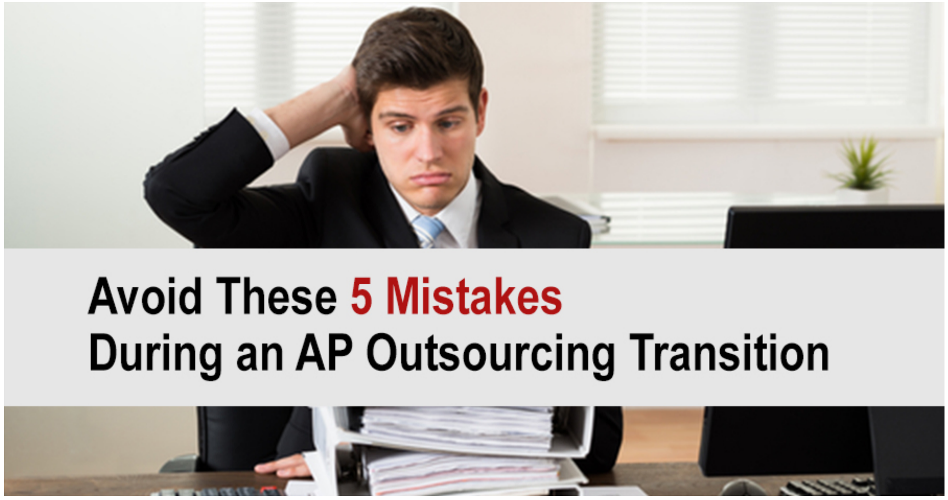
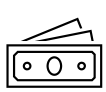


If your organization is considering outsourcing accounts payable (AP) you are not alone. According to the Deloitte 2016 Outsourcing and Insourcing Survey, 41% of companies are outsourcing their AP processing, and 31% are considering it in the next year. The report concluded that “outsourced F&A will continue to see strong growth and become more standard practice for many companies.”

That conclusion may come as no surprise to financial professionals. When the outsourcing process is done correctly, the returns on investment include higher efficiency, re-engineered processes, lower costs, and less time spent managing the process. The Aberdeen Group reports that companies that leverage automation and outsourcing can process invoices as much as 59% faster than companies that don’t outsource. But the downside is that a poorly managed transition to an outsourced AP department can end up creating chaos, higher costs, and poor relationships with vendors. When selecting a vendor and making the transition, consider these five areas – price, service needs, off-shoring, experience, and not knowing your company. Let’s look at each of these areas a bit closer:

1. Deciding Based on Price

Make sure you know exactly what you will get for your investment. Determine if a low price reflects outdated technology, an incomplete AP outsourcing solution, or one where support will be handled by a pool of untrained resources. For example, some companies may sell a simple software package with basic reporting and optical character recognition (OCR) technology, which will capture data off of invoice images but leave your staff to manage all the data exceptions and processing decisions. Automation without reengineering inefficient processes, while cheaper, simply speeds up a bad process. Technology alone may require more work (and cost) to integrate new software with your financial system.



By contrast, a state-of-the-art accounting outsourcing firm will integrate a cloud-based software system to work with your accounting system and will reengineer the process as part of its implementation. Some outsourcing companies may sell services performed by junior resources where you will end up managing their staff. This option often ends up being the least satisfactory in the long term. And some outsourcers will quote a reasonable price but charge each call, email, or click—nickel and diming can result in a more expensive solution than you bargained for.

Remember that the capabilities of outsourcers vary. If you go this route make sure that the firm you hire has SSAE16-certified best-practice processes, is using best-in-class technology, and has well-trained resources who will be dedicated to your account.

2. Not Understanding Services Needed

Make sure that you have outsourced a complete process. A properly defined scope of service will ensure you do not purchase only partial solutions that take extra time to integrate and complete.

For example, you may feel that invoice scanning and data entry with software for routing is sufficient. But it pays to think through your team’s workflow throughout the entire process. AP staff spend a disproportionate amount of their time dealing with exceptions, changes and vendor support. Most businesses find that the added benefit from a complete outsourced accounts payable management solution includes automated routing for approval, vendor setup, exception management, and vendor support as well as vendor payments.

Once the benefits of outsourcing AP are apparent, most companies complement it with an accounts receivable outsourcing solution, which may range from customer billing, cash application, and cash application exceptions (e.g., dispute management, credit card expirations) to customer late-payment reminders. Another item to weigh is what level of reports you will need and how you will access them. The best solutions provide real time reporting with in-depth data available from any web-enabled device. This will allow different levels of management access to the data they need to make business decisions on the fly. An integrated end-to-end AP process should be customized to your needs, based on your business rules.

3. Hiring Offshore Firm That 'Lifts and Shifts'

It is worth the investment in time and money to work with an accounting outsourcing firm that will re-engineer your AP processes before they are outsourced.

Firms that simply move bad accounting processes to offshore locations with lower labor costs are doing what's known in the industry as a "lift and shift." This simply means they transfer your process inefficiencies overseas. The savings you expect to see from using cheaper labor will vanish when your staff has to review and try to manage the work that is sent from afar. Working with a top caliber accounting outsourcing firm to re-engineer the processes before they are outsourced will ensure that they are SSAE 16 compliant, and procedures are based on industry best practices. They will also assure processes follow customized business rules and policies consistently.

4. Hiring a Firm Without Experience in AP Outsourcing

Just because an offshore firm offers cheaper labor costs doesn't mean it necessarily has the expertise to do your accounts payable processes effectively. Some firms that offer offshore technology support or call center resources have now tried to position themselves as accounting outsourcing firms even though they really are not experts in accounting processes, including AP.

Similarly, outsourcing AP to a local CPA firm may gain you well trained accountants, but their services will only result in savings of time or money if they have deep expertise in management of efficient end-to-end accounts payable processing. Many CPA firms focus on audits or write-ups, and tax or financial advisory services. A CPA firm needs to have expertise in managing the efficient and timely processing of large volumes of accounting transactions to be effective in accounting outsourcing.

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5. Not Doing Homework

Many companies derive the cost per invoice (CPI) by dividing the AP department salaries by number of invoices processed. But this often does not account for all of the costs of an inefficient AP process on managers and buyers who must help resolve exceptions.

In evaluating your costs, you need to include your AP department's salaries, benefits and payroll taxes for your staff, and the overhead costs for running your department (including IT, real estate, administrative costs, etc.)— as well as the AP portion of your accounting audit fees. Once you are clear on your current costs, challenges, and what you want to accomplish, research which firm has the accounting processing expertise and complete solution to meet your goals.

You could start by researching outsourcing industry analysts, or by looking at business process outsourcing (BPO) experts who work with premier cloud-based accounting software. Have each firm answer how they will assure process improvements along with significant cost savings. If you are looking for a complete solution, the best option is to look for a firm with an established, successful track record of outsourcing significant volumes of accounting transactions effectively.

Although the challenges in defining your precise needs and in finding the right outsourcing firm for your company may seem daunting, keep in mind your eventual return on the investment: outsourcing transactional functions leaves you with a leaner organization that can focus less on administrative work and more on growing the business.

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