

DRIVING SPEED AND ACCURACY IN AP / AR: HOW THE CLOUD SEPARATES LEADERS FROM FOLLOWERS

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Report Highlights

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Leaders are 35% more likely to have implemented cloud-based AR solutions.

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Leaders were 20% more likely to employ AP systems that were fully integrated with ERP or financial solutions.

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Organizations with fully integrated solutions are 21% more likely to enlist this capability in the cloud.

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Organizations with AP solutions in the cloud enjoy almost 76% faster processing times.

The benefits of automated accounts payables/receivable are largely known. While automation does greatly improve AP/AR processing, these performance and operational benefits are further improved upon by taking advantage of cloud technology. This report will highlight these benefits.

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If automation is the cornerstone to efficient invoicing and payment processing, then the cloud is the foundation where Leaders in financial management prefer critical data to reside.

In the world of accounts payables and receivables, there are unilaterally clear and unwavering objectives. Within AP, timely and accurate payments are ultimately the goal. Within AR, recouping revenue efficiently and quickly is first and foremost top priority. Any delays or problems during these functions can have profound effects on an organization's ability to predict cash-flow and decision-making process. Treasury and operations decisions are heavily reliant on the AP/AR data. In short, AP and AR processing has immediate and impactful ramifications on the bottom line, so it is vital that the best fitting accounting solutions are employed.

Finding the right accounting solution is not just about finding the most user-friendly solution available. It's also about finding solutions that present the greatest potential for quick, accurate and meaningful data, that yield greater cross departmental collaboration, and enables insightful analytics. Leveraging premier accounting solutions has numerous operational benefits. A fundamental component of almost all premier accounting solutions is automation. If automation is the cornerstone to efficient invoicing and payment processing, then the cloud is the foundation where *Leaders* in financial management prefer to store critical data.

The Pressures to Perform

In business, there's never a shortage of reasons to improve performance and efficiency. Rather, the pursuit of advancements and improvements is intrinsic to all successful organizations. But understanding the exact catalysts of change is essential to identifying just how to achieve these improvements. Aberdeen Group research (AP/AR benchmark survey, Sept 2015)

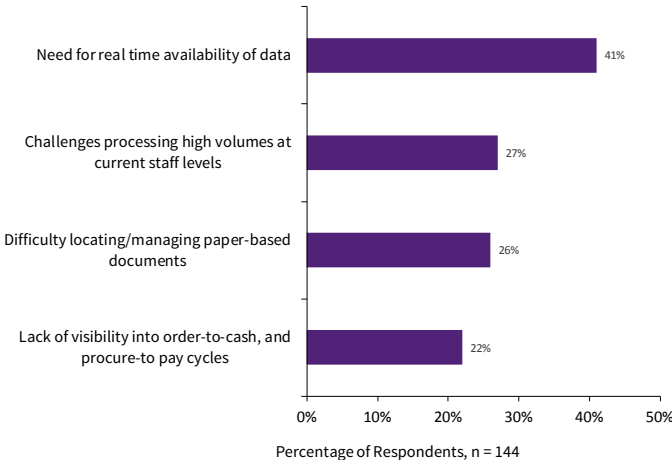
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identified four primary corporate, organizational pressures driving the need to improve financial management: managing growing volume of transactions, demand for expedited financial information, inability to process exceptions in a timely manner and, general economic uncertainty (see sidebar). The context of the broader pressures should be kept in mind while proceeding to read on. There is clear relevance to these macro-organizational pressures filtering down to AP/AR demands. Figure 1 illustrates how these pressures will be addressed and alleviated. The benefits and capabilities of cloud-based accounting solutions highlighted in this report will therefore be responsive to these specific pressures.

Zeroing in on AP pressures

We begin by assessing survey responses indicating the top pressures organizations are experiencing.

Figure 1: Top Pressures Driving Companies' Invoice Receipt and Approval Practices (AP Pressures)



Source: Aberdeen Group, Sept 2015

Organizational Pressures to Improve Financial Management: (All respondents)

- 38%** - Need to manage growing volume of transactions
- 35%** - Demand for expedited financial information delivery
- 26%** - Unable to handle exceptions in a timely manner
- 21%** - Economic Uncertainty

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Customer risk management is equally important when striving to improve billing and processing systems.

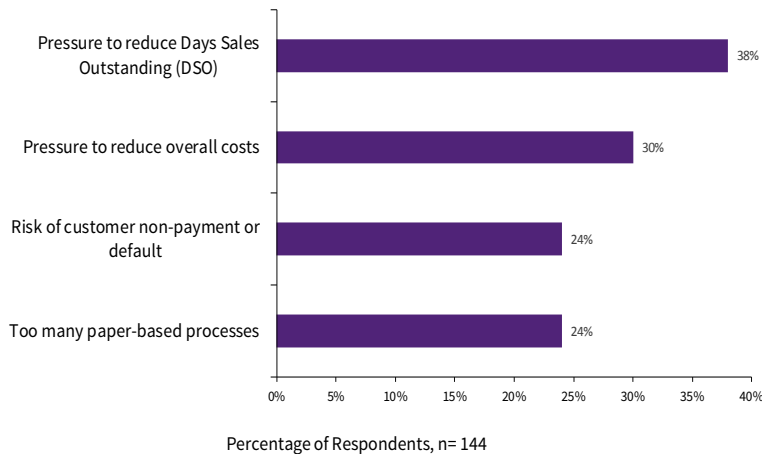
The number one pressure within AP environments is the need for accurate real-time data — the more accurate, the better informed downstream decision making becomes. The challenge of increased demand on real-time data is no surprise given that stakeholders who make finance-related decisions heavily rely on the accuracy of their data to reduce risk. As companies grow their business (or if there are reductions in AP staffing levels), there is likely to be an increase in the volume of payment invoices. However, the spike in volume does not diminish the demand for subsequent real-time data, and can present departmental strains requiring adaptive solutions.

What Keeps AR Up at Night?

Moving away from the AP side, let's look closer at AR related pressures (Figure 2). Given AR's primary mission to settle any outstanding revenue in the quickest, surest manner possible, there is little surprise that the reduction of DSO is a top pressure. Reduction in DSO improves operating capital and operational perception, which always keeps shareholders happy.

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Figure 2: Top Pressures Driving Efforts to Improve Current Billing and Payment Processing Systems (AR pressures)



Source: Aberdeen Group, Sept 2015

Unsurprisingly, reducing AR related costs is equally reflected as a top priority. Reducing costs, increasing productivity, and freeing up resources can all be accomplished when paper-based AR transactions are curtailed. At the core of any AR department is their ability to recoup payment. Delays or defaults, to a large degree, are considered failures. Therefore, customer risk management is equally important when striving to improve billing and processing systems.

Leaders Choose Cloud Accounting

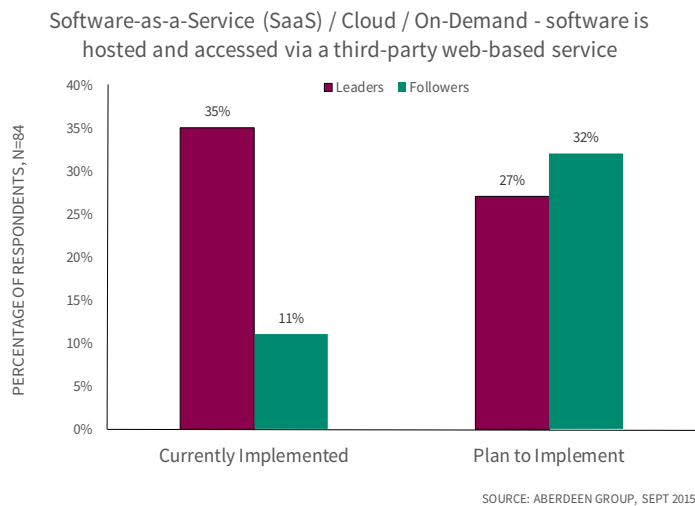
Having identified top priorities in AP/AR process management, let's now review *where* respondents were identified as financial organization *Leaders* and how they outperform *Followers*. Illustrated below, we see Leaders strongly deploy their AR solutions in the cloud. In fact, Leaders are currently over three times as likely to have implemented their solutions in the cloud, with many more planning to do so in the near future.

The Aberdeen Maturity Class is comprised of survey respondents. The data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of the two categories:

- **Leaders – Top 35%** of aggregate performance scorers:
 - *No. of invoices processed per month* – 16,169.17
 - *Total invoice processing time (including weekends)* – 5.95 days
 - *Data Entry Accuracy Rate* – 90%
 - *Early Payment Discount Capture rate* – 73%
- **Followers – Bottom 65%** of aggregate performance scorers:
 - *No. of invoices processed per month* – 13,143.84
 - *Total invoice processing time (including weekends)* – 17.83 days
 - *Data Entry Accuracy Rate* – 68%
 - *Early Payment Discount Capture rate* – 59%

By operating in the cloud, back-up data and storage capacity is greater and frees up on-premises server bandwidth for other vital business operations and is far more scalable.

Figure 3: Cloud/SaaS Implementation Levels



Why the Cloud for Finance?

Access Information From Anywhere

Operating in the cloud creates significantly easier remote accessibility. While seemingly similar to the end user, the remote access choice is typically between Virtual Private Network (VPN) and the cloud. VPN is a private network accessed via public network (remotely), whereas cloud computing translates data to various online services or locations via enterprise applications. The principal benefit of operating within the cloud is that VPN networks are privately owned and maintained by the organization hosting the website or online services. This incurs additional stress and costly expenses on IT resources (i.e. data centers, firewalls, etc.)

Lower TCO and Higher Security

Cloud services differ in that they are enterprises unto themselves. They “rent” space on their servers and often outsource the cost-prohibitive elements of their services, but at

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discounted prices due to the larger volumes. They also operate with superior redundancies and security parameters. Cloud providers invest excessive amounts in R&D security-based measures because focusing solely on their online service means the viability and success of their business models means unequivocally demonstrating success and confidence in performance around their security. The greater ease of access (by not being constrained to a VPN if remote), the deferred cost savings, and enhanced security all make the cloud an attractive alternative.

Scalability

The operational benefits of cloud-based solutions are numerous and undeniable. By operating in the cloud, back-up data and storage capacity is greater and frees up on-premises server bandwidth for other vital business operations and is far more scalable. This nullifies strains on IT infrastructure, and reduces necessary capital expenditures for future expansion, while simultaneously decreasing operating expenses.

Collaboration Enhances Productivity

Operationally, cloud-based solutions provide more robust enterprise-wide collaboration. This is accomplished via integrating SaaS with enhanced, remote social applications (i.e. web/video conferencing, IM/Chat). By sharing information to key business unites and stakeholders, information and analytics is more timely and accurate. Data silos begin to dissolve. Accuracy is improved by the combined efforts of the inter-related departments. In short — the technology afforded by cloud based solutions lends to an elevated collaborative culture.

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Figure 4 chart reflects two data sets around specific AP Capabilities: (1) **Leaders** compared to **Followers** [represented by the bar graphs] and, (2) percentage of *all respondents* indicating whether they, and the related capability, were **Operating in Cloud/Not-operating in the Cloud** (represented by the line graphs).

In the following chart, Leaders out-perform followers in these capabilities (bar graph) and data also reflects all capabilities are more frequently enjoyed by those with Cloud based solutions (line graph).

Similar graph used in Figure 5

Automate Workflows and System Upgrades

The automation enjoyed on the cloud is end-to-end service. The processing is executed by defined workflows and parameters (established by one's AP/AR guidelines). Automatic Software Upgrades are executed externally, with minimal, to no service interruptions for end-users. Backup/Disaster recovery is also provided as part SaaS offerings, which along with bandwidth and power redundancies, help to reduce organizational IT operations expenditures.

Mobile

Anxiety around the cloud is also systematically lessened by the growing use of cloud-based applications in our daily lives. Many mobile and smart phone technologies rely heavily on cloud-based application compatibility. SaaS organizations are heavily reliant on their reputations as the attractive option for server functionality in the rapidly evolving smartphone and tablet environments. Because business reliance on platform accessibility is simultaneously developing to a pro-mobile and remote-friendly business world, the accounting solutions that are best situated to adapt in lockstep are those residing in the cloud.

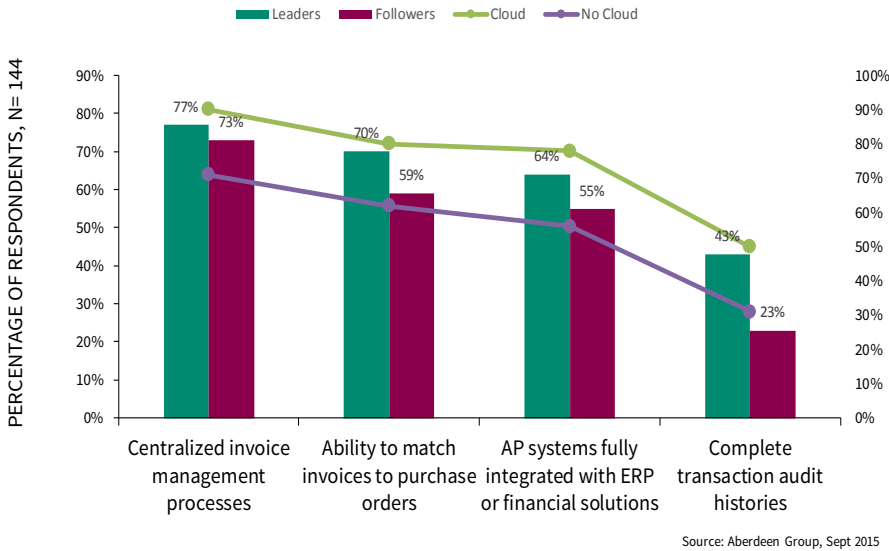
Cloud Solutions Improve Efficiency and Accuracy

It's now time to review those capabilities most frequently enjoyed by users with cloud-based solutions. These capabilities speak to, and essentially alleviate the pressures that organizations reflected (refer to Figure 2). Leaders engage centralized invoice management 5% more often than Followers. This was the singular most employed capability in the cloud, with 86% of respondents with cloud solutions applying centralized invoice management. This processes is resoundingly employed

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by both Leaders and Followers, because it allows for a singular platform to execute in AP processing across the enterprise. Operating a centralized invoice management on the cloud is preferable largely due to the ease of accessibility. Any organization that has segmented or multiple AP processes runs extreme risk of delayed, disjointed, or redundant billing.

Figure 4: Primary Financial Management Capabilities Enjoyed in the Cloud



The ability to match invoices to purchase-orders acts as a checks-and-balance that billing for services is accurate. Leaders are 19% more likely to have this capability. With automation, once the invoice and PO are confirmed accurate, the payment can go out as scheduled, or the subsequent manager approval alert will be triggered if necessary. This increases transaction volume straight through processing, and reduces potential follow up inquiries, both external and internal. Should there be any necessary follow-ups, the ability to run customer-centric

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transaction audit trails will facilitate any such review. Those with cloud-based solutions enjoyed these type of audit trail capabilities 1.4 times more than on-premises solutions.

The processing, and subsequent review or management of accounts receivables, especially as exception processing, is also made easier through the enhanced communication apps. Many cloud-based solutions provide automated alerts for ‘call-to-action,’ shared documents/updates, chat and business SMS, etc. — all of which increase collaboration and process expediency.

Leaders favoring AP solutions residing in the cloud enjoy the benefit of automated alerts and notifications. These are not just updates of timely payments, but also potential payment discrepancies or deficiencies. By operating a fully integrated accounting solution (with ERP and Ledger platforms), if there are any potential cash shortfalls that relate to ensuing payments, alerts are distributed. Organizations with fully integrated solutions were 21% more likely to enlist this capability in the cloud.

This depth of systems’ integration extends beyond ERP and accounting systems. It may also be incorporated into CRM and other enterprise-wide platforms. When the relevant AP/AR data is shared with CRM and accounting, you now have the luxury of being able to directly tie vendors and customer’s financial information into platforms that will help to better manage these relations, as well as increase collaboration and the means to expedite resolution of any account related inquiries or issues.

Premier solutions provide for alternative accounts (primary, secondary, etc.) to be aligned for auto payments. If there are insufficient funds at one location, the payment solution transfers money from the backup account(s) as necessary. This ensures

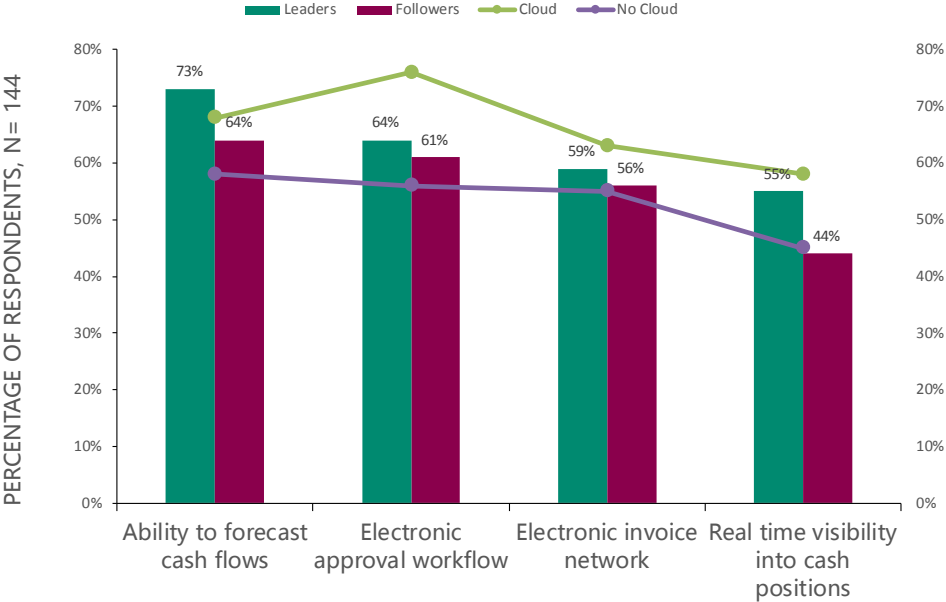
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suppliers are paid, and customers do not potentially acquire late fees or diminish the quality of the relationship. Again, integrated systems, between accounting and CRM/ERP/etc. collaboratively and automatically update the platforms and provide greater, real-time data for key stakeholders. Within both capability sets, the cloud is more preferable based again, primarily due to the more collaborative nature of being in the cloud, along with data security and back-up redundancies.

Cloud-based Capabilities Supporting AR Objectives

To understand how a cloud solution can improve an organization's ability to handle the AR challenges noted above, let's contrast the differences in the fundamental capabilities implemented in organizations with cloud solutions to organizations without these solutions (Figure 5). The ability to forecast cash flows, and/or have real-time visibility into cash positions provides several elements for improved projections, as well as the processes around their outcomes and revenue inflow. Those with SaaS solutions are 18% more likely to have the ability to forecast cash-flows. By better understanding the factors that affect cash flow, this data can then be used to provide valuable insight around future cost-related operational decisions. Cash flow projections assist in this.

Figure 5: AR Operational Capabilities Flourishing in the Cloud



SOURCE: ABERDEEN GROUP, SEPT 2015

Electronic invoicing decreases manual resources required for AR processing and therefore helps to reduce costs allocated to this processing. Of course, invoicing electronically also significantly reduces the volume of paper-based transactions. Organizations with electronic invoicing do so 15% more in the cloud.

Electronic approval workflows (especially when married to electronic invoicing) expedite the time and processing for potentially delinquent or at-risk payments. By establishing proactive workflows (often automated) that assist in customer follow-up, as well as alerts to increases in aged reports, DSO concerns are equally addressed. Those who undertake electronic approval workflows do so 36% more frequently in the cloud.

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Comparing Performance of Those in the Cloud

Aberdeen research safely concludes that the highlighted capabilities are accompanied with irrefutable data illustrating superior performance. Organizations using cloud-based solutions with capabilities intended to reduce DSO were found to have 30% fewer account receivables of all revenue in DSO. They also reflect 50% fewer past due accounts receivables (see Table 1). Invoice processing costs are 20% better between those with solutions in the cloud as is on-time payment rates. Performance benchmarks, as detailed in Table 1, similarly validate this. It's clear that cloud-based accounting solutions provide capabilities that will improve performance across the board.

Table 1: Metric Comparisons [Source: Aberdeen Group, Sept 2015]

Performance Benchmarks	Cloud	No Cloud
Processing time – the total time required to process an invoice from initial receipt until approved for payment (including weekends)	2.67 days	11.33 days
Invoice Processing Cost – the total cost of labor and fees (transaction-based, postage, etc.) for processing a single invoice from receipt through approval	\$8.10	\$10.08
Straight Through Process rate – the percentage of invoices that are received, validated, and approved for payment in a completely automated manner	57%	39%
Percentage of organization's current (AR) performance in (AR) Day Sales Outstanding	7%	10%
Current performance in percent of accounts receivable that are PAST DUE	6%	12%
On-Time Payment rate – the percentage of invoices that are paid on-time according to their payment terms	92%	83%
Current average time required for PAYMENT TO CLEAR A/R LEDGER	2.05 days	5.98 days

Key Takeaways

The data in favor of implementing accounting solutions in the cloud leaves little room for doubt as to its benefits. However, the three general takeaways that one should leave with are summarized as follows:

- ➔ **Leaders in AP/AR More Frequently Operate Solutions in the Cloud** – Leaders were found to be 35% more likely to operate AR solutions in the cloud.
- ➔ **The Cloud is Cost Effective, Promotes Greater Collaboration, and is Safe** – The resources saved by diminished IT-Op Ex and freed up resources allows capital and energy to be diverted to alternate areas. The accessibility and superior communicative nature of Apps afforded by the cloud help collaboration and expedite resolutions. The security enjoyed by cloud offerings today is superior and provides more efficient and comprehensive fail safes.
- ➔ **Solutions Delivered in the Cloud Improve Processing** – Solutions in the cloud offer capabilities that will alleviate organizational pressures. These capabilities improve accuracy and efficiency. Solutions operating in the cloud also enjoy significantly more benefits — for example, organizations with AP solutions in the cloud enjoy almost 76% faster processing times than those not operating in the cloud.

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Final Recommendations

Where your cash-flow and revenue is concerned, one can never be too diligent or too well informed — and there is always room for improvement. Cloud accounting solutions are therefore the clearest and most sensible means to elevate all related competencies. As such, we offer the following recommendations:

- Take the time to thoroughly review and understand the benefits of a cloud-based accounting solution
- Automate, and implement an appropriate AP/AR solution — but do so in the cloud
- Maximize the collaborative capabilities across the organization with automated accounting solutions and integrated systems (i.e. CRM, ERP, financial solutions, etc.)

There can be little doubt that AP/AR automated solutions are better served in the cloud. Of course, with any solution, finding the right vendor to fit your organization's need is an individually unique task. Those solutions that maximize integration will provide the most enterprise-wide benefits. Keep these key components in mind when considering the ideal AP/AR solution and your company will likely find new insightful analytics and operational improvements across the board.

For more information on this or other research topics, please visit www.aberdeem.com.

Related Research

[*Improve Cash Flow Projections, Ops Efficiency & Reduce Risk with Automated AR Solutions*](#); January 2016

[*Anywhere, Anytime: AR Mobile Apps makes Income-Management Always Available*](#); January 2016

[*Bring Invoice Processing Costs Back to Earth with AP Automation in the Cloud*](#); December 2015

[*Automation: The Solution to Efficient Financial Management*](#); September 2015

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