

# **50+ ways to improve your accounts payable function**

By David Parmenter, CEO,  
***waymark solutions limited***

<b><u>Table of Contents</u></b>	Page
1. Introduction .....	4
2. The impact of better practices on the accounts payable workload .....	4
3. Move to a paperless accounts payable operation.....	5
3.1 Review of software solutions.....	8
3.2 Ways to work towards a paperless accounts payable function .....	10
3.3 Invest in a electronic ordering system (procurement system) .....	10
3.4 Scanning equipment.....	11
3.5 Introduce a purchasing card .....	11
3.6 Working with technology with your main suppliers.....	14
3.7 Invest in an electronic travel and expense system.....	14
4. Administration improvements for all AP teams.....	16
5. Cut-off improvements .....	16
5.1 Cut-off AP on the last working day .....	16
5.2 Closing accruals on Day -2 .....	17
6. Staffing improvements within accounts payable.....	17
6.1 Have an off site accounts payable staff goal setting meetings .....	18
7. Payment improvements.....	18
7.1 Throw away the company cheque book.....	18
7.2 Mount the last cheque signed in the CEO's office .....	19
7.3 Frequent direct credit payments runs.....	19
7.4 Use self generated invoices (Buyer created invoices) .....	19
8. Improving relationships with budget holders .....	20
8.1 Send a welcome letter to all new budget holders.....	20
8.2 Introduce "shame and name" lists.....	21
8.3 Increase budget holder turnaround on approving invoicing .....	22
9. Improving relationships with suppliers.....	22
10. Recruitment and Retention .....	24
10.1 Cathay Pacific Recruitment .....	24
10.2 Peter Drucker's five recruiting steps.....	24
11. Lean and Smart work methods.....	24
11.1 Workshop month-end process improvement with 'Post-its'.....	24
11.2 An introduction to SCRUM.....	29
11.3 Kanban Board .....	30
11.4 Provide a modern work environment.....	31
11.5 Adopt the golden rules for emails .....	31
11.6 Have a blue sky Friday at least once a fortnight.....	32

11.7	Give more recognition & celebrate .....	32
11.8	Walkabout more .....	32
12.	How to sell an investment into accounts payable technology .....	32
12.1	John Kotter eight steps.....	32
13.	Benefits of quick monthly reporting to management and the AP team .....	33
13.1	Case study one Johnson & Johnson vision products USA .....	34
14.	The common bottlenecks at m/e for the AP team.....	35
15.	Sources of information .....	36
16.	Writer’s biography .....	36
17.	Appendix 1 Checklist of the 50+ ways to improve AP .....	38
18.	Appendix 2 Checklist of steps to reduce m/e time frames .....	43
19.	Appendix 3 Useful letters.....	46
20.	Appendix 4 Paperless at IBM and Johnson & Johnson .....	50
21.	Appendix 5 Email to suppliers to make all invoices paperless.....	56
22.	Appendix 6 Outline of “Post-it” re-engineering workshop to speed up month-end reporting.....	57

## 1. Introduction

The accounts payable team is I believe one of the most important teams in the accounting function and in the company. Is your accounts payable team one of the many who are sucked in by processes which have more in common with Charles Dickens era than the 21<sup>st</sup> century? Are you still writing more cheques than electronic payments? Many organisations have poor accounts payable routines which culminate in backlogs in processing, late monthly reporting.

This white paper is based around the wisdom and better practices of over 1,000 accounts payable teams principally based in Australia and New Zealand. Many of whom have participated in the **waymark solutions** better practice study of finance functions, or have shared their better practices in the many workshops I have run in the last 10 years. We owe a gratitude to these accounts payable teams for showing us the way forward. In this paper 'participant' refers to these participants.

I have included some useful checklists, see Appendix 1 for a checklist of the 50+ ways to improve your accounts payable systems & procedures, which has been prepared to help you through the implementation process.

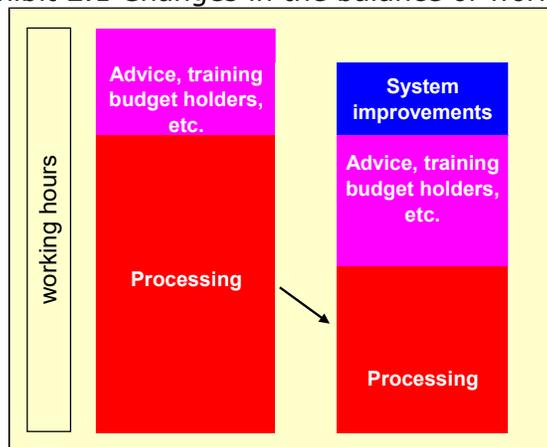
An accounts payable team is the centre of an accounting function for without its smooth operation:

- monthly accounts cannot be prepared promptly;
- budget holders have no faith in their reports;
- suppliers are forever on the phone querying payments;
- the management accountants are severely handicapped.

## 2. The impact of better practices on the accounts payable workload

The impact of the better practices listed in this white paper and accompanying workshop is to move accounts payable work away from the low value processing activities into the more value added areas, as shown in Exhibit 2.1. This move, at the same time, will increase AP team job satisfaction and appreciation from budget holders.

Exhibit 2.1 Changes in the balance of work



What is your response to these questions?

*Is your accounts payable cut-off after the last working day of the month?*

*Are your accruals finalised after the last working day?*

*Do you have a peak workload at month-end?*

*Are some major monthly invoices arriving without a matching order?*

*Are cheque payments greater than 10% of total payments?*

*Do budget holders receive invoices directly?*

*Do you have more than one approval round for ordering and payment?*

If you answer no to all of these you are one of the small minority who have got to grips with efficient and effective accounts payable operations. Your story should be told!!

### **3. Move to a paperless accounts payable operation**

Many accounts payable processing procedures are more akin to the Charles Dickens era than the 21<sup>st</sup> century. Why do we go from an electronic transaction in the suppliers accounting system to a Charles Dickens paper based invoice. Surely we should be able to change this easily with our major suppliers.

Many American multinationals have achieved this already. It requires an investment, skilled A/P staff and retraining of the budget holders. The rewards are immense. To appreciate the benefits I suggest the A/P team regularly visit [www.theaccountspayablenetwork.com](http://www.theaccountspayablenetwork.com) website of The Accounts Payable Network.

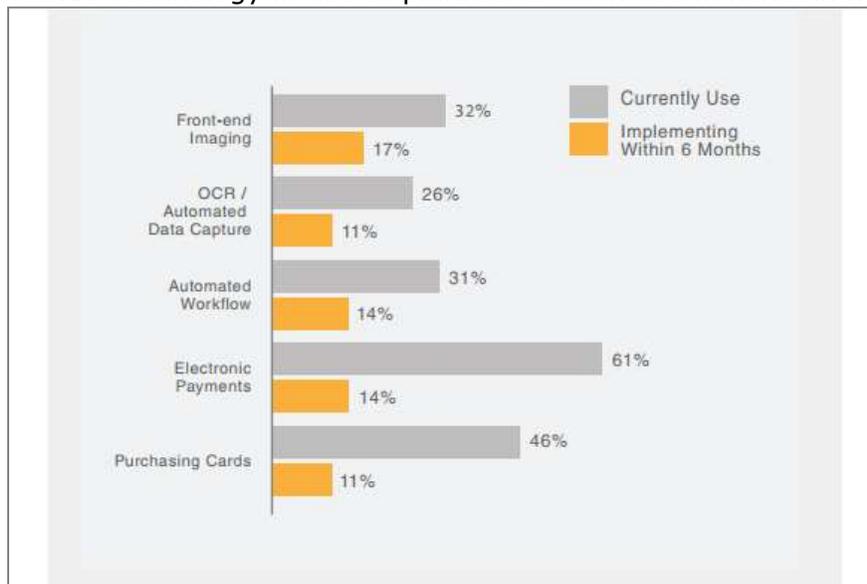
There have been major advancements in technology for accounts payable teams. The return on investment in AP technology is I believe greater than any other

equivalent investment in other service departments within a business. Why then are some AP teams so under invested? I believe it is due to:

- lack of understanding by the CFO of the technologies and their benefits
- the AP team not researching the AP technologies
- poor selling of the AP technologies to the executive team

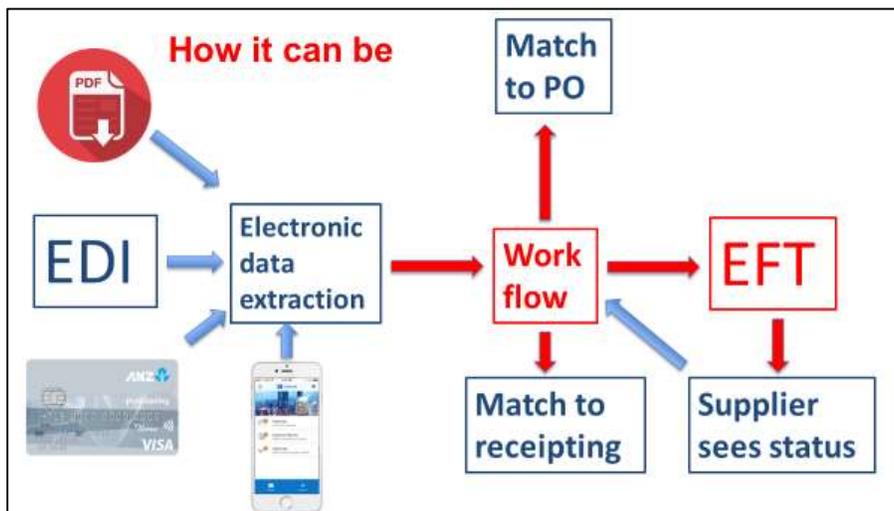
It is safe to say that there is a technology suitable for SMEs and large enterprises that will make them paperless. In a recent study the winds of change were shown in Exhibit 3.1. As can be see if you are not using electronic payments and purchasing cards you are already behind the eight ball.

Exhibit 3.1: Technology in use or planned to be in use in next six months

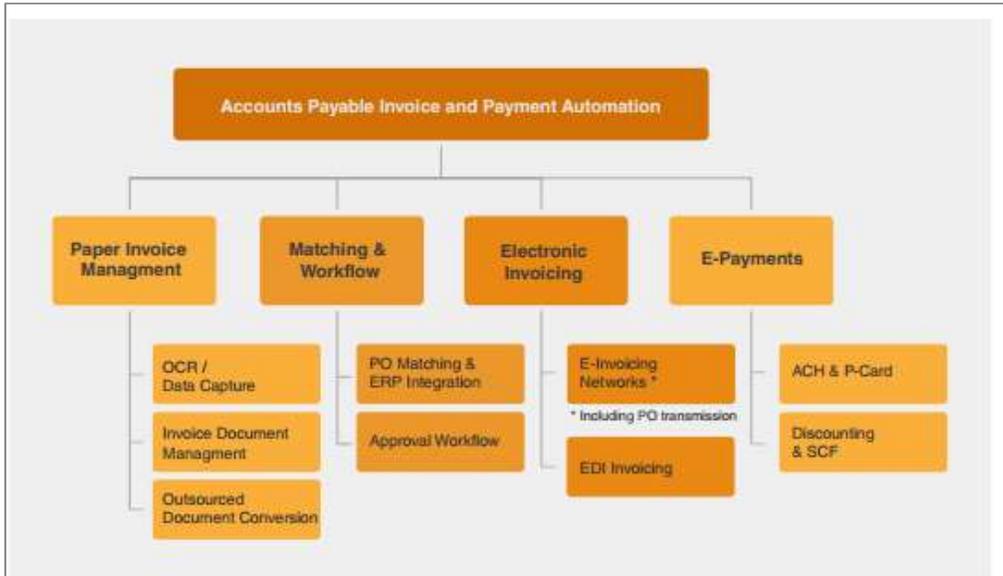


Source: 2012 Automating payables for the SME market

The major components of payables automation are well set out in this diagram.



XX



Source:2012 Automating payables for the SME market

In their paper Paystream Advisors point out:

Once an invoice or other payables data is captured electronically, the question to ask is: Does this invoice need to be approved? The ability to derive an automated answer by using business rules, which in turn trigger appropriate workflows, is the centerpiece of an automated AP environment. If the answer to the question is no, the system will move the invoice into the payment process. If the answer is yes, the system will route it to the approving party along with any necessary decision support documents and information. Business rules, flexible workflow and transactional transparency are essential.<sup>i</sup>

### 3.1 Review of software solutions

In Exhibit 3.3 I have outlined some solutions offered by application providers. Your best solution is to access the G/L networks offered by your accounting software provider or through Linked-in.

All you need to ask is:

- What systems are you using?
- How do you rate them out of one to five (five being a ground changer)?

Investigate all those applications that work with your accounting software scoring four or more

Exhibit 3.3: Some of the accounts payable providers and their applications

Supplier	Website	Background information found on their website	Free Trial / Demo
Cvision	<a href="http://www.cvisiontech.com/solutions/general/automated-invoice-processing.html?lang=eng">http://www.cvisiontech.com/solutions/general/automated-invoice-processing.html?lang=eng</a>	CVISION's Trapeze offers an advanced, automated solution for invoice processing. Capable of recognizing and extracting relevant information within each invoice, Trapeze can process all of your invoices quickly and accurately. After extracting information from incoming invoices, Trapeze can automatically reconcile the invoice information with the corresponding data in your business or accounts payable system. With Trapeze, you get faster invoice processing, better organization, and higher accuracy with the removal of human error. Don't waste resources on a task that can be performed better automatically. Let Trapeze transform your accounts payable system.	Free evaluation
Kofax	<a href="http://www.kofax.com/">http://www.kofax.com/</a>	Kofax MarkView® for AP (MarkView) automates the AP operations of hundreds of major organizations. The solution provides industry-leading information capture and automates invoice processing and data entry. It includes best practice workflows for discrepancy processing, resolution and accounting details as well as real-time ERP integration for SAP and Oracle E-Business Suite, a self-service supplier portal and an AP process optimization dashboard.	Webinar <a href="http://go.kofax.com/LP=3430?ls=direct">http://go.kofax.com/LP=3430?ls=direct</a>  whitepapers etc

### **3.2 Ways to work towards a paperless accounts payable function**

Here are some of the ways to work towards a paperless accounts payable function.

Electronic ordering system	Purchase an electronic ordering system (procurement system) which automatically links with the accounts payable system so that orders are completed electronically and invoices are matched electronically.
Scanning	Introduce scanning so that invoices can be sent electronically by email for approval. You need this even if you have invested in a procurement system as invoices without orders, or invoices which are different to their corresponding order, will need originator approval.
Electronic supplier feeds	Invest in liaison time with all major suppliers to organise electronic feeds of the invoices which will include the general ledger account codes – this requires liaison between the two IT teams, yours and the suppliers!
Load remittances onto your website	Load remittances electronically onto your website in a secure area so that suppliers with their password can download them. This removes the need to post remittances to suppliers. One participant said this was set up very easily by the IT team.
Web based travel and expense system	Acquire an integrated web based expense claim system so staff can complete their expense where ever they are in the world.
Purchase card	Introduce the purchase card to all staff with delegated authority so all small value items can be purchased through the purchase card thereby saving thousands of hours of processing time by both budget holders and the accounts payable teams, see separate purchase card section below.
Eliminate all cheques	Eliminate all cheque payments, framing the last cheque on the CEOs wall, see separate payments section below.
Key suppliers online access	Allow your key suppliers online read only access, through password access, to their account in the AP so they can reconcile their ledger.

### **3.3 Invest in a electronic ordering system (procurement system)**

An electronic ordering system (procurement system) automatically links with the accounts payable system so that orders are completed electronically and invoices are matched electronically.

These systems should be purchased and implemented before the accounting team ever consider upgrading the G/L. Increasingly today the G/L is only the holder of

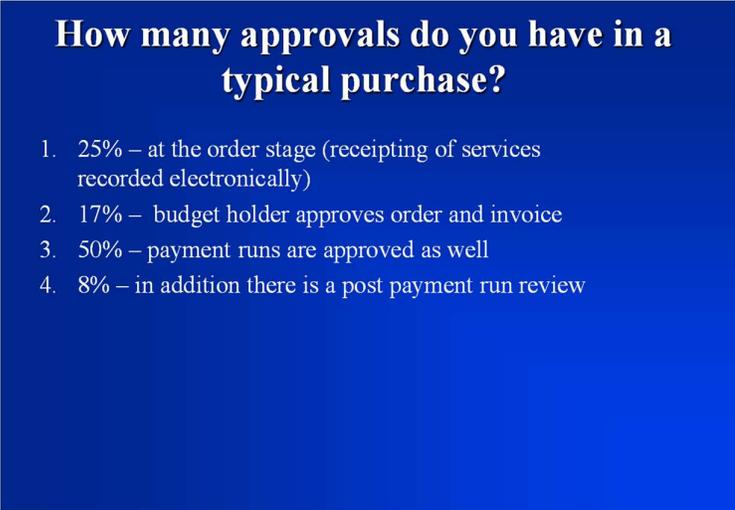
actuals with the targets, reporting, and drill down being provided in auxiliary systems.

This is a major exercise and one which should be researched immediately. There will be a organisation near your locality who have your accounting system where the purchase order system is working well. Visit them and learn how to implement it. The key features include:

- Automatic emailing to key suppliers
- Automatic checking within delegation
- Sent automatically for approval if required
- Control checks on coding for a department
- Linked to major supplier latest price lists
- Only used for major orders over a certain amount say \$2,000 – under that level all purchases are done via the purchase card

On a recent web seminar I ascertained that only 25% of 150 attendees were utilising a modern accounts payable system properly, see Exhibit 3.4.

#### Exhibit 3.4 Web seminar survey



**How many approvals do you have in a typical purchase?**

1. 25% – at the order stage (receipting of services recorded electronically)
2. 17% – budget holder approves order and invoice
3. 50% – payment runs are approved as well
4. 8% – in addition there is a post payment run review

### **3.4 Scanning equipment**

Introduce scanning so that invoices can be sent electronically by email for approval. You need this even if you have invested in a procurement system as invoices without orders, or invoices which are different to their corresponding order, will need originator approval.

### **3.5 Introduce a purchasing card**

I understand that the average cost of the whole purchase cycle has been estimated at between \$65 to \$85 per transaction. This is pretty horrific when you realize that a high portion of your transactions are for minor amounts. Exhibit 3.5 shows a typical profile of AP invoices.

## 17. Appendix 1 Checklist of the 50+ ways to improve AP

Checklist of implementation steps	Tick if covered
<b>Accounts payable systems improvements</b>	
<ul style="list-style-type: none"> <li>• Purchase an electronic ordering system (procurement system) which automatically links with the accounts payable system so that orders are completed electronically and invoices are matched electronically</li> </ul>	
<ul style="list-style-type: none"> <li>• Introduce scanning so that invoices can be sent electronically by email for approval. You need this even if you have invested in a procurement system as invoices without orders, or invoices which are different to their corresponding order, will need originator approval.</li> </ul>	
<ul style="list-style-type: none"> <li>• Load remittances electronically onto your website in a secure area so that suppliers with their password can download them. This removes the need to post remittances to suppliers. One participant said this was set up very easily by the IT team.</li> </ul>	
<ul style="list-style-type: none"> <li>• Acquire an integrated web based expense claim system so staff can complete their expense where ever they are in the world.</li> </ul>	
<ul style="list-style-type: none"> <li>• Get your IT team to meet with your major supplier's IT team so that invoices can be received electronically already with your GL codes!!</li> </ul>	
<ul style="list-style-type: none"> <li>• Acquire a web based purchase card and ensure wide spread use (see later section).</li> </ul>	
<ul style="list-style-type: none"> <li>• Allow your key suppliers online read only access, through password access, to their account in the AP so they can reconcile their ledger.</li> </ul>	
<ul style="list-style-type: none"> <li>• Update system to allow a screen enquiry to check payment history with the most recent payment showing at the top of the display.</li> </ul>	
<ul style="list-style-type: none"> <li>• Put receiving documentation on-line, eliminating the need to forward them to accounts payable.</li> </ul>	
<b>Administration improvements for all AP teams</b>	
<ul style="list-style-type: none"> <li>• Set up account management within your AP team type of supplier, rather than letter of the alphabet e.g. instead of Pat doing A-H suppliers, Pat works on all builders' accounts</li> </ul>	
<ul style="list-style-type: none"> <li>• Limit any post payment review to DCs or cheques over a large dollar amount, which will vary from company to company.</li> </ul>	
<ul style="list-style-type: none"> <li>• Route invoices directly to accounts payable by setting up a new postal address e.g. a new PO Box number and informing all suppliers of this fact.</li> </ul>	
<ul style="list-style-type: none"> <li>• Implement a direct-pay process that allows departments to purchase low value items without a purchase order e.g. costing less than \$500. These are best paid for through a purchase card.</li> </ul>	
<ul style="list-style-type: none"> <li>• Write a procedures manual and load it on the Intranet, covering ordering, approving, delegated authorities, expense claims, frequently asked questions etc.</li> </ul>	

<ul style="list-style-type: none"> <li>Eliminate matching invoices for <b>office supplies</b> to the purchase order and receiving document. Also, have the supplier invoice on a summary invoice and make departments responsible for reviewing the expenses as they hit their cost centre.</li> </ul>	
<ul style="list-style-type: none"> <li>Develop a quick form for credits, charge backs, so that staff can immediately return goods which have not been ordered or do not meet specification to the supplier. One copy goes to the supplier, one copy retained by the issuing team, one copy going to AP.</li> </ul>	
<ul style="list-style-type: none"> <li>Reduce the number of G/L codes. Particularly in expenses. Many companies manage successfully with as little as 100 P&amp;L account codes. The more G/L expense codes you have the more coding errors you may have.</li> </ul>	
<ul style="list-style-type: none"> <li>Ensure the mail room understand the need to get all hard copy approved invoices to AP on time. At month-end if they understand what the AP team is doing, they will think of ways to get the internal mail working quickly at this critical time in the month.</li> </ul>	
<ul style="list-style-type: none"> <li>Set up repetitive payments before you receive invoices.</li> </ul>	
<ul style="list-style-type: none"> <li>Make a list of tasks that have no written procedures and then write up the procedures for these tasks for inclusion in the departmental procedures manual.</li> </ul>	
<ul style="list-style-type: none"> <li>Either consolidate all purchasing of stationary through one supplier and purchase via the purchase card, or have the supplier have consignment stock in handy locations with one consolidated invoice being sent to AP. Apportion stationery based on an arbitrary split.</li> </ul>	
<p><b>Administration improvements for AP teams without procurement or electronic ordering systems</b></p>	
<ul style="list-style-type: none"> <li>Replace a voucher control document with a stamp that goes directly on the invoice. It contains spaces where required information, such as voucher number, supplier number etc., can be filled in.</li> </ul>	
<ul style="list-style-type: none"> <li>Limit any post payment review to DCs or cheques over a large dollar amount, which will vary from company to company.</li> </ul>	
<p><b>Improving accounts payable cut-offs</b></p>	
<ul style="list-style-type: none"> <li>Cut-off budget holders accruals at 5pm day-2</li> </ul>	
<ul style="list-style-type: none"> <li>Limit BH accruals to material amounts only e.g. no accrual JV for less than \$xxx, no one item on the accrual for less than \$xxx</li> </ul>	
<ul style="list-style-type: none"> <li>Cut-off accounts payable at noon day-1</li> </ul>	
<p><b>Staffing</b></p>	
<ul style="list-style-type: none"> <li>Consolidate purchasing and accounts payable into a single work unit under one manager.</li> </ul>	
<ul style="list-style-type: none"> <li>Educate and train staff to use brainstorming techniques when tackling a processing problem.</li> </ul>	