figure 8). Depending on how much spend is captured using commercial cards, rebates can potentially bring companies millions of dollars in savings—in many cases covering the cost of adjacent payables solutions, such as an invoice workflow automation tool.

FIGURE 8



SOURCE: LEVVEL RESEARCH PAYABLES SURVEY, 2018

Commercial Card Programs Increase Employee Convenience

Which of the following benefits are achieved through your organization's commercial card program?



Gaining Buy-In for P2P Automation

When moving forward with a P2P automation solution implementation, it is critical to consider what expected factors decision-makers (e.g., CFO, AP manager) are weighing. One of the top barriers to adopting P2P automation is lack of executive sponsorship and failure to gain internal buy-in. Decision-makers often believe that current processes work and do not anticipate ROI from adopted solutions. Another common barrier is a lack of budget.

In planning, researching, and preparing to gain buy-in for a P2P automation solution, organizations can follow two important strategies: educate stakeholders and prove the ROI of the solution.

Educate Stakeholders

First, it is critical for all stakeholders to understand the functionality and reach of a P2P automation solution. Understanding software's capabilities increases an organization's ability to implement it seamlessly into their processes, and ultimately increases the chances of achieving a higher ROI. The major parts of an all-inclusive solution include:

- » PO Management – Purchase requisition creation and workflow tools enable organizations to control employee spend from the beginning by setting purchasing parameters linked to company policies, budgeting, and inventory data. PO management tools then automatically create POs from an approved requisition and transmit the order to the supplier. This gives an organization visibility into the status of the order throughout its fulfillment and facilitates communication with the supplier.
- » Data capture – Instead of requiring manual rekeying of invoice information, invoice data capture tools use optical character recognition (OCR) to automatically recognize text within a scanned image of a paper invoice or a digital PDF file, extract relevant data, validate the information, and process and store it digitally in an invoice management system.
- » Invoice matching – Invoice matching tools automatically link invoices to purchase orders or other receipt documents.
- » Invoice approval workflow – Automated workflow tools manage how different types of invoices (including non-PO invoices) are routed for approval and processed. AP departments can generally customize workflows according to their specific needs and flag exceptions



accordingly. Administrators can configure different types of approvals for each employee, their level of visibility, and their authorized dollar thresholds.

- » Payments – ePayments refers to electronic business payments made to suppliers over the internet (i.e., not using checks or cash). ePayments software automates supplier payments by centralizing and streamlining the payment process and providing tools such as ACH, wire, commercial cards, and check writing.
- » Spend analytics – Comprehensive reporting and analytics capabilities provide unique and valuable insights into many areas of the business. These features can typically either export reports in various formats or provide an overview of spend-related activity in an interactive dashboard. Reports provide a level of transparency that improves an organization’s ability to audit, analyze, and prove its spend procedures.
- » Supplier/vendor portal – Supplier management features centralize, control, and optimize supplier data. Supplier management functionality features a supplier self-service portal where suppliers can upload invoices, check on payment statuses, and update payment information. Platforms provide a single point of direct contact between buyers and suppliers for error resolution, exceptions, and other disputes. Supplier management tools and portals lead to better relationships with suppliers.

P2P automation will lead to greater efficiency overall, fewer touch points, less paper, and reduced errors. The application of robotic process automation (RPA), artificial intelligence (AI), and machine learning (ML), and data management will enhance back-office tasks exponentially.

RPA records specific actions taught to it by a human using a UI, then performs the actions as directed. RPA forms a good bridge to integrating AI, as it takes over the mundane and tedious tasks from Procurement and AP departments. AI and ML take RPA a step further by improving tools such as OCR and data processing of purchase documents and invoices. AI and ML algorithms can pull relevant information from documents, match line items, automate routing workflows, and analyze organizational spend patterns.

Big data management, combined with AI and ML, offers the ability to get insight into all of an organization’s P2P information, which is not possible with simpler reporting tools. Whether combined or used separately, these emerging



technologies yield a strategic advantage to organizations, and stakeholders should emphasize education in all possible capabilities of P2P solutions in order to maximize buy-in.

Prove the ROI

The next strategy for organizations looking to gain buy-in for a P2P solution is to pitch the ability to achieve predictable ROI with the automated platform. Organizations can calculate the expected ROI using internal cost calculators, forecasts, tools, and resources available through experienced consultancies. Level Research has created five ways to quantify the ROI of an automated platform (see Table 4).

TABLE 4
ROI CALCULATIONS

ROI Metric	Formula
Total Cost Per Invoice	$\frac{(\text{Number of AP Clerks} * \text{Average Annual Salary})}{\text{Number of Annual Invoices}}$ <i>(does not account for overhead or other soft costs)</i>
Perfect Payment Index Calculation	$\% \text{ Electronic} * \% \text{ Paid On-Time} * \% \text{ Discount Achieved}$
First Year ROI (%)	$\frac{\text{Annual Savings}}{\text{Total Cost of Implementation}}$
Payback Period (Years)	$\frac{\text{Total Cost of Ownership (Annual Subscription * Number of Years + Implementation Cost)}}{\text{Annual Savings}}$
5-Year ROI	$\frac{(\text{Annual Savings} * 5)}{(\text{Total Cost of Ownership} + 5 \text{ Year Maintenance Costs})}$



Best Practices for Optimizing P2P Transformation

In order to achieve the greatest ROI from a P2P solution implementation, organizations should use effective change management processes. Before implementing a robust and sweeping P2P solution, organizations seeking to automate their processes should first get their implementation process structure ready and prepare a long-term strategic plan.

The change management process should enable organizations to build up toward their goals of P2P transformation. Increased innovation ultimately yields higher value, but organizations should first build a foundation for growth before working towards the most holistic, advanced solutions.

Level Research has identified three levels of P2P solutions that can act as a roadmap for organizations looking to transform their P2P processes.

Level 1: Eliminating Paper

Eliminating paper is often the greatest hurdle for organizations that are entrenched in their legacy manual processes. Successfully reaching this first level means 100 percent digitization of information, invoices, POs, etc. Without these paper forms, organizations can save tens of thousands on printing and supply costs alone.

Digitizing P2P usually means also using standardization methods such as barcodes and formatted invoices (headers, footers, etc.) to organize the new system. Digitization also often incorporates a basic level of AI that supports back-office staff, including OCR data capture, which can handle line items on invoices and thus automate a common bottleneck.

Level 2: Process Optimization

Process optimization is best associated with a particular process, such as using automated invoice workflows or invoice life cycle management. Level 2 is when a P2P application is fully integrated into all processes. It enhances Level 1 capabilities by adding more advanced AI. For example, P2P software can complete full data extraction from invoices and push them toward payment automatically when they meet certain criteria. At Level 2, validation time per invoice improves drastically (one minute/invoice), and database lookups and advanced searches are possible. Also, software can complete cross-field validation, instead of referencing exact, mirroring fields, which reduces error rates.



Level 3: Strategically Optimizing P2P Using Software

The highest level of P2P transformation is strategically using the advanced capabilities of software to optimize an organization's function and bottom line. These capabilities include improved reporting functionality that goes in-depth into analytics, as well as KPI tracking, which is customizable to each organization and its goals. Solutions should automate the recognition of discount opportunities and exceptions and should incorporate a high level of AI and RPA. With an advanced automation solution, fewer staff are needed to check, verify, or process invoices. Validation time decreases to a level only attainable by computers—condensing hundreds of hours of work into minutes.

When organizations strategically use advanced automation, they ultimately improve their relationships with vendors and suppliers and optimize their ROI. No matter where an organization lies on the roadmap of P2P automation, every level frees staff, who were previously working and spending resources on tedious, time-consuming tasks, for strategic, revenue-generating activities. All facets of P2P automation solutions, from procurement and AP to payments, not only result in hard cost savings, but also offer dynamic opportunities for future growth.



About the Sponsor

SoftCo delivers smart automation solutions that empower organizations to automate their procurement, invoice processing, and payment processes. SoftCo's software reduces the time and costs associated with manual tasks and reduces invoice and PO creation and approval times.

SoftCo seamlessly integrates with existing ERP or finance systems to offer real-time analytics. Its solutions provide organizations with full visibility into the entire P2P process, with greater business insights for improved decision-making, via powerful interactive dashboards.

SoftCo has one million business users worldwide across all industry sectors.

Learn more about SoftCo at [SoftCo.com](https://www.softco.com).



About Level Research

Level Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Level Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Level Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Level Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Level Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io.

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