A long-standing question for prospective buyers of AP automation solutions is whether to pursue best-of-breed point solutions or leverage AP automation capabilities embedded in other platforms, such as procurement applications. This paper examines that question.

AP Versus P2P Automation: The Case for a Hybrid Approach

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Introduction

Procurement applications have followed a solid growth trajectory over the past 20 years, highlighted by the growth (and later acquisition by SAP) of Ariba. Several new entrants have since entered the marketplace, with most of those providing a full SaaS solution, as opposed to the earlier on-premises solutions.

The evolution of these systems has roughly aligned to an initial deployment of digitized requisitions, followed by additional modules in the areas of sourcing, supplier relationship management, contract life-cycle management, spend analytics and, more recently, payments. From module to suite, these applications are pressing forward with offerings in the fuller supply chain space and providing supplier business networks that facilitate improved collaboration.

During the same period, accounts payable (AP) platforms have made similar and dramatic advancements. A process that was once almost exclusively a back-office, paper-based exercise, AP tools are now fully digital offerings that work alongside procurement applications and drive more optimization of the payment cycle. The platforms are also SaaS solutions that provide streamlined, customizable workflows that free IT teams, offer quick time to value, and reduce overall costs.

As these two platforms have matured, many entities reach a common decision point for would-be buyers Which path do we follow? Should we pursue a best-of-breed AP point solution or full-suite procurement application? Or maybe a hybrid of the two?

AP Automation

Prior to advances in business process automation in the past two decades, AP was viewed strictly as a back-office, paper-intensive exercise. Invoices were received by mail or fax, logged, and routed via internal mail to the appropriate stakeholders for approval. Once approvals were made, the invoices were again routed via internal mail for processing and logging before AP was given the approval to send payment. Payment was often made by a physical check that would need to be generated and then mailed to the payee. In short, the AP process was tedious, slow, and involved dozens of "touches."

AT A GLANCE

KEY STAT

Over 60% of companies surveyed by IDC are using SaaS-based accounts payable applications or plan to use SaaS-based AP in the next 12 months.

With the advent of electronic business process automation, entities began to reinvent the AP process and introduce various levels of automation. Earlier platforms were less customizable, so entities found the need to adjust their internal processes to conform to the capabilities of the software. Still, they enjoyed lower overall costs and more timely processing and payment of invoices.

AP automation platforms generally provide a core set of capabilities. These include intelligent document capture and data extraction using optical character recognition (OCR) technology, purchase order (PO) matching, exception and approval workflow customization, the posting of approval to pay to enterprise resource planning (ERP systems), and document management/retention capabilities.

As with any platform, there is a hierarchy of maturity levels associated with AP platforms. Table 1 shows the capabilities associated with the indicated maturity level.

TABLE 1: *AP Platform Capabilities by Maturity Level*

Level	1	2	3	4
Description	Scan and link	Automation with no OCR	Automation with OCR	Automation with OCR and RPA
Functions	Document management	Manual indexing into document management system	Automated OCR and intelligent capture for PO and non-PO data extraction, including line-item detail	Automated OCR and intelligent capture for PO and non-PO data extraction, including line-item detail
	Basic ERP integration for document access	PO-based exceptions	Automated GL coding based on business/workflow rules	Automated GL coding based on business/workflow rules
	Basic workflow with minimal routing	New vendor setup	New vendor setup	New vendor setup using RPA (intelligent automation)
		Non-PO-based GL coding and approvals	Non-PO-based GL coding and approvals	Non-PO-based GL coding and approvals
				RPA to look up employee identification number (EIN) and initiate a backup withholding so the appropriate tax can be paid

Source: IDC, 2023

Procurement Applications

Procurement applications facilitate the requisitioning of goods and services. They provide a digital spend management solution that provides a clean, transparent, and ideally simplified process to acquire material.

Procurement applications are commonly segmented by upstream (sourcing) and downstream (purchasing). Upstream systems are referred to as source to contract (S2C), which is indicative of the processes to identify sources of supply through the creation of contracts. Downstream systems are also referred to as procure to pay (P2P), reflective of the chain of events from requisition to purchase.

The first procurement applications facilitated the requisition process. Procurement application providers continued to add functionality and modules to cover the full source-to-pay (S2P) spectrum and beyond. Today's platforms include S2C modules and commonly include business network collaboration, payments, supplier relationship management, contract life-cycle management, spend analytics. and more. In a sense, today's full-suite procurement applications seek to function as a type of spend management operating system.

Yet it is rare that an entity manages all of its spend management needs via a single procurement application suite. As companies grow and acquire new entities, some lines of business have specific needs for unique platforms, while some applications are more advantageous for certain industries. Other entities utilize different platforms for direct material sourcing (i.e., the material that goes into production of the end products) and keep their indirect sourcing (those common items that every entity purchases, such as office supplies and consulting services) separate.

The result is that entities will necessarily conduct business with multiple procurement platforms. This highlights the need for these systems to be integrated and freely exchange data, providing users with a single view into spend. This remains a significant challenge even today, with application buyers commonly challenged to integrate the multiple data sources. Add to this that all procurement applications have different workflows and rules.

Invoice Processing Needs

The needs for invoice processing as part of accounts payable differ across industries. For example, large manufacturing organizations that have a proven and relatively stable supplier network are not adding suppliers at the same rate that other industries might. As a result, the manufacturing organization may not have the same level of invoice exceptions, as most invoices are PO based and come from known suppliers.

Hospitality organizations, on the other hand, may add suppliers more frequently based on need or issue 1099s for work that needs to get done quickly (fix bathroom plumbing, replace a broken window, etc.). In most cases, purchases for services like this will be non-PO based and therefore could be considered an exception and would require workflow rules and routing for approval.

While procurement applications seek to facilitate seamless supplier onboarding, in practice, it is a persistent challenge. Smaller suppliers will be less apt to learn a new platform or develop one-off procedures to submit invoices to each supplier platform they engage with. Vendors that provide ad hoc services will be less likely to conform to stated procedures.

Submittal of non-PO-backed invoices is common, and procurement applications are at varying levels of maturity in handling these invoices. Customized workflows are commonly required to process such invoices. As a result, entities often find that it is advantageous to augment an external, best-of-breed tool that can integrate with existing ERP systems

and work in parallel with procurement applications to facilitate the processing of exception invoices (see Figure 1). Such applications will administer the processes of data capture, invoice data extraction, approval routing and coding, and payment posting to the ERP systems/procurement application.

FIGURE 1: *Use of SaaS Applications for AP*

Q *Does your company use a SaaS application for AP?*
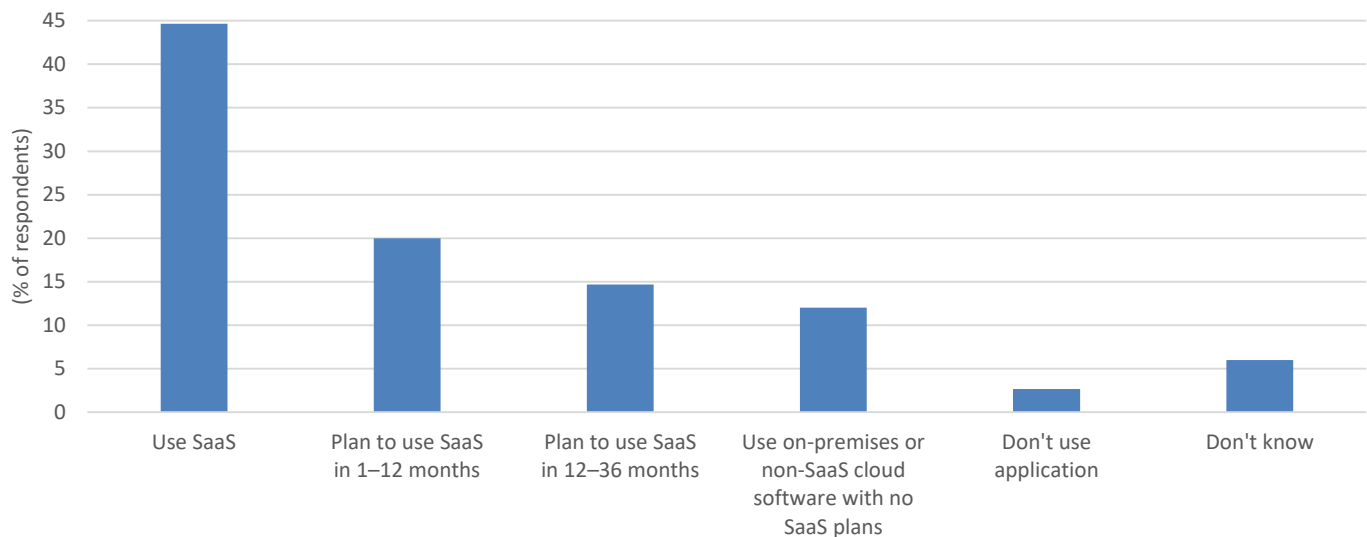
n = 150

Source: IDC's SaaSPath Survey, March 2022

The Case for a Hybrid Approach

The need to ingest, code, assess, route, and pay invoices from a wide variety of suppliers — from solo services providers to large, multinational manufacturers and everything in between — is supportive of the use of a hybrid approach. This approach leverages the capabilities of the P2P platform for known providers submitting PO-based invoices, along with the capabilities of a dedicated AP automation tool to process non-PO invoices.

The inherent risks of utilizing a standalone P2P platform for AP automation lie in invoice ingestion and coding, exception handling, and the suppliers' use of the platform. P2P platforms bring varying levels of maturity in invoice ingestion and data extraction and may not provide the appropriate levels of functionality to process invoices that may be received from a wide variety of channels. Their ability to interpret and code the invoices is an area that may not be fully appreciated and understood until the system is implemented, at which time it may be too late — and too expensive — to consider alternative approaches.

Suppliers operate with buyers that utilize a wide range of platforms, and many suppliers may be reluctant to adopt new processes and procedures that are required to conform to each platform's respective rule set. Last, P2P platforms vary in their ability to process non-PO-based invoices. Buyers will need assurances on the respective processes for administering such invoices prior to making the investments of time and resources.

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Data management capabilities are a common interest point for users of AP automation platforms. The ability to retain, provide clear search capabilities, assign documents to given workflows and events, and retrieve given documents are core features that AP users expect. They will want to ascertain these capabilities in advance.

A hybrid approach is optimal when it is informed by input from both the procurement and AP organizations and encompasses the goals and needs of each. Use cases are helpful tools that can be utilized to ensure that, for example, all exceptions that can be reasonably planned for are considered and addressable. In this way, organizations can ensure they are able to efficiently process invoices regardless of their source and type.

Optimizing the Accounts Payable System

As with any business process technology implementation, the goal of process optimization begins with an assessment of current processes and the business needs that are specific to the organization. The classic due diligence process starts with a focus on the business processes before it considers available technology. Good technology does not transform bad processes into best-in-class procedures.

A current state gap assessment that highlights gaps between existing operations and best-in-class organizations is the first step in this assessment. Importantly, a quantification of the necessary actions needed now, in the midterm, and in the long term serves to illustrate the potential benefits of process improvements that must be inherent to any chosen technology solutions.

Key stakeholder interviews, metric and KPI benchmarking, and survey data can facilitate this exercise. Data gathering that includes metrics such as numbers of PO and non-PO-based invoices and suppliers, on-time payments, average days to pay, supplier visibility, number of touchless invoices, and key workflow inhibitors all serve to assist in preparing an informed view into what's possible in the future.

The Source-to-Pay Process: Where Does Hyland Fit?

As illustrated in Figure 2, invoice processing occurs several levels downstream in the overall source-to-pay process. For companies that utilize a full-suite S2P or P2P system, processing and paying invoices will be a straightforward, system-driven process. Because the procurement occurred in the system from an approved supplier, most invoices will be PO based and should not require additional steps to process.

FIGURE 2: *Source-to-Pay Process*
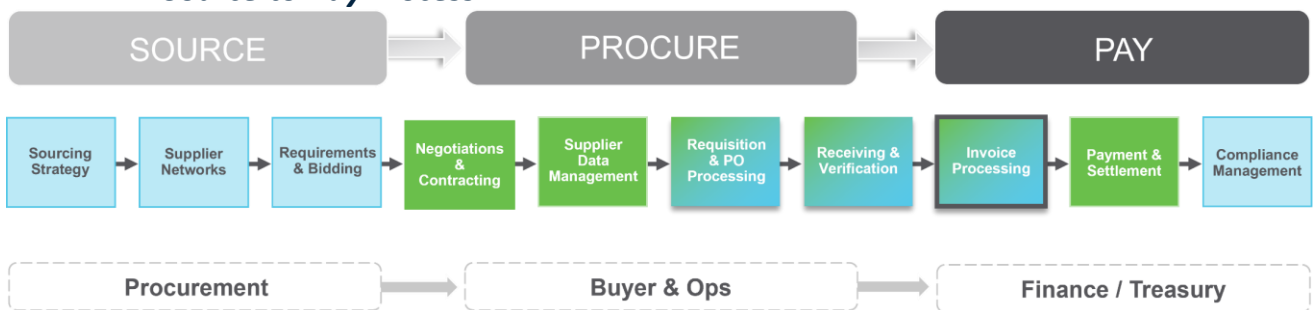
Source: Hyland Software, 2023

However, non-PO invoices, because the procurement process did not start in the S2P or P2P system, will typically be issued via paper or sent via email. In most cases, the invoices will need to be processed outside the S2P or P2P system, and that is where Hyland fits in and remains a critical component of the overall S2P process.

Hyland is a content services provider with a range of cloud-based technologies, solutions, and services. The company has worked with organizations across industries to automate invoice processing for more than 30 years. Hyland's end-to-end AP automation solution can process PO and non-PO invoices. The solution includes intelligent document and data capture that uses advanced, template-free OCR technology; a configurable, rules-based workflow engine to route invoices for review while automatically tracking approvals; and integrations with all major ERP systems.

Learning from AP Automation Successes

Throughout the years, Hyland has applied its knowledge from customer implementations to enhance its AP automation solution and include AP packages to fit client needs. The company's experience and expertise with AP automation enables it to work closely with accounting departments to understand business challenges and how using automation to process invoices can provide benefits unique to the organization.

The Hyland AP automation solution is flexible because it sits alongside the core ERP application, enhancing the security and usability of the application for end users. Hyland's enhanced AP connector framework means documents and data are automatically synced between systems, allowing users to access the information they need without ever leaving their ERP.

The solution can be integrated with SAP, Workday, Infor, Oracle E-Business Suite, JD Edwards EnterpriseONE, and more. Additional integrations with point solutions or custom-built systems can be achieved through its API library and low-code features.

Scale Across the Enterprise

Hyland's solution also allows AP to make a shared investment. Because Hyland's low-code content services platform has applications across many organizations, their solutions can achieve low individual department costs as the platform grows across your organization, saving IT on application setup and knowledge worker costs. Hyland's solution is also configurable to each organization's process without forcing a change to operations. It is available as a SaaS (cloud) application or on-premises and gives you the tools to ensure consistent record keeping. A low-code development approach enables customers to get started quickly. It can also be configured to automate document retention within a secure repository, making it easy for organizations to provide consistent disposition and immediately respond to audit requests.

Evolving Automation Capabilities

As customers continue to seek additional ways to cut costs and further streamline accounting operations, Hyland continues to enhance its AP automation solution. Today, the solution offers the following capabilities:

» **Enhanced workflow engine.** Continued enhancements to a highly configurable workflow engine integrate with your ERP. They create custom workflows without heavy coding and enable AP managers to modify workflow rules and delegate new approvers. They can also be used to automate predictable decisions throughout the transaction life cycle, such as invoice approvals of a certain amount and perform two- and three-way data matching and approval and exception routing, such as PO mismatches.

» **AP Invoice Approval App.** This persona-based application built on the Hyland technology platform delivers critical decision-making tasks to individuals with invoice approval responsibilities. This add-on application enables approvers to review, add, or update GL coding and approve and reject invoices from any device. Comments from approvers provide roundtrip communication back to other AP staff.

» **Three-way match for direct spend invoices (Workday Financials integration).** This complements an existing Hyland-Workday integration by allowing Workday Financial Management users to do more automation via three-way matching capabilities. It includes complex, rules-driven matching, designed to enable retail, hospitality, and other product-based customers that need to manage direct spend to easily capture invoices and associated data by matching those values against purchase orders and delivery receipts within any ERP or point solution.

» **Vendor portal.** This provides vendors a self-service portal to submit invoices, W9s, and other documents. Inquiries are submitted by the vendor in the portal and, utilizing workflow, are automatically routed to the appropriate employees for review. Vendors also view the status of the invoices, eliminating the need to contact the AP department directly.

» **Robotic process automation (RPA).** The Hyland AP automation solution can be integrated with Hyland RPA, which can create new vendors, route invoices for review, manage exceptions, and extend other key processes.

Challenges

The AP automation space can be characterized as a mature market. Buyers face a myriad of options, from full-suite solutions to more niche offerings that are tailored to any of several attributes, be they size (revenue), geography, industry, revenue model (as a service, invoice volume, license based), and more. Further, many procurement application providers are entering the space as they build out their respective portfolios of offerings. The procurement application provider space is increasingly offering AP solutions, with several introducing lower-level AP automation capabilities.

As artificial intelligence (AI) and workflow automation capabilities advance, new providers are leveraging these technologies to provide enhanced OCR capabilities, reducing invoice error rates and simplifying the data discovery and intake processes. Multiple "intake"-focused providers have emerged just in the procurement application space in the past two years, and this trend of new entrants leveraging advanced technologies will likely continue.

A global inflationary environment, coupled with a widely expected recession, further pressures entities to seek cost reduction opportunities and implement technologies that facilitate enhanced efficiency of operations. AP automation providers that can offer the most optimal value could benefit, but only to the extent they are able to demonstrate value. Higher-priced offerings may be pressured to provide "lite" versions of their products or evaluate the ability to offer lower pricing. The more advanced providers will be challenged to demonstrate quick time to value and show exceptional ROI scenarios.

Conclusion

The AP automation space has made dramatic advancements over the past several decades. A process that was formerly a slow and inefficient paper-driven exercise is now a robust, digital process that has dramatically reduced throughput, increased compliance, improved visibility, and reduced costs. AP automation tools were once considered "nice to haves" and reserved mainly for those entities that operated in a higher maturity level. With the proliferation of AP automation solutions — from both core AP automation providers and procurement application providers — businesses face a broad variety of options as they consider their most optimal solutions.

One long-standing question for prospective buyers is whether to pursue best-of-breed, point solutions or leverage AP automation capabilities embedded in other platforms, such as procurement applications. Naturally, there are advantages

and disadvantages to either approach. We are of the view that both solutions have their place, but those entities that require superior exception handling, document management capabilities, and multiple intake options would likely be better served by enterprise-grade, best-of-breed solutions.

The digitization of business processes continues. Recent IDC global surveys show that IT leaders expect cloud-based services spending to increase in 2023, driven in part by expectation of higher costs. We reasonably expect that AP automation will at least grow at a rate that is in line with the adoption of other digital technologies, if not greater. Buyers want clean and intuitive SaaS solutions that drive efficiency, can easily scale, and produce compelling ROIs — and AP automation checks the box in each of these areas. We believe those providers that demonstrate superior time to value and the greatest value will benefit disproportionately.

About the Analyst

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Patrick Reymann is Research Director for Procurement and Enterprise Applications responsible for the worldwide procurement applications market. Mr. Reymann's core research coverage includes the worldwide research of purchasing, procure to pay, sourcing, buy-side contract management, spend analysis, and supplier relationship management (including supplier information, risk, and performance management) applications, among others that the procurement function touches within an organization.

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