

THE 8 PITFALLS OF ACCOUNTS PAYABLE AUTOMATION

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THE 8 PITFALLS OF ACCOUNTS PAYABLE AUTOMATION

NOT KNOWING WILL HURT YOU WHEN AUTOMATING ACCOUNTS
PAYABLE

1st Edition 2011

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Professional Paper Trackers

Traditionally an invoice is created by the vendor after the goods and services are delivered. The invoice is received by the person/department that is responsible for the expense. It is then sent to someone for coding against a budget and to categorize the expense for later reporting. Next the invoice is sent to yet another person who will enter it into the accounting system for cash management and payment. In a non-automated organization a higher number of invoices results in the need for more people to be added to the process, which ultimately lowers the company's bottom line. The headaches and challenges in AP comes when the coders and approvers in the above scenario are burdened by the volume and the paper being shuffled between multiple locations and approvers. If the people involved in the approval process are separated by geography, invoices will be lost and/or delayed, causing the process to breakdown. When this breakdown happens, companies start throwing people at the problem creating manual checks and balances to ensure the paper is in the right spot at the right time. This situation, over time, has created a class of professional paper trackers. Professional paper trackers are employees that, on a daily basis, conduct forensic investigations to find invoices that need to be paid. Paper is not traceable and, therefore, not reportable. This means a company never truly knows where invoices are at all times.

Technologies from the mid-1980s have helped by removing paper general ledgers; however the Accounts Payable world has lagged behind in automation and still mostly operates by passing paper. In my professional lifetime, I have personally witnessed a gradual shift in the adoption of automation in AP processes and the ultimate elimination of paper.

Before I Get To Far

A self-proclaimed computer nerd, I got my first computer in 1980; it was a PET and was driven by a cassette tape. Now this might not seem so wonderful, but as a kid I was mesmerized. I was awed by Space Invaders and I even got my name to scroll

across the screen sideways. Then, I learned to hack the cassette tape by changing the code to make my ship in Space Invaders invincible to the bullets. (High Score... Very High Score!)

On a professional level, I have had the privilege of providing AP Automation to companies since 2000. I have worked with over 750 (and counting) AP departments, helping companies navigate their transition from paper to an automated AP platform. There were no guidelines, no best practices in this new frontier. I found myself inventing the rules as I went along. During my first implementation I had no project plan, no backup, and not much of a willing user base. I did, however, have an insider in the company that believed there was a need and, with technology, there was a way to eliminate data entry and paper. This was ground breaking, I thought, but simply not possible. However, the client was willing to pay for such an outcome so the CEO and President of the company I worked for said, “Yea – We can do that”. This is where one might say, ‘the rest is history’. After a lot of trial by fire, mad and happy clients, project plans, spreadsheets, PowerPoint’s, xml and page refreshes, an industry has created a new automated process that is useful, stable, and affordable to every type of company.

However

I had an eye opening experience in New York City. I was working with a client who had automated one department and was interested in expanding the automation to the rest of the company. They hired a consulting firm to conduct its search on AP

Automation companies. The sales pitch to the client from the consulting firm was: *We (the consulting firm) will determine your needs, and then we will assess the features of each AP Automation company’s software. Once the needs are determined and the features assessed we will show which company has the product that best fits your (the client’s) needs.*

It is difficult to put “the ability to make a client successful” on a software selection checklist.

That makes sense right? As this plan was outlined to me by the consulting firm's project manager, I said: "You are creating a problem by taking the client through this process because it's not all about features." She, with a little laugh, said, "No...it is all about the features". My attempt was to help her help the client understand that features alone would not make a successful AP Automation project. Realizing she was not open to my opinion, and believing that features alone would probably win me the deal, I dropped it. Much to my shock, I didn't get the expansion. Immediately after the decision, the calls started coming into my office from the client about wanting to know when their contract was up. A few months later the call came in wanting to know if they could switch to a month to month agreement after their initial agreement was up. Then, a few months later, the call came in requesting that we come back in to discuss our doing the original expansion. We discovered that the software implementation by the company they chosen crashed because the vendor of choice had no experience installing the necessary frame work to integrate to the client's accounting system. It is difficult to put "the ability to make a client successful" on a software selection checklist. Features are important because a company cannot afford to take step backwards in their process; however, features are only one of the many items that need to be considered when it comes to automating the accounts payable (AP) process.

This book is broken into the 8 pitfalls of AP Automation:

1. **Current Environment:** This chapter will help you understand what best practices are good for your company and how goals can be set appropriately. In order for a best practice to be useful, it has to be tailored to the company's current situation (especially as it pertains to technology).
2. **The Selection:** Identify the different types of vendors available for AP Automation and obtain a list of 10 questions you should ask your internal organization to determine the best vendor for your company.

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3. **Getting Organized:** Learn how to organize your company to get ready for AP Automation. There are 8 questions to determine the best type of automation project for your company as well as best practices for setting up workflow.
4. **The Project:** Discover the 6 Steps to AP project “Greatness”, how they are defined and what to expect when managing an AP Automation project.
5. **The Vendors:** Find out what to tell your vendors before you automate along with 15 questions to help you plan your vendor communications process.
6. **The Training:** We will explore how to effectively manage change management during the project and why end user training is not about the software; it’s about dealing with change
7. **The Evaluation:** Once you have completed your AP Automation project, this chapter will help you make sure that your goals for the project were achieved. Determine what lessons you learned and how to apply those lessons learned to future automation projects.
8. **The Future:** In this chapter, I offer my personal perspective on how AP Automation will evolve in the future as well as 5 technology ideas related to AP that you may want to consider as you evolve and grow into your “AP Automation Lifestyle”.

As you continue to read, you will find this is not a technical book. There will not be any discussions of programming language or developer’s techniques. This book was written for the person who is considering automating AP, but doesn’t know where to start. This book was also written for the person (or company) who has automated their AP process and determined they need more or have a feeling that the new process is not going as well as it should.

I have written this book from the perspective of someone who has been in the AP trenches, having been personally responsible for managing 79 AP Automation projects

(78 are still running successfully). This book is based on tried and true experience that I desire to pass on to you. Throughout my career I have carried out the duties of help desk phone support, project management, training (phone and in-person), consulting, sales engineering, sales management, product strategy, marketing, and even cleaning up around the office. Earlier I told you that I have worked with over 750 companies. Considering you are probably a numbers person, doing the math on 78 projects against 750 companies does not seem right; the difference in the numbers are those companies that did not become a client of mine because they either went with another company or the larger majority who decided to do nothing and continue to push paper. I believe those companies chose to do nothing due to good old-fashioned fear. It is true... changing a tried and true process can create fear. I believe fear in automating comes from not knowing what to do with displaced people that automation creates, and choosing the wrong technology provider.

The biggest part of the fear comes from the newness of the technology and ideas. Generally people will not say, "I am scared to make a decision because I don't know anything about automated AP." They will say, "It cost too much." or "We don't have the personnel at this time to take on a project like this." or "Our current process is not so bad – we can live with it." Whatever the reason, the fear is real. Anyone in a modern business has heard the horror stories of a technology project that was poorly sold with huge promises of a life-changing event that didn't materialize. Some have heard it cost the company two arms and thousands of legs (there's an image), as someone put their reputation and job on the line then watched as it failed. That is why I have written this book. It is not as simple as picking a vendor, buying a product, and installing the product.

I have 4 goals in writing this book.

1. **Write a book people will be interested in reading.** Meaning the topic is timely and compelling.
2. **Write a book that people can read.** This is different than the first goal. The first goal relates to the topic the second goal relates to the style of writing or the voice of

the book. I did not want to write a text book or a white paper. I wanted to write a book in which my experience would speak to your experience in a meaningful way.

3. **Write a book that people would understand.** As with the second goal, this is not a text book or a white paper. It is also not a book that is written for developers. This book was written for the person that does not have programming skills and has no desire to learn software programming skills. The book was written with the intent to not talk about software at all, focusing instead on the process, change, and options.
4. **Write a book people can use.** Each chapter has questions for you to answer to better target a solution that fits your company's individual needs. One of the problems with emerging technology is the "one size – fits all" solution has not been established (over time technology can create more focused offerings), making it very important that recommendations are made in a customized way. With the combination of recommendations and information (knowledge) you will be better informed and more of an asset to your company in going from paper to automated AP.

Final Words

Relax, read and enjoy the ride, you will not regret the change. It can be done!

Chapter 1

Current Environment

Pitfall – Understanding Your Company's Current Environment Will
Keep You Out of the Pit.

Look For the Cat – It's Out of the Bag

First things first... I am not an Accountant. Please, don't stop reading. In college I did take Accounting I and Accounting II, before changing my major to History. The fact that I do not have an accounting background has helped me tremendously. Early in my career, I had a client who was an early adopter and felt the software my company produced was lacking in many areas. He was trying to convince me to get the owners of my company to hire him, so he could "fix" the areas where the software was lacking. At the time I thought it was a good idea, after all he was a CPA. He listed out the things he would change, mostly around GL coding and business unit/cost center associations and fixed permission levels per role. I liked his ideas, so I went to my CEO. He said it was interesting but, at that time, he couldn't afford to pay me and a new person. Of course, I went back to the client and told him he got shot down by the CEO.

Even though debits and credits are debits and credits in each business, the management of accounting practices vary every company is completely different.

Dishonest... a little, but here is the rest of the story; as time went by I began to realize that all of his suggestions were based on how his accounting department was operating and the "fixes" to our AP Automation tools were specific to his operation alone, not what was best for the industry. The client's extensive experience with one accounting system on the surface was a huge plus, but over time his ideas turned negative.

To have success in the AP Automation industry, it is vital for a company to be the jack of all accounting systems, flexibility is the key.

Another story, with a bit of a different twist, is about a new client who wanted functionality we didn't offer. He was completely beside himself when he found out the software didn't do what he wanted it to. I can remember him saying, "This is basic accounts payable! I am shocked your other client's haven't rebelled, not having this." From my new client's perspective our perceived lack was something he had been doing for 20 years, completely clueless that it had zero impact within other companies. Here is my point: Even though debits and credits are debits and credits in each business, the management of accounting practices within every company is completely different. The bills have to be paid and profits have to be measured, but how the bills are paid and how the profits are measured is completely different. This is why having no previous

accounts payable experience has been a benefit in my business. This is also why there is never a cookie cutter approach to automating accounts payable.

The Need to Define

Up to this point, I have assumed that you know what I am writing about when I refer to automated accounts payable. In the introduction chapter you read about the old school AP process. It is important that the assuming stops here, so we can proceed together talking about the same thing. The Random House Dictionary defines accounts payable as; “a liability to a creditor, carried on open account, usually for purchases of goods and services.”¹ Meaning AP is the process of tracking and paying out money to suppliers or vendors. Automation is “the technique, method, or system of operating or controlling a process by highly automatic means, as by electronic devices, reducing human intervention to a minimum”² (Random House).

Automatic is the key word; “having the capability of starting, operating, moving, etc., independently.” All together now, AP Automation is the independent moving of liabilities through approvals to payment. AP Automation eliminates needless steps and improves needed steps.

There are three main components to make AP Automation happen.

1. 100% Electronic Invoices
2. Event Driven Workflow
3. Reporting Layer to Track all Actions

100% Electronic Invoices: This statement is the most controversial. I used to play a little game when I did presentations by saying, early in the conversation, “The key to AP Automation is to get an electronic invoice from the vendor as soon as possible.” I would not explain how to do that. After a few minutes, inevitably, a somewhat confused client would stop me and ask, “How do you do that?” To take away some of the mystery I would say, “The invoice can start as paper but needs to be scanned as soon as possible” (we will discuss this topic more in Chapter 5).

¹ <http://dictionary.reference.com/browse/accounts+payable>

² <http://dictionary.reference.com/browse/automation>

Event Driven Workflow: This type of workflow is the kind that does not need pushing or coaxing from a person. Once the invoice is associated to an approval process, subsequent invoices know their own steps to become fully approved. Early in my career I used to explain this as “smart paper” because the invoice, once electronic, knew the steps it needed to go through to be approved.

Reporting Layer to Track all Actions: “All actions” is the key statement. From top to bottom, entry to exit, all things big and small need to be tracked, for many reasons. One reason is to insure that everything the company needs to get done is done. Another reason is to optimize the processes. This is an important point because this is the first time you will know all actions of your process. In the paper driven world (technically) you will not know everything that is going on.

I had a client explain it as, “Once this is up and running I just want my guy to be sitting there pushing a few buttons now and then to keep invoice moving.” I explained it would be more like 2001 A Space Odyssey when HAL (the computer) took over the entire ship, because the system will run on its own without someone pushing buttons to make it work. I was relieved when the client started laughing.

Enough With The Definitions

Now that things are all defined, the drama begins. In the early years of my career, I studied sales training. One thing I learned was the four stages of competence. The four stages of competence can help us understand where an AP Department is as it pertains to AP Automation.

Note: The word individual is used however it can be exchanged for company/department wherever necessary.

1. **Unconscious Incompetence** - The individual neither understands nor knows how to do something, nor recognizes the deficit, nor has a desire to address it.
2. **Conscious Incompetence** - Though the individual does not understand or know how to do something, he or she does recognize the deficit, without yet addressing it.

3. **Conscious Competence** - The individual understands or knows how to do something. However, demonstrating the skill or knowledge requires a great deal of consciousness or concentration.
4. **Unconscious Competence** - The individual has had so much practice with a skill that it becomes "second nature" and can be performed easily (often without concentrating too deeply). He or she may or may not be able to teach it to others, depending upon how and when it was learned.

I have noticed most of the AP departments I have worked with around the idea of automation operate 80% of the time in with unconscious incompetence and the other 20% in conscious incompetence. The best advice I can give when a company is considering AP Automation, "Do not dismiss this new technology because it's new." If you go to dismiss a piece of technology like AP Automation, it needs to be dismissed based on the merits of your analysis. In this chapter I will help you move out of unconscious incompetence and into a decision that is right for your company in its current state. To do this, I am going to leverage the best practice framework that evaluates your company's current environment.

Best Practices for You! When I was in grade school I made the statement in class: "Practice makes perfect." One of the cool kids said, "No one is perfect so why practice". Thirty years later, while attempting to communicate with clients around the idea of "best practices", I found myself thinking about the cool kid's statement. An associate and I were attempting to develop a list of "best practices" that would be timeless and universal while communicating (with one sentence) how automated AP would operate in a modern business. We came to the conclusion it was not possible. A best practice compared to a practice is always in motion and is never constant.

There is no magical formula to success. The term, best practice, is a modern phrase that attempts to define the most effective and efficient way to complete a task or process. A best practice is a teaching tool that, over time, effort, and cost can be done in an optimized state. Business strategies such as Six Sigma, Lean Process, and TQM (Total Quality Management) have been conceived and sold on the principles of doing something the "right" way. However, there are two challenges with a best practice. The first challenge to a best practice is the environment. The environments of best practices are in a constant state of change. Change is a stick of dynamite to the ant hill which is a best practice (ah, to be a poet). Examples are hiring or firing, buyouts, sales, mergers,

promotions, demotions, programs, rumors, plans, and trainings. More so than ever in corporate America, change is the only constant. The outcome of environmental change is that the principles the best practice are based on change, making the best practice no longer applicable. The second challenge with a best practice is innovation. Innovation is one of those positive negatives. It is good, but the practical applications of innovation are difficult to grasp, making it almost impossible to quantify within a company. Technology is the largest contributor to innovation but it is not the only one. Education, geography, social status and lifestyle are also major contributors. Every time there is a new innovation within a corporation, it changes the principles the best practice is based on. Here are a few examples where environment and innovation has affected a best practice.

“Advances in medicine have given doctors the ability to extract a bullet from a victim’s arm and within a few days they are engaged in physical therapy, whereas during the civil war the best practice was to amputate the entire arm immediately.

During the Victorian Era (1837 – 1901) it was thought that if a female was to go past a certain grade in school their brain would explode; whereas today there are more female scholars than ever before.

In 1954 Roger Banister broke the four minute mile despite reports from doctors that he would die if he tried to attempt it.

It was believed that a person would be unable to travel the speed of sound because, physically that person’s molecules would not be able to handle the strain which is something Chuck Yeager proved wrong in 1947 when he became the first person to break the sound barrier.”

In each of the examples above there was a perception, benchmark, or a mechanical limitation that was later broken by environment and/or innovation. Whether it was cultural, scientific or mechanical, after the innovation or environmental change the previous practice (best or not) was distorted and now seems so outdated it becomes laughable. Imagine going to the doctor with a broken arm and he says, “Yep it broken alright – looks like we’ll have it cut it off at the shoulder.” It’s unfathomable, right?

Now, let’s bring the idea of environmental change and innovation back to Accounts Payable. It wasn’t very long ago that the personal computer was new to the

work world. When I was in high school my Business Studies teacher spent an entire week on the “joys of punch cards” (if you do not know what punch cards are... Google it and have a good laugh). It’s only been since the mid 1990’s that accounting software has become available and affordable to every type of business. The innovation and environmental changes in the past 10 years alone have changed the best practices that came before them, as the next best practices will do 10 years from now.

One Step Forward – Two Steps to the Side

Identifying challenges associated with best practices will separate the popular notion of a best practice from a true best practice. Sales and Marketing machines overflow with ideas of best practices or best in class. *Best practice* has become a buzz phrase that is used in every pitch right beside scalable (see the bonus chapter) and sticky. Nowadays corporate leaders are creating mandates for their manager’s to do more with less. Managers are being forced to find ways to operate more effectively and efficiently. Salespeople (who are also being pressed) are reaching more than ever to satisfy corporate leaders with assurance that their product or service is the “best”. Although it may be true that the product or service helps, it does not automatically make it a best practice. My point: Best practices are based on independent needs and independent outcomes and no two companies are the same.

There are three steps in defining a best practice within your Accounts Payable department. The first step is AP health. How healthy is your Accounts Payable system?

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Question – Section 1	Yes	No
1. Are invoices ever lost?		
2. Are invoices paid late?		
3. Is there a desire to capture discounts?		
4. Do statements go unrecognized?		
5. Do vendors call more than one person for an answer?		
6. Is the ratio between AP personnel to invoice more than 1:1000?		
7. Does processing cost more than \$5 an invoice?		
8. Is there a “blame game” between AP and the rest of the company where leadership does not know who is wrong and who is right?		
9. Are invoices ever paid more than once?		
10. Is there more than one way to get an invoice to AP for entry?		

To calculate your total, start with 100 and subtract 10 for every question you answered was a **YES**.

Total from Section 1: _____

Question – Section 2	Yes	No
1. Are your invoices stored in document management software?		
2. Is payable data transmitted electronically to the account system?		
3. Is workflow software used for the approval process?		
4. Are invoices processed from a central location?		
5. Is information secure and visibility based on permissions?		

Next, add 5 points per question answered with a **YES** in Section 2. Total and add with the total from Section 1.

Total Score: _____

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Standard grading scales apply:

100-90 = A

89-80 = B

79-70 = C

69-60 = D

Below 60 = F

Now that you have obtained your health, let's find out your company's current state and direction. To find out, answer the following questions:

Question – Section 3	Yes	No
1. Is your company growing?		
2. Does your company want to grow?		
3. Has your company had a company software rollout in the last 18 months?		
4. Is your company currently (or should it be) cutting expenses?		

To determine your score for Section 3, add 2 points for each **YES**.

Total Score for Section 3: _____

The Best Practices – Custom Results

The above questions will help craft what practices are best for your organization. This is to get an idea of the company's needs, direction, and current uses of technology. The results allow a best practice to become useful. Use the chart below to determine your company's

Description	Category
AP Health = A + Current State of 6 – 8	1
AP Health = A Current State of 4 – 6	2
AP Health = A - Current State of 4 or below	3
AP Health = B + Current State of 6 – 8	2
AP Health = B Current State of 4 – 6	3

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AP Health = B - Current State of 4 or below	4
AP Health = C + Current State of 6 – 8	3
AP Health = C Current State of 4 – 6	4
AP Health = C - Current State of 4 or below	5
AP Health = D + Current State of 6 – 8	4
AP Health = D Current State of 4 – 6	5
AP Health = D - Current State of 4 or below	5
AP Health = F + Current State of 6 – 8	5
AP Health = F Current State of 4 – 6	5
AP Health = F - Current State of 4 or below	5

Now What?

Congratulations! You have established a custom state and health for your AP department. Below is a list of best practices to consider implementing in your organization

Category 5:

- Lower Cost
- Improve Controls
- Centralize vendor inquiries
- Eliminate re-work of invoices
- Find transitions in technology, compliance and/or audits and opportunities to improve change processes

Category 4:

- Create Visibility
- Common Documentation
- Single Data Entry
- Well Documented Business Rules
- Establish an exceptions handling process

- Create SLA or timers on each step of the process
- Eliminate paper filing
- Create an audit team for changes and updates to the approval system

Category 3:

- Electronic Invoices
- Single Audit Trail per invoice
- Develop an automated workflow process for approvals
- All invoices should come to a central location
- Automate the accruals process based on electronic information
- Send AP information to the accounting system in an importable electronic format
- Create an AP import to the accounting system that is capable of identifying errors and handling errors in the data
- Create a web-enabled system to approve and file invoices
- P-Cards
- Develop Electronic Signatures on Check
- Enable a role-based permission driven system
- Segregate approval data by entities
- Automate approval requests through a subscription email

Category 2:

- Automate checks for double entry
- Streamline your process so that only Approvers are in the workflow process - everyone else will be accommodated by reporting (see Chapter 3 for more details)
- Review the approval process and have the automated system make recommendations for improvement (This can be done through reporting on changes and updates)
- Create reverse statements to vendors
- Utilize ACH (Electronic Payment)
- Manage payment timing and terms for cash management
- Automate fraud prevention and detection
- Store invoices and process data in an offsite hosted data center

Category 1:

- Develop dashboards to track AP processes from multiple sources of data

- Write your own best practice chapter!

If you have not realized it yet, you need to crawl before you walk. With the information described above, the categories can suggest a good place to start. Keep in mind that the category suggestions are a starting point for your organization, and by no means am I implying that if you are in a low category you should not attempt AP Automation. Rest assured that, in my experience, an overwhelming majority of large to mid-size companies fall into categories 4 and 5 simply because the technology was unavailable at an appropriate price range. The rest of the book will concentrate on more general principles of AP Automation, so it is important to refer back to this chapter as you set your automation goals.