White Paper

Automating Accounts Payable for Retail

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Contents

Executive Summary

Retail organizations face different challenges to their counterparts in other sectors. The highly-competitive nature of the industry creates pressure to adopt a lean approach to delivering goods and services to customers. This has led to an increasing emphasis on customer centricity and faster, more robust supply chains. While there tends to be a focus on front-end process improvements, retailers realize that there is also a need to extend these improvements to their back-end processes, particularly in accounts payable (AP) and procurement.

AP refers to the entire process by which organizations pay for goods and services, from the receipt of the goods to the processing and payment of the vendor invoice. In an effort to reduce costs and optimize efficiency, leading organizations are implementing AP automation software and streamlining their back office functions.

This white paper serves as a guide for finance leaders on the drivers for implementing AP automation and the value it adds to the retail supply chain. It summarizes the issues that retailers are faced with, and the benefits that AP automation has delivered to a range of organizations, including, reduced costs, increased visibility, improved efficiency in AP processes, and enhanced vendor management. The paper highlights the ways in which AP automation can be integrated with existing ERP, procurement, and supply chain systems, and ensure tangible results including:

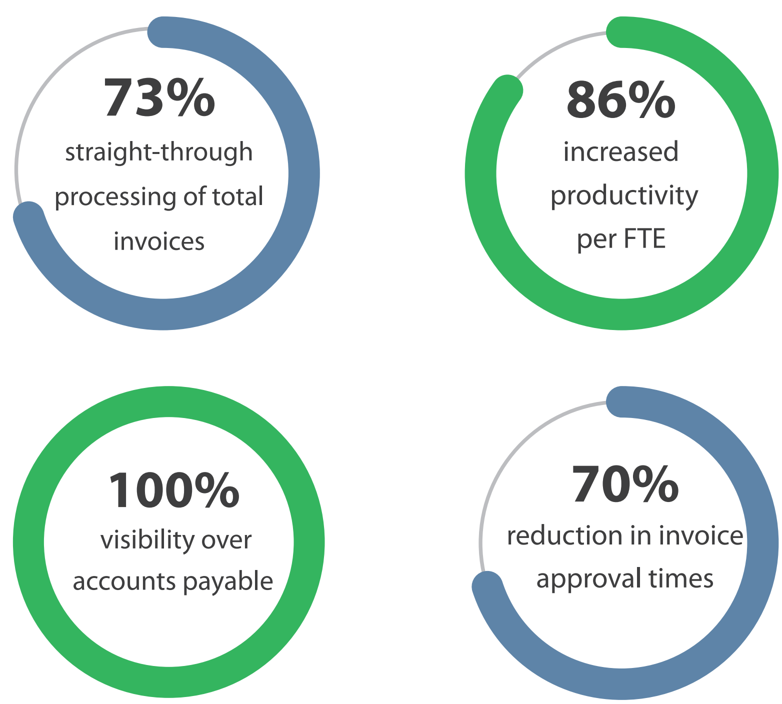

Fig 1.Results that retailers typically achieve with AP automation

Introduction

Organizations in the retail sector have a faster supply chain, and there are greater demands to purchase and deliver goods and services quicker and in innovative ways. As businesses increasingly focus on meeting the needs of the consumer in order to outperform competitors, many retailers offer goods via multiple channels (in store, wholesale, and online) putting pressure on companies to improve processes in the front and back ends of the business. The use of e-commerce, in particular, and the demand for ever shorter delivery times has forced retailers to shift focus from traditional brick-and-mortar stores to online retailing. For this tilt towards online stores to be possible, supply must be fast and reliable, and back end processes must be agile and automated.

This pressure to improve back end processes to achieve cost reduction and maximum profitability is widely covered in industry research. Results from a survey carried out by professional services firm, BDO, shows that competition in the retail sector was the biggest risk facing growth in 2016 (cited by 29% of participating CFOs).

Forrester research predicts that customer centricity, analytics, and optimization will be key for retailers in order to distinguish themselves from competitors and mitigate the risk of reduced growth. Research confirms that management will fundamentally change the pace of their business, replacing cumbersome, manual processes with automated, agile ones. According to further research by BDO, this is a key area of focus for the future: 81% of executives surveyed agreed that operational efficiencies are a priority to improve profitability.

Organizations can gain a competitive edge in the retail sector by allowing store and finance teams to focus on their core activities. AP automation eliminates the manual tasks of invoice data entry, coding, approval, matching, and payment, allowing operations and finance teams to focus on strategic, high-value work. A dedicated system for automating AP tasks ensures that costs are significantly reduced and spend management is brought under complete control.

AP automation can have considerable impact on the bottom line, delivering cost savings as a result of increased transparency over company spend, improved efficiency, reduced costs, and better relationships with vendors.

AP challenges in retail

Retail organizations typically utilize industry-specific systems for procurement, particularly for purchasing trade goods (sometimes referred to as direct, merchandise, or goods for resale), as this accounts for approximately 80% of total spend and is vital for revenue growth. However, when it comes to non-trade goods (indirect, non-merchandise, or goods not for resale, including expense items such as marketing, legal fees, utilities, etc.), organizations generally do not employ a dedicated system for procurement and AP, and instead rely heavily on manual processes. This results in deficient spend management, a lack of transparency, and poor vendor management, which contributes to inefficient AP processes. AP automation replaces these inefficient processes with structured solutions that enable finance leaders to take control of company spend, increase productivity of their teams, and improve vendor relations.

1. Retail-specific complexities

The retail industry has many industry-specific challenges in purchasing goods and services such as tolerances (allowing an organization to manage under shipments, late shipments, and unit price variations that cause discrepancies between the PO, invoice, and goods receipt), surcharges (for returns or for over handling of goods), and over-receipting (receiving more goods than originally ordered), and individual organizations have additional, bespoke business requirements to meet. AP automation solutions facilitate all these retail-specific requirements as well as the standard AP requirements such as duplicate invoice checking, varied payment terms, discount allocations, and VAT calculations.

In a manual AP environment, these challenges in retail are typically managed by two separate AP teams, one for trade goods and one for non-trade goods. This results in disjointed back-end processes, with a primary focus on trade goods, and crucially, without one single view over finance operations.

2. Different processes for trade and non-trade

In typical retail environments, the trade and non-trade environments are often separated with either by different systems, or by different AP teams. This separation of processes for trade and non-trade spend results in unnecessary complexity, duplication of resources and a lack of visibility of overall spend. Invoices for trade goods are typically received in e-mail, EDI, or XML formats, while non-trade invoices are received in e-mail, paper, or PDF formats.

Procurement of trade goods is typically managed by industry-specific solutions and while these systems may automate the creation and approval of purchase orders (PO), organizations ultimately rely on manual processes to complete the remaining AP steps including invoice capture, matching, and posting for payment.

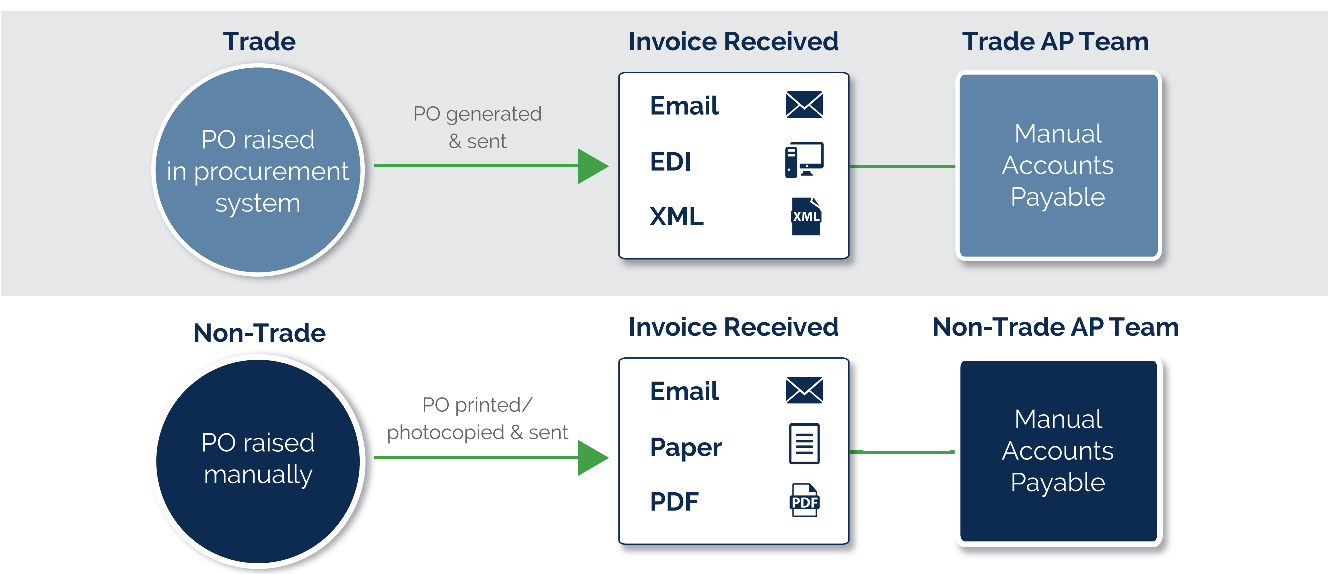

Fig 2. Procurement & AP processes for trade & non-trade goods separated by manual & semi-automated workflows

3. Lack of visibility & control over non-trade spend

On the non-trade side, retail organizations typically do not utilize systems specifically for procurement or the associated AP tasks, in which case the AP teams are left to manually complete every step from procurement through to payment of invoices. This manual processing is inefficient, slow, and uncontrolled, with a high number of touchpoints which drives up the costs involved in processing an invoice, and increases the risk of human error. This makes it difficult to manage non-trade spend, which is often non-PO based and can often account for over 20% of total spend. Typical problems that arise with non-trade spend are retrospective approvals, maverick buying, and non-adherence to company spend policies.

4. Duplicate invoices

In retail environments, it is common for organizations to have large numbers of vendors across global locations. This poses several complex challenges which often are not sufficiently managed by existing ERPs and, as a result, organizations implement further manual processes to handle them.

One challenge faced by many retailers is duplicate invoices and duplicate payments. In AP departments with no automation, manual processing naturally results in human inefficiencies and inconsistent invoice handling processes. From a vendor point of view, there is no visibility over whether or not an invoice has been received, approved, or paid, which often leads to vendors submitting invoices multiple times (by post, EDI or email) in an effort to get paid more quickly. Since there are no reliable ways to detect duplicate invoices in a manual environment, AP teams end up duplicating their effort to process these invoices and in some cases ultimately making duplicate payments which result in commercial implications and require further effort to remedy.

5. Managing invoices from multiple jurisdictions

Another challenge for retailers with high volumes of invoices from vendors across different geographical locations is managing multiple languages, currencies and exchange rates, and in particular ensuring that the correct tax coding for goods and services are applied. Handling these different factors in a manual environment can be hugely problematic, and can result in financial reporting errors and potentially serious non-compliance issues. As retailers generally have multi-currency transactions, monitoring foreign exchange (FX) rates manually can be difficult. A lack of visibility over currency rates can result in less favorable FX rates upon payment of invoices.

6. Vendor management

Vendor management is another area where retail organizations often find they struggle. This is due to limitations in the ERP vendor master data and the lack of structured tools within the ERP to efficiently and accurately manage existing vendors and on-board new vendors. Simple requirements, such as ensuring that all vendors are compliant with tax clearances, industry certifications, insurances, and other buyer-specific policies, are typically managed externally from the ERP using offline, manual processes. Likewise, vendor contract renewals and other vendor updates are often handled in a similar manual fashion.

The AP solution for retail

The AP automation solution with integrated procurement allows organizations to control buying from approved vendors and preferred catalog product listings only. Management can enforce strict 'No PO, No Pay' policies and gain full visibility over what is being purchased. AP automation solutions work seamlessly with multiple ERP systems and the disparate supply chain systems that typically exist in large retail environments, and provide a single view of the world for both trade and non-trade purchases.

Segregated AP teams for trade and non-trade can be consolidated and the manual paper-based processes and spreadsheets are replaced with structured and controlled systems. This allows both trade and non-trade to be automated by one solution, eliminating the need for two separate AP processes, and two separate AP teams. The automated processing of invoices enables finance teams to only handle invoices by exception and to prioritize by key criteria such as value, early payment discounts, aging, etc. Reporting and analytics also provide finance leaders with the necessary dashboards to project operational and financial metrics such as processing times, FTE productivity, approver performance, invoice accruals and vendor performance.

Other industry-specific challenges can also be managed. In retail it is not unusual for vendors to send invoices before the goods arrive - often as soon as the goods are ordered - in an effort to expedite the receipt of payment. Situations like this can cause real problems with traditional manual processes. However, with AP automation, invoices are automatically assigned an expected arrival date and are held pending the goods receipt note (GRN). When the GRN is received, the system triggers an automatic 2- or 3-way match, and unless an exception is found it will be automatically approved and routed for payment.

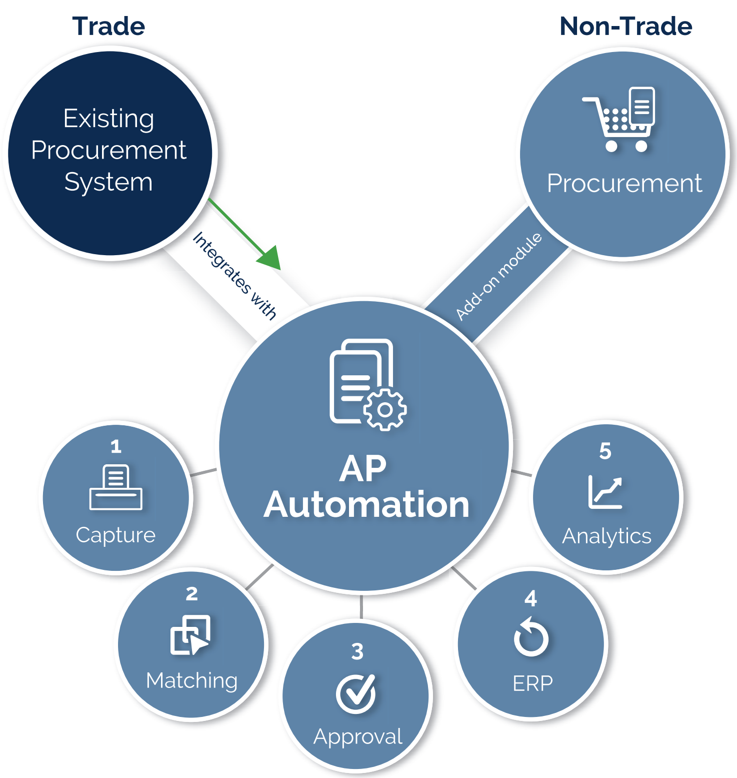

Fig 3. Procurement & AP automation for total spend

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AP automation provides a single system for processing all invoices through a structured workflow with automated matching and built-in approval logic. This ultimately enables the touchless processing of invoices and focuses AP teams on only handling invoices with exceptions.

Invoices can be captured in any format including paper, XML, PDF and EDI, so retailers can accept invoices electronically from sophisticated vendors using XML/EDI or, for other vendors, they can also automate the processing of invoices received by paper, email or PDF or submitted through an online invoicing portal. Vendors can track the status of submitted invoices, providing them with visibility over whether invoices have been received, processed, approved or paid.

AP automation allows for better control over the organization's cash flow. It equips the AP team with transparency over all vendors, enabling them to consider early payment discounts, and to strategically buy from preferred vendors and schedule payments in order to avail of these discounts. The solution also facilitates multiple languages and currencies, and provides full visibility over pending payments, allowing management to consider changing FX rates and make informed decisions on when to pay invoices without incurring unnecessary charges. Origin-based VAT, which is not always accurately accounted for in a manual environment, is fully automated within the AP solution, enabling precise payment and reporting.

In addition, AP automation incorporates a self-service vendor portal, allowing vendors to submit compliance details, including legal and tax documents required to validate vendors for fair trade and anti-corruption and bribery standards. This significantly reduces vendor management and vendor on-boarding time and costs.
This simplified vendor on-boarding reduces the dependency on certain vendors, allowing organizations to remain agile and change vendors quickly if needs be. By streamlining the on-boarding process and significantly reducing the volume of vendor queries, more time is freed up for the finance team to focus on higher value work. The vendor portal provides transparency, speed, and improved productivity that cannot otherwise be achieved using manual processes.

The cost benefits of AP automation

The costs incurred in the finance department can be significant. Automating the AP process enables organizations to achieve better employee productivity, increased visibility and control over spend (both trade and non-trade), and significant cost savings at each stage in the AP process. Industry research by PayStream has found that 90% of CFOs that implemented AP automation standardized purchasing processes and achieved savings of 80% in invoice processing costs.

The cost of manually processing invoices can be significant. Forrester reports that over 97% of invoices are processed manually. The average cost of processing invoices varies, but can amount to $45 (€40) per invoice.

This allows organizations to monitor trends and highlight problem areas. Full transparency over AP facilitates better reporting and analytics. The following are key KPIs that retail organizations can establish with AP automation:

- Auto-match rate: This allows organizations to measure the percentage of invoices that are processed straight-through, without manual intervention. The higher the percentage, the more the AP team is able to handle exceptions.
- Invoice processing time: This measures the speed with which the organization pays its vendors. It allows the finance team to monitor the turnover rate, and track slow payment rates which may be an indicator of deteriorating financial performance and vendor relationships.
- Productivity per full-time employee (FTE): This allows management to identify decreasing productivity which may indicate recurring problems with certain invoices, as well as make decisions regarding the number of FTEs required to handle the volume of invoices. Automation of AP processes typically results in an 80% increase in FTE productivity.
- Early payment discounts: This identifies the number of invoices that are paid early, and the vendors that offer early payment discounts. This allows the AP team to strategize when to pay which vendors, taking advantage of discounts on offer.
- Vendor management: This allows the finance team to assess the level of participation on the vendor portal, and to measure the efficiency of on-boarding.

How does AP automation work?

AP refers to the entire process by which organizations pay for goods and services, from the receipt of the goods to the processing and payment of the vendor invoice. Successful organizations are modernizing their AP processes by automating each of the steps involved. AP automation can be achieved by transforming the following tasks:

- All types of invoices including paper (using intelligent character recognition (ICR)), PDF, fax, EDI, XML, and email can be automatically **captured** in the system. Touchless processing for most invoices through capture, matching and approval means only exceptions need to be handled by AP team members. Other automated checks trap problems such as duplicate invoices, missing PO numbers, and unregistered vendors at source before they cause bigger problems and more work downstream.

- Automated 2- or 3-way **matching** of POs (extracted from the ERP/procurement system), invoices, and goods received notes eliminates manual paper-based processing, which typically results in the straight-through processing of up to 80% of all invoices.

- **Approval** automation allows for invoices to be routed electronically, reducing approval times. Complex rules based on roles, hierarchies, product type, and varying approval limits can be configured to ensure adherence to company spend policies. Sophisticated workflow automation not only enables approval routing within a single entity, but also across multi-entity organizations.

Fig 4. Framework for AP automation

Seamless **interoperability** between the AP system and an organization's procurement and/or ERP system ensures full visibility of the end to end AP process along with a complete audit trail for every transaction.

KPI dashboards and reporting **analytics** enable finance leaders to continuously monitor and improve the operational AP processes while also delivering timely and accurate month end reporting.

Integration methods

The integration method refers to the ways in which the AP system and existing procurement, ERP, or supply chain systems transfer PO and invoice data between each other. Different data formats, including CSV, XML, EDI, SQL views or stored procedures, may be used by each system or for each step in the AP process. There are a number of dedicated adapters that enable the systems to exchange this data, including:

- **File exchange via SFTP**
- **SQL direct integration**
- **Web Services Security (WSS)**
- **RESTful API**
- **JSON**

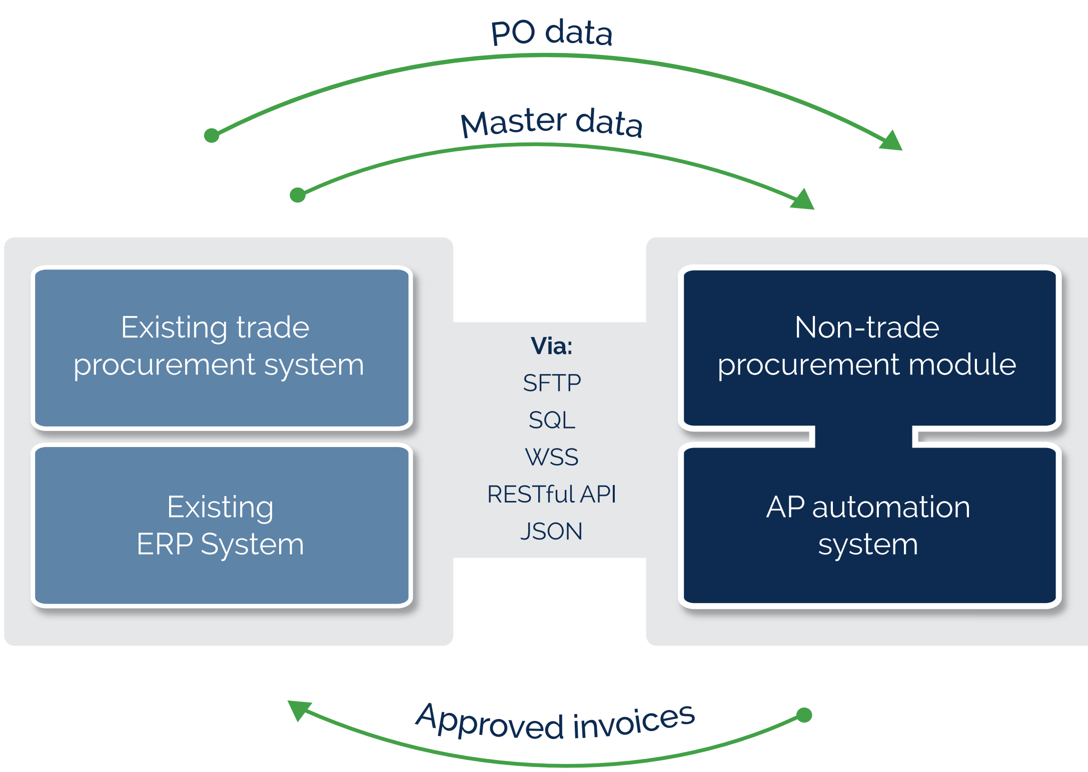

Fig 5. Data transferred between existing & AP automation systems (with optional non-trade procurement) via one of the integration methods

Customer references

Grafton Group plc

"Approval times have fallen from 30 days to 12 days. And because invoice resolution times are faster, we are processing invoices much quicker."

Grafton Group plc (Grafton) is a buying materials group in the UK and Ireland with revenue of over $3 billion, Grafton owns leading brands including Heiton Buckey, Chadwicks, Woodies, and Telfords. Grafton deployed SoftCo AP Automation and within the first year, had achieved reduced costs, straight-through processing of 73% of invoices, a 30% increase in the capacity of its finance team, and reduced invoice resolution times by 60%. Full visibility and control allowed the finance team to calculate accruals accurately, which enabled timely month-end close.

"From the time when the paper invoice left the office to when it is received back authorised, we had little visibility of its status, or whereabouts."

Argos, a leading retailer in the UK and Ireland with a revenue of £3 billion, implemented SoftCo AP Automation to improve its process, particularly for non-merchandise invoice processing, and reduce the need for a high number of temporary staff. As a result, Argos reduced its invoice processing time by 86% and vendor query calls by 50%. The finance team now has full visibility over the AP process, allowing reporting to be completed in a timely manner, resulting in an accurate month-end close. The new AP system alleviated Argos of the need to hire high numbers of temporary staff. Argos achieved dramatic improvements in employee productivity, efficiency, and significant cost savings. .

"Invoice approval process time was slashed from 7 days to 2 days. We are now able to work with a faster and more reliable process."

John Lewis is a UK-based operator of 26 department stores across multiple locations. John Lewis struggled to manually process 15,000 invoices per day, each of which needed to be paid promptly. John Lewis deployed SoftCo AP Automation to minimize their handling of paper invoices. John Lewis was enabled to centralize non-trade invoices to give a single point of entry for all invoices. Approval times were reduced from an average of 7 days to just 2 days. The SoftCo solution has allowed the finance team at John Lewis to have full visibility over the status of all invoices, and to complete accurate and timely month-end reporting.

Conclusion

Competition between retailers has resulted in greater demands to establish differentiation. In order to get ahead, retailers are making efforts to provide improved goods and services to consumers. Considering the emphasis on speedy supply chains and the importance of vendor relationships for success in retail, companies have started to improve back end processes in order to increase efficiency and maximize profitability. Leading organizations have deployed AP automation in order to deliver considerable efficiencies and have achieved faster invoice processing times, reduced invoice processing costs, improved vendor relationships, and lower overheads and labor costs. Automation of AP processes allows for better visibility and control over total spend (both trade and non-trade) which enables finance teams to produce higher value reporting and analysis of operations.

About SoftCo

SoftCo is a leading global provider of financial process automation software, replacing inefficient processes with solutions that transform financial processes, reduce costs, and ensure that organizations meet their business and compliance obligations. SoftCo's solutions fully integrate with all major finance systems, databases, and ERP systems including Microsoft Dynamics, SAP, Oracle, JD Edwards, Lawson, and Exchequer, via an adapter called SoftCo Connect. SoftCo has offices in Ireland, the UK, the USA, and the Nordics. SoftCo is ISO 27001 certified and is an AWS Advanced Technology partner and a Microsoft gold partner.

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