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REGION FOCUS: WORLDWIDE

Accounts Payable Moving from Automated to Autonomous

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IDC Opinion

of respondents show a lack of full adoption of utilizing straight-through processing (STP).

Accounts payable (AP) staff are on the front line of business change and often are tasked to implement cash flow policy changes in near real time. In many ways, AP has become the control tower for managing spend within the organization. However, many of them are stuck with legacy tools and outdated processes, creating massive inefficiencies. As such, manual payment processing issues are the top priority, but 94% of respondents to an IDC survey show a lack of full adoption of utilizing straight-through processing (STP). This document examines the pressures driving AP departments to adopt automation as a bridge to mitigate risk and improve overall efficiency. Further, the document explores how the AP automation of today is evolving to become the autonomous AP of tomorrow.

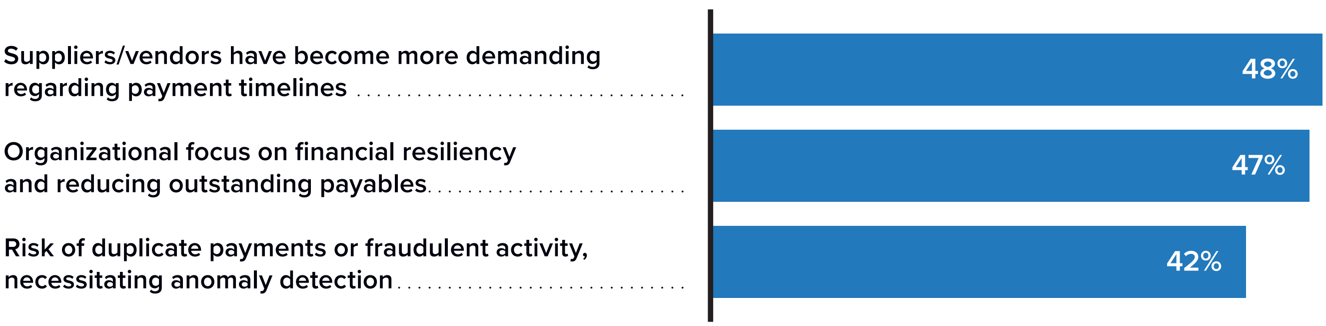
Headwinds Driving Change

The current view of economic forces points to impending storms for businesses in the form of supply chain issues, inflation, interest rate hikes, and so forth. According to IDC's *Autonomous Processing Survey*, the top 3 most important factors influencing accounts payable departments are (see **Figure 1**): suppliers/vendors have become more demanding regarding payment timelines (47.6%), organizational focus on financial resiliency and reducing outstanding payables (46.6%), and risk of duplicate payments or fraudulent activity (42.1%).

FIGURE 1

Top Factors Influencing Accounts Payable Departments

(% of respondents)



n = 360, Source: IDC's *Autonomous Processing Survey*, August 2022

These headwinds are felt throughout the business, but perhaps most acutely within the accounts payable process. Businesses, in these uncertain times, find it challenging to manage the demands of on-time vendor payments with cash management demands. According to IDC's *Accounts Payable Survey*, 55.4% of respondents find it challenging or very challenging to balance cash flow management goals and on-time vendor payments. Further complicating the issue is that many organizations still struggle with late payments, with over 84% of respondents to IDC's *Accounts Payable Survey* having at least some instances of late payments. Nearly one in five respondents were stuck with late fees on over 5% of their payments. Consider an organization making thousands of monthly payments; incurring late fees, even for just 5% of overall invoice payments, can lead to millions of dollars in losses annually.

Automation as a Bridge to the Autonomous Future of AP

The challenges mentioned previously are exacerbated by the typically limited budgets and resources allotted to invoice processing and accounts payable management. In the midmarket, it is not unusual to see two- or three-person AP departments handling thousands of invoices per week. This dynamic opened the door for early rule-based automation to work as a force multiplier for understaffed and overworked AP teams.

Through automation, the workload is shared between employees and their software tools in a much more equitable fashion. Automation worked well in many cases but often resulted in the need to check and recheck invoice information for accuracy. As the pace of business increased and the demand for more flexibility from the supplier community continued to grow, AP teams needed more than the functionality simple rule-based automation could deliver. The conversation has increasingly shifted toward leveraging advanced technology like artificial intelligence (AI) and machine learning (ML) to address the shortcomings of rule-based automation by creating autonomous engines for invoice management.

Where automation dictates that a certain set of actions happen when the trigger event occurs, autonomous, through AI/ML, dictates that the right set of actions happen when triggered, even when the underlying details shift. It is a subtle but powerful difference. Consider how an autonomous system allows approvals to flow to the appropriate person even when certain aspects of the approval flow shift and change due to absence, job changes, project team movement, and so forth — all without human intervention. In short, autonomy allows for the right actions to happen even amid uncertainty and change. This shift toward autonomy has quickly become an essential differentiator for AP software vendors as businesses have been forced to contend with an unprecedented series of events over the past 36 months, creating, perhaps, the most uncertain business dynamic in the past 50 years. This document explores this concept in greater detail in subsequent sections.

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AP Managers Are Frontline Working During Uncertain Times

As mentioned previously, these are exceedingly uncertain times, maybe the most collective uncertainty in the supply chain, geopolitical, and global health macroeconomics since World War II. As such, the office of the CFO has become an emergency response team in many ways, with accounts payable playing a critical role. Accounts payable departments form the front line of cash management for businesses, controlling, validating, and processing every dollar leaving the business.

These uncertain times force finance departments to have a tighter grip on spending. In this current market, every dollar counts. As a result, the CFO turns to key spending categories like procurement, treasury, payroll, and accounts payable.

In addition, for accounts payable departments, the impending headwinds drive extreme focus on leveraging advanced automation for the following impacts:

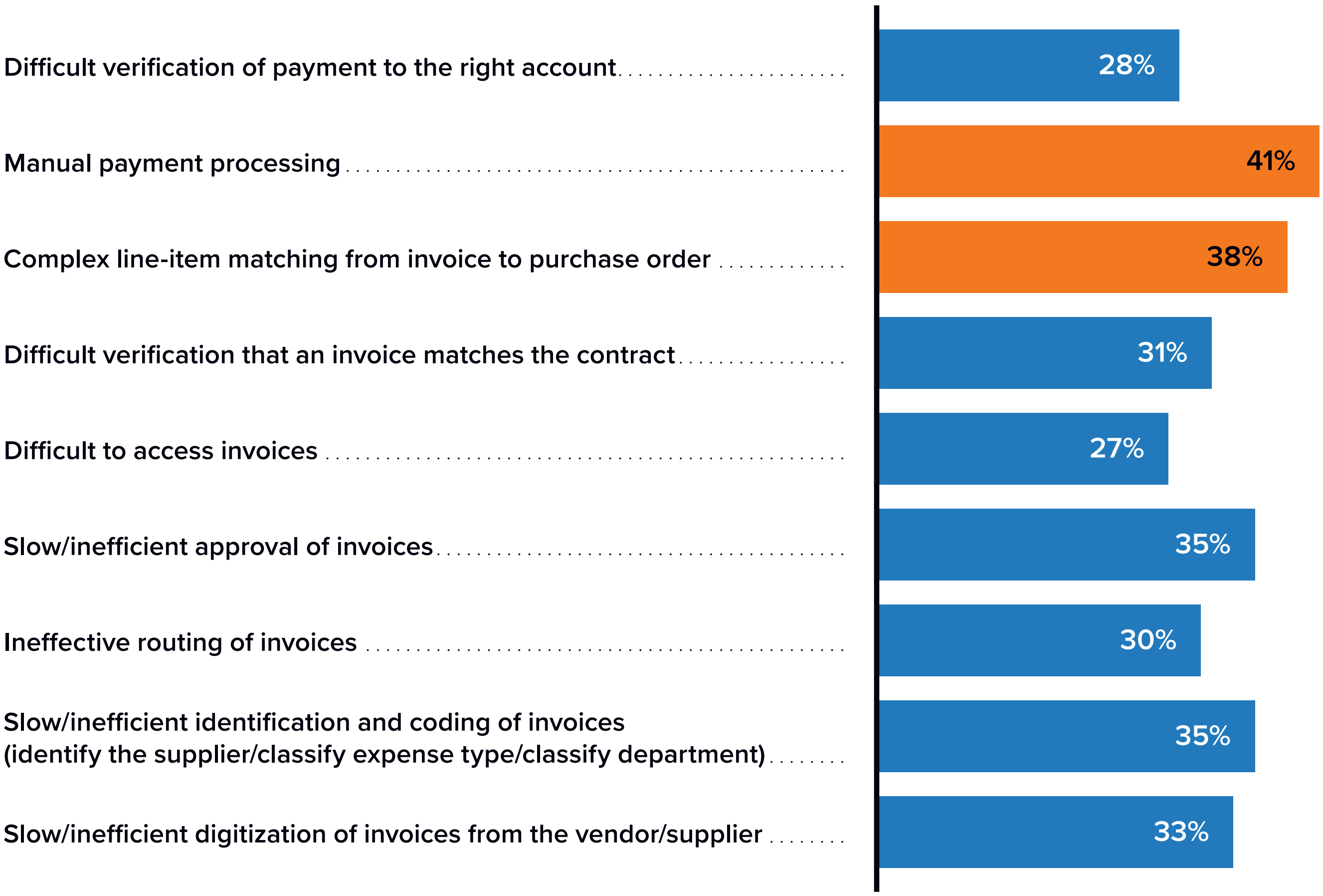
- **Better control:** Gaining and maintaining control of the AP process is critically important. Using modern software tools to standardize and centralize activities and relevant data is highly desirable for today's uncertain business environment.
- **Reduction of manual effort:** Introducing automation into the invoice ingestion, matching, coding, and approval processes can dramatically reduce manual effort in validation and reporting, freeing up AP staff resources to focus on higher-value tasking.
- **Increased speed:** A highly manual AP process slows the business-critical information on business transactional trends and details from flowing to those in a position to make decisions. Most invoice delays are a consequence of the document sticking with an approver because of uncertainty around which general ledger (GL) code to use for the transaction. Effective invoice management tools can speed up not only the invoicing processing and approval process but also the business insight process, which feeds financial planning and analysis (FP&A) and treasury management decisions.
- **Improved accuracy:** In many places within the AP process, inaccuracy can become a bottleneck to overall operational efficiency. A modern solution leverages AI/ML and advanced analytics to minimize the risks of inaccuracy and human errors during the AP process.
- **Improved employee satisfaction:** Talent management and retention are top of mind for many CFOs, as it is becoming increasingly difficult to attract and retain staff accountants. A modern automated solution improves the quality of life for AP staff; a modernized AP department can serve as an extremely powerful recruitment tool.

As of now, the current state of modernization is limited. According to IDC's *Accounts Payable Survey*, the vast majority (94%) of respondents show a lack of full adoption of utilizing STP, where invoices are processed directly from receiving to posting without manual intervention (see **Figure 2**, next page). Most survey respondents use automation tools like STP on less than 40% of their invoices. This lack of adoption leads to inefficiencies in AP resource allocation and opens the door to human errors and late payments.

FIGURE 2

Challenges Impacting Ability to Process and Pay Invoices on Time

What challenges impact your ability to process and pay invoices on time for your organization?
(% of respondents)



n = 360, Source: IDC's *Autonomous Processing Survey*, August 2022

Owing to the inefficiencies mentioned previously and the rising importance of cash management, businesses are turning to AP modernization efforts in droves. Modernization efforts for AP departments are set to continue to grow rapidly throughout the forecast period for the reasons discussed in the sections that follow.

Modernizing AP Can Enhance Visibility

- **Improved accuracy:** Advanced AP optical character recognition (OCR) technology allows for more accurate invoice processing. Also, modern AP solutions allow users to validate data in two-way and three-way matching. Advanced AP capture solutions offer synergies in processing various invoice types (EDI/PDF/paper) and provide extremely high-quality data through the use of machine learning capabilities. Machine learning can pair with data capture technology to increase invoice matching functionality, facilitating very high STP rates for purchase order (PO)–based invoices where two- and three-way matching is applied automatically.
- **Enhanced insight:** Modern solutions offer data analysis, advanced reporting, and data visualization tools that help users find problems or identify trends among supplier communities.
- **Integration with existing systems:** Today's AP tools offer robust APIs that allow essential data to flow more easily into the AP department from related systems, including financial, procurement, and supply chain data. Some vendors go beyond static APIs to offer vendor-managed integrations that remove the friction from integration for the customer. This allows customers to keep pace with upgrades/releases in finance systems without the need for the customer to manage it themselves.
- **Transparency of data:** Modern tools allow AP managers and controllers to see invoice volumes in real time for more effective cash management.

Modernizing AP Provides Greater Control

- **Establish governance and compliance:** The regulatory environment is only growing more complex. Modern solutions allow users to maintain compliance with tax, data privacy, and sustainability regulations globally.
- **Easier auditing:** Creating and maintaining audit trails are essential to maintaining operational efficiency. In addition, modern solutions provide more advanced auditing tools than legacy products.

- **Tighter control of spending:** Modern solutions allow businesses to establish guardrails for invoice handling and create efficient exception management workflows.
- **Flexible workflow design:** Modern tools allow users to configure workflows for specific job roles and activities. Also, these tools let controllers quickly change workflows to adapt to changes in the business.

Modernizing AP Improves Supplier Management

- **Streamline initial onboarding:** Modern AP management software makes supplier registration/approval, validating supplier addresses, and maintaining banking data faster and easier.
- **Hold good standing with suppliers:** Modern tools and efficient AP processes don't just benefit users; suppliers also benefit from a less stressful, confusing experience, allowing users to build goodwill among key suppliers.
- **Implement vendor portals:** Today's tools offer a vendor portal to communicate with suppliers, and vendors can track invoice payment statuses in real time through the peer-to-peer cycle.
- **Reduce supplier risk:** Modern tools allow users to integrate vendor/supplier background information to enhance their ability to enforce know your customer (KYC) and anti-money laundering (AML) checks.

Situation Overview

As businesses face a myriad of headwinds, including supply chain shortages, a persistent pandemic, and a possible global economic downturn, businesses have emphasized spend management. Along with the heightened focus on spend management, the role of the AP manager has changed dramatically over the past 12–24 months.

Here are a few of the ways the role of AP manager has shifted over the past 24 months; AP managers are:

- Taking a **more holistic view of spend** to include procurement and expense, along with accounts payable
- Heightening their **focus on fraud prevention and advanced regulatory compliance**
- Increasing their **focus on data analysis,** including forecasting cash flow and cash needs
- Investing more energy toward **establishing and optimizing a digital payment strategy**
- Transitioning to a **more strategic advisory role** — making a recommendation on cash flow, identifying spend patterns, and helping set overall financial position

Automation can help speed up and streamline key AP processes, including invoice matching, reconciliation, fraud detection, and approvals.

To support this evolution, businesses are looking to AP automation to free their employees from mundane AP taskings like manual invoice entry, invoice reconciliation, and vendor payment status inquiries. In short, AP technology is the bridge that allows AP staff to reach those higher-level, value-added activities like dynamic discounting, supplier optimization, and cash flow optimization.

Role of Automation in the Autonomous AP Department

We are living in times of unprecedented economic uncertainty and volatility. The priority for companies is to quickly shore up their key financial processes; chief among them is managing visibility and controlling their spending. This is a complex task with many moving parts, including invoice management, supplier management, supplier payment management, tax/regulatory compliance, and supply chain finance. As a result, users have turned to automation technologies to provide them with the flexibility and visibility they need to cope with these volatile times.

Automation can help speed up and streamline key AP processes, including invoice matching, reconciliation, fraud detection, and approvals. In addition, machine learning and artificial intelligence can be used to embed intelligence into workflows, eliminating the need for manual tasks and reducing the error rate of some manual tasks.

The following are a few places where AP automation has the most significant impact:

- Input/capture of invoices
- Matching of invoices to orders
- Classification/coding of invoices
- Verification and approval of invoices
- Payment of invoices

As of now, many businesses utilize automation to address aspects of the AP process. In fact, 83% of the survey respondents in IDC's *Accounts Payable Survey* were currently using AP automation to support some aspect of their AP processes, with an additional 9% planning to adopt it in the next 12 months.

While this number may seem at odds with other data points within the survey (like the lack of STP mentioned previously) these data points reveal a deeper truth when taken together: While businesses may be automated, they are not autonomous.

Autonomy Versus Automation

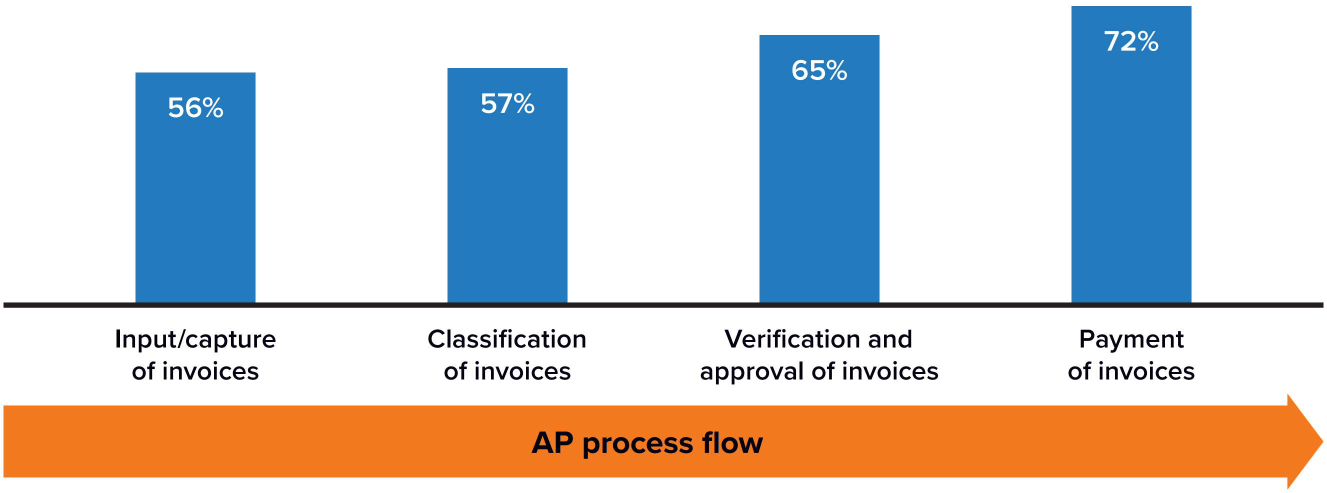
Automated processes may still demand a high degree of human intervention. For example, consider using simple rule-based automation to route an invoice to the proper approver on a project. It is still up to the approver to comb through dozens, sometimes hundreds of line items to verify that the proper data is present. This process is automated but not autonomous. Consider the same process using advanced AI/ML to match the invoice to the purchase order at the line-item level and further check the supplier credentials and past spending patterns to automatically approve this invoice for payment. This is the real promise of AI and machine learning within accounts payable — not just streamlining processes but eliminating them. This is where many AP managers and financial leaders want to move with their AP processes. IDC's *Accounts Payable Survey* found that less than 9% of respondents are fully autonomous and use no unnecessary human interaction in the AP process. Yet the desire to move to autonomy is high among survey respondents, especially as they move further along the AP process. **Figure 3** (next page) reveals the percentage of survey respondents that feel that reducing the level of human intervention is either "important" or "very important."

This is the real promise of AI and machine learning within accounts payable — not just streamlining processes but eliminating them. This is where many AP managers and financial leaders want to move with their AP processes.

FIGURE 3

Importance to Reduce Level of Human Intervention to Enable STP

From a cost control and risk point of view, how important is it to reduce the level of human intervention in the following steps to enable straight-through processing of invoices? (Top 2 box summary table)
(% of respondents)



n = 360, Source: IDC's *Autonomous Processing Survey*, August 2022

Notice how as the AP process moves from invoice ingestion to payment, the demand for a reduction in human interaction increases. This is likely due to the desire among AP staff to reduce their involvement in low-value-added activities like chasing down approvers or entering payments into a banking portal for hours.

Future Outlook

The following are a few key future technology trends that will shape autonomous AP management going forward:

- **Artificial intelligence is highlighted.** Financial leaders for product-centric companies often must move quickly to secure supply chain obligations and financing. As a result, many AP users are turning to advanced technology like machine learning and advanced analytics to help lower the data analysis/management burden and allow for more accurate decisions regarding financial management at speed.
- **Cloud is leading the way.** The most obvious takeaway is that organizations are planning on spending more on software as a service (SaaS) versus traditional (on-premises, single-tenant, and managed-hosted) software. IDC research shows we are already shifting toward the public cloud for accounts payable/accounts receivable (AP/AR), treasury, FP&A, and accounting software. Still, the survey results also suggest that this trend is accelerating, considering recent disruptions.
- **The aim is to bridge the gap between finance and IT.** For finance leaders, the top hurdle to digital transformation is the friction between often-restrictive IT/security policies and the desire of the finance department to move quickly and be more agile. In IDC's *Worldwide C-Suite (CXO) Survey* conducted in December 2020, the most common hurdle for finance leaders to effect their digital transformation agenda was the IT and security leaders slowing them down. The data reveals that financial leaders feel hampered by an inability to gather and disseminate that business-critical information to the necessary stakeholders at speed. As a result, financial leaders need more tools and features geared toward agility so that they can more quickly respond to rapid market shifts.
- **There is growth in rapid payment technology/initiatives.** For AP management professionals, time is of the essence when it comes to making payments. As a result, there has been growing momentum around faster payment programs. Recently, several payment initiatives were introduced/expanded, including SWIFT gpi, SEPA instant payment, and same-day ACH.

Challenges/Opportunities

While the market for AP software is growing rapidly and is set to continue to do so in the near term to midterm, there are significant market developments that command attention from AP software market vendors, including:

- **Growing convergence of accounts receivable and accounts payable:** AR and AP are business workflows that touch upon many other business workflows, including customer relationship management, order management, treasury, legal, finance, and sales. There is a large and growing role in incorporating external data sources (i.e., credit information, supplier chain risk, supplier news) into the mix. The walls between these traditionally siloed areas are crumbling, resulting in a new world of opportunities for AR/AP managers to blend data from these areas to drive new insight to not only reduce days payable outstanding/days sales outstanding (DPO/DSO) but also increase customer satisfaction. We expect to see the convergence continue among customers, sparking further demand for further product development, merger-and-acquisition activity, and partner ecosystem growth.
- **The spread of e-invoicing in the European Union (EU) and beyond:** e-Invoicing mandates are quickly taking root in the EU and beyond. In fact, in the past 12 months, there have been new/updated e-invoicing initiatives in Italy, France, India, Chile, Brazil, and Poland.
- **Environmental, social, and governance (ESG) impact on finance:** ESG reporting is one area that will dramatically impact the way finance organizations report in the future. ESG data can be used to identify trends, set goals, and track progress toward sustainability goals, but gathering this data will be challenging. For public companies, there will be mandated disclosure of emissions, climate-related financial risk, and carbon assessment of the supply chain. This is further complicated by the myriad of ESG frameworks in place currently, which makes benchmarking/auditing even more challenging. We will see technology vendors step up to include more dedicated ESG functionality.
- **Cybersecurity growing more essential:** Security has become a multifaceted issue because of the rise of cybersecurity threats and payment fraud. Businesses with modern financial solutions are better able to analyze customer/supplier transaction flows for fraudulent patterns.

- **Digital currency:** As cryptocurrency exchanges grow in number and cryptocurrency decreases in overall volatility, payment software will have to adopt supporting functionality. Digital currency markets will have a profound impact on financial areas like AP, AR, and treasury and, as a result, auditors analyzing data from these departments.
- **Remote working:** The pandemic disrupted business and required remote work, creating a new sense of urgency to move away from legacy financial solutions. Businesses already deploying modern online/cloud tools found themselves well suited for the changed circumstances.

Conclusion

The current view of economic forces points to impending storms for businesses in the form of supply chain issues, inflation, interest rate hikes, and so forth. For accounts payable departments, the impending headwinds drive extreme focus on visibility and control. Modernization efforts for AP departments are set to continue to grow rapidly.

Automation will form the foundation of growth within the accounts payable modernization movement. As this movement continues to move forward and AP becomes a data hub for spend management and other related shared-services centers, the question becomes whether simple automation is enough to allow businesses to thrive amid today's complex challenges. Further still, is AP ready for the next set of disruptions that surely lies ahead for global businesses?

IDC believes that the AP departments that hear the call and move from automated to intelligence-driven, autonomous AP tools will be better positioned to cope with the impending storm of economic, regulatory, and business uncertainty in 2023 and beyond. As companies continue to raise the profile of spend visibility and control and businesses make AP a data hub within the business, concepts like touchless and autonomous processing will become essential for business prosperity.

About the IDC Analyst

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As a research manager with IDC's Enterprise Applications team, Kevin Permenter provides insights and intelligence across multiple areas including enterprise resource planning (ERP), order management, financial applications, and project and portfolio management. He assesses the interplay, challenges, and trends regarding various enterprise application deployment models such as mobile enterprise applications and cloud models. He also develops and delivers his views, opinions, and analysis on the dynamics and evolution of this complex technology ecosystem.

More about Kevin Permenter

Message from the Sponsor

Medius links invoice capture, processing, and payment to replace the worry and wondering of managing AP with calm and confidence. With one look at a demo, you'll see how Medius solutions turn endless email, PDF, and paper invoices into a simple, secure, automated process. Medius goes far beyond basic automation by using artificial intelligence to do the work — so invoices get coded, approved, and paid, and AP teams get to go home and rest easy. Your business will get the transparency you need to see exactly what's pending and what's paid, so you can be confident your forecasts are spot on and there's virtually no chance of fraud from fake invoices. And you won't have to worry about high implementation costs and consultants because you'll start seeing the value immediately, and the innovation won't stop.

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