The Top Ten Myths of AP Outsourcing

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Taking hold of the advantages best-in-class companies gain through efficient, automated AP processing means letting go of common misconceptions about outsourcing.

The value of business process outsourcing has been proven time and again at companies from among all industries and across the size spectrum. Best-in-class enterprises recognize the need for greater efficiencies, lower processing costs, and better visibility and control in time-sensitive business processes. To accomplish these objectives, companies have partnered with outsourcers in order to capitalize on greater economies of scale, specialized knowledge, and leading-edge technology.

However, companies have often been reluctant to outsource some financial processes, such as accounts payable (AP). Even though a recent study by the Aberdeen Group found that best-in-class companies are four times more likely than others to outsource their entire AP operations, the research firm also found that just 16% of all companies currently do. Companies' reluctance to outsource AP is often based in unfounded fears and common misconceptions. Don't fall prey to the most common myths of AP outsourcing: arm yourself with the facts.

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Myth #1: We'll Lose Control.

Reality: AP outsourcing shifts only the process of handling invoices to an outsourcer, not the approval. A collaborative outsourcing relationship can actually enhance the control you have over the AP process because it requires standardizing and codifying rules and procedures around processing that may have only existed inside the minds of accounting staff. Automated, rules-driven workflows in an outsourced process ensure that established guidelines are followed rigorously. An outsourcing agreement will also require your provider to meet the service level agreements you define by contract, a level of rigor and control not present in most companies' internal AP processing. And finally, today's Internet-enabled communication capabilities allow you to be a real-time part of the AP process even if it is not taking place inside the walls of your accounting department.

Myth #2: It's Not Secure.

Reality: Outsourcing can and should improve the security of your invoice-related data. Because any data breach can put an outsourcer out of business, providers make it a top priority to be secure, including physical data center safeguards, application-level security, and data transfer infrastructure with controls that equal or exceed the protection of behind-the-firewall defenses. Additionally, your AP outsourcer can ease your security compliance burden by providing SSAE 16 and other data security documentation for regulators and auditors.

Myth #3: It's an All-or-None Proposition.

Reality: While you can certainly choose to outsource your entire AP, it often makes the best business sense to outsource certain segments. AP Segmentation is an approach that involves separating and prioritizing invoices based on their type, characteristics and level of importance. AP Segmentation is also the process by which companies consistently identify Critical AP– the 20% of invoices that account for 80% of problems or lost opportunities if they are not handled in a timely and proper fashion. Outsourcing can effectively target Critical AP, and segmentation therefore enables outsourcing AP to become a truly strategic decision.

Myth #4: It Isn't Really More Efficient.

Reality: Independent research confirms that AP outsourcing is the most effective way of handling invoices. The Aberdeen Group found that best-in-class companies leverage outsourcing to process invoices as much as 59% faster than other companies. They also found that laggards spend over ten times more to process a single invoice than top companies that use outsourcing in accounts payable do.

Myth #5. AP is a core competency for my business.

 Reality: Just because AP processing falls under the category of "finance" doesn't mean it's core to your business. According to the original definition offered by the *Harvard Business Review*, a core competency provides customer benefits, is hard for competitors to imitate, and can be leveraged widely to many products and markets. That definition should apply to the products you sell and the services you provide, not the way you pay your bills. In contrast, AP processing is a core competency for AP outsourcers, and providers can therefore increase your competitive advantage by delivering you—their customer—benefits in your payables process.

Myth #6: Outsourcers Don't Understand my Business.

Reality: Your business is unique, but how you pay invoices shouldn't be. If your AP process is truly unique, that's a negative: it adversely impacts control and transparency, which are essential parts of both efficient operation and regulatory compliance. Expertise gained through specialization enables providers to handle AP for organizations and businesses in any private or public sector enterprise.

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The Aberdeen Group also notes that specialized AP technology, such as offered by AP outsourcers, provides automated workflows and reporting that delivers critical visibility into the AP process throughout its lifecycle.

Myth #7: Outsourcing is Only Useful to Reduce Headcount.

Reality: If reducing staff is indeed a goal, AP outsourcing has been proven to accomplish that objective without a loss in productivity or capacity. However, a long-term vision of the role of outsourcing is becoming increasingly important. Research by Robert Half International and others reveals that accounting professionals are in high demand worldwide, and the pool of qualified accountants in the U.S. has not grown sufficiently to meet the increase in demand. With boomers retiring and a shortage of new talent in the pipeline, retaining your existing staff while increasing their capacity and productivity should be a key objective of AP outsourcing. Additionally, the efficiency gained through faster and less expensive AP processing can increase your company's overall competitiveness, which benefits all staff.

Myth #8: My ERP System Can Do This Already.

Reality: AP is not a native functionality of ERP systems, and adding other software or modules to do so increases your total cost of ownership (TCO). Additionally, the weaknesses of ERP systems enabled for AP processing are revealed when trying to import invoice data into those systems. Since an ERP system can only process data it has access to, data from invoices in a multitude of possible formats has to be captured. AP outsourcers have proven most efficient at handling that data capture and managing the entire AP process.

Myth #9: We're Too Small.

Reality: You don't need to be a company with a million transactions a year to benefit from AP outsourcing. In fact, outsourcing works well for small companies because the economies of scale outsourcers can provide delivers features and benefits to those companies at a much lower cost than if they tried to handle it in-house. Additionally, accounting staff and financial managers at smaller companies often have varied responsibilities, and outsourcing the tactical function of AP enables them to focus their efforts on more strategic tasks.

Myth #10: We're Too Big.

Fact: The infrastructure of the AP outsourcing market has increased tremendously, bringing more capacity to handle organizations of all sizes. Additionally, large companies can use AP outsourcing to effectively segment invoice processing to handle Critical AP, to support a specific line of business or geographic location, or to clean up a problem area. AP outsourcing is also a valuable option in an acquisition and can handle the AP processing of the acquired company either until operations are consolidated or as a long-term strategy.

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Becoming Best-in-Class

Encouragingly, the reluctance to outsource AP may be fading, with the Aberdeen Group reporting that nearly 40% of enterprises plan to outsource the AP function. Once you've chosen to outsource part or all of your AP, you are faced with a critical decision: selecting the outsourcer. Remember: outsourcing.

AP moves only the processing of payables to a provider, and not the decision-making. Therefore, you need to select an AP outsourcer whose goals align with your own and that offers effective ways for you to perform the necessary management, review, and control of the AP process. The outsourcer should offer effective automation solutions and powerful technology that provides visibility into the process. And the provider should demonstrate a proven track record of delivering value to companies like yours.

Now is the time to embrace AP outsourcing and position your company as a best-in-class performer. Understand the myths of AP outsourcing, but know the facts: enterprises that partner with an effective, experienced outsourcing partner improve their AP processing, standardize policies around AP, and achieve significant gains in efficiency and cost reduction.

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About Anybill

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