

Report:

Changing trends in the purchasing processes of UK businesses



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Executive Summary

The Effectiveness of the Purchasing and Accounts Payable processes has a significant impact on the management of both profits and cash flow as well as operations, particularly the impact on the supply chain.

- + **Reactive planning: 48%** (2016:50%) of businesses do not use plans proactively
- + **Limited visibility: 31%** (2016:44%) delay their management accounts awaiting supplier invoices
- + **Late payment: 60%** (2016:83%) of business are not consistently paying supplier invoices on time

Background

This report is based on the views of 200 financial decision makers from medium sized (50-249 employees) and large companies (250 plus employees).

This data was gathered in May 2018.

The report investigates the state of purchase order processing (POP) and accounts payable (AP) processes in UK business and references a similar survey carried out by Invu in 2016.

The scope of the report covers transaction processing and its impact on management reporting and planning, as well as the impact on supplier relationships and business operations.

HIGHLIGHTS

Planning and Management

- **48%** do not proactively use budgets as part of the purchasing process but await management accounts before they compare performance to budget
- **47%** report supplier invoices are processed on a timely basis and that they are able to produce their management accounts promptly with few accruals however:
 - **31%** delay their management accounts to wait for invoices to be processed and do not rely on accruals
 - **20%** know they have a backlog of supplier invoices to process and make accruals to cover the invoices yet to be processed
- Management by exception still appears to be in the minority, with 73% of finance decision makers spending less than one hour a day dealing with exceptions

Supplier relationships

- **60%** of finance decision makers in UK businesses say their company struggles to pay supplier invoices on time
- **20%** state late payments are a significant problem

Purchasing process

- **54%** of finance decision makers in UK businesses think their company's purchasing processes are not fit for purpose
 - **23%** think their purchasing processes need to be fixed as a "matter of urgency"
- **30%** say that their purchasing process is difficult to use
 - of these, 10% say they have to work around their company's purchasing processes to get anything done
- **32%** of businesses have fragmented purchasing processes, using multiple systems
 - **41%** of businesses use either a wholly manual process (15%) or a process based wholly on Microsoft documents (26%)
 - **27%** use a purely system based approach based on their ERP (23%) or a separate POP system (4%)

Accounts payable

- **72%** of finance decision makers in UK businesses think their accounts payable process is putting them at risk of fraud
- **40%** of businesses use a paper-based accounts payable process
- **37%** rely wholly on invoice approval and do not record the receipt of goods or services
- **32%** of finance decision makers in UK businesses report making duplicate supplier payments frequently

Control and agility

Budgets are commonly used to control the level of expenditure. When variances arise these need to be addressed and the speed with which this can happen can be referred to as agility.

Slightly over half (**52%**) of respondents indicate that their business use the budget at the point of making a purchase commitment. They proactively use their budget to manage the level of purchase commitments made. This makes them very agile, as they can quickly react to pressures that give rise to variances.

48%

do not use budgets until the production of management accounts

The remainder of respondents (**48%**) report that they do not use budgets until the production of management accounts. This significantly reduces their agility as pressures that give rise to variances may not become apparent until many weeks after they first occur. More problems may be in the pipeline, as by that time many purchasing commitments may have been made that are yet to appear in the management accounts.

31%

delay management accounts waiting for a backlog of invoices to be processed

The problem is made worse when management accounts are held up due to a slow accounts payable process. Further lengthening the period for the recognition of variances and corrective actions. In this survey **31%** of respondents report they delayed management accounts waiting for a backlog of invoices to be processed.

LATE

PAYMENT

20%

How many businesses rate late payments as a 'significant problem'

The late payment problem within UK business

Late payment of suppliers is a well-recognised problem in the UK.

Research by The Prompt Payment Directory on the UK business community identified that half of SME owners said their business has been placed 'on a knife edge' while waiting for late payments to be processed.

The government has introduced new 'Payment Practice Regulations' which require large businesses to publicly report on their payment practices, covering both the terms they offer and their actual payment performance. The reporting, which started in November 2017, has identified that on average around **30%** of supplier invoices are paid late (outside agreed payment terms).

64%

The number of **large** businesses which **struggle** to pay suppliers on time

In this survey **60%** of all businesses state they struggle to pay suppliers on time. This represents an improving trend as **83%** of businesses reported processing problems in 2016. The publicity about this issue might have begun to have an effect.

57%

The number of **medium** sized businesses which **struggle** to pay suppliers on time

One of the issues here is whether the problem arises because businesses are using their suppliers to fund them, or whether business processes cause the delay in the payments.

Many of the responses in this survey suggest that business process is a significant factor.

It is clear that whatever the root cause is of late payments, businesses themselves need to take more responsibility to solve the problem. If the cause is business process, they should invest to ensure their finance departments have the tools they need to be able to process and pay supplier invoices in a timely manner.



23%

*of businesses in the UK **need** to fix their payment processes as a matter of **urgency**, according to Britain's finance decision makers.*

Purchasing processes “not fit for purpose” in UK businesses

More than half (**54%**) of finance decision makers in UK businesses have revealed that their company’s purchasing processes are not effective. This number has increased significantly from **36%** since our 2016 survey.

With almost a quarter (**23%**) of finance decision makers saying that current processes need to be fixed and updated “as a matter of urgency”, it is clear that a significant number of businesses are being hampered and let down by poor purchasing processes.

This contrasts with “ease of use”, where **68%** of respondents say their purchasing systems are easy to use. Focusing only on ease of use, at the point of purchase, can have terrible consequences if the impact on the effectiveness of the rest of the purchasing and accounts payable process is not considered. Getting the balance right is key.

One of the symptoms of a victory for ease of use over effectiveness is a hybrid approach. In this survey **32%** of respondents identified that their business used more than one purchasing system. This may address the problem of ease of use at the point of purchase, but makes it difficult to monitor commitments against budget and also causes difficulties with receiving goods and services and invoice processing.

Shifting the balance too much towards control, without taking account of ease of use, can equally cause more problems than it solves. In this survey **10%** of respondents said they actively tried to work around their current payment processes to get anything done. The consequence is likely to be a lack of visibility and surprise variances in expenditure. This can also cause difficulties with receiving and invoice processing.

To be fit for purpose, the purchase process needs to take account of both ease of use, to ensure employee engagement, and effectiveness.

“Purchasing processes are a fundamental part of any business – no matter what size – so the fact more than half of those responsible for business finances in the UK think current processes are not working is a cause for serious concern.”

“Businesses wishing to achieve speed and agility in their expenditure planning and execution will need to look at technology to enable purchasing processes that are both easy to use and provide effective control”

42%

*of large businesses still use
paper and manual processes
for payment and accounts*



Manual processes remain prevalent in UK business accounts

It has been well documented that systems utilising digital technology can be significantly more efficient and effective than manual paper based systems.

This survey identified that in **41%** of businesses, the purchasing process still relies on either a wholly manual paper based process (**15%**) or a process based wholly on Microsoft documents (**26%**). Many businesses (**32%**) use a fragmented approach to purchasing and a further **56%** of these use a paper process as part of their purchasing system.

The accounts payable process still has a significant proportion (**40%**) relying on manual processes with **16%** being wholly paper based and **24%** using scanned documents.

There has been a movement to digital in the period since 2016, when **45%** of businesses reported using paper processes.

It is also clear that medium sized business have been quicker to go digital than large businesses.

33%

of small businesses use **paper** and **manual** systems for payment and accounts processes

“Businesses can often deal with dozens, if not hundreds, of invoices and payment enquires on a daily basis and dealing with all this using paper and manual processing systems can easily become overwhelming, especially for small businesses with little or no dedicated finance team.”



55

*The **average** number of daily minutes spent dealing with **exceptions** within UK business*

Management by exception and productivity

Productivity in accounts payable is normally measured in terms of processing rates: the number of invoices processed per head per hour. Technological solutions in accounts payable improve processing rates by automatically capturing data and enabling transactions that match rules set up by these systems to progress rapidly.

Those that do not match, “the exceptions”, are then the focus of the accounts payable team and their manager’s work. Work on these exceptions should result in feedback to suppliers and stakeholders within the business, and should over time reduce the number of exceptions going forward. A feature of a productive accounts payable team will therefore be that the majority of their time is spent dealing with exceptions.

This survey suggests that business has a long way to go to achieve management of processes by exception.

In fact, **73%** of finance decision makers in UK businesses say that less than an hour a day is spent dealing with exceptions, suggesting that the balance of the day is spent dealing with transactions that could be processed far more rapidly using automated systems.

31-45

The number of **daily minutes** the majority of finance departments spend on **exceptions** within UK businesses

73%

The proportion of UK business finance teams spending **less** than an **hour** a day dealing with exceptions in accounts payable and purchase processing

“To improve productivity accounts payable staff need to be provided with technology that removes routine processing from their work and re focussed on dealing with exceptions.”



24%

The number of finance bosses who are 'completely confident' their business' current payment processes can prevent or detect fraud.

Limiting Fraud: Does UK business trust its processes?

In the past year there have been a number of reported frauds which point to basic weaknesses in purchasing and accounts payable processes.

In total, **27%** of respondents consider they have an accounts payable processes which is not robust enough to counter fraud and puts them at an unreasonable level of risk.

The remaining **73%** of businesses believe they have processes in place that expose them to little risk of fraud, with nearly one third of these (**24%**) “completely confident” their accounts payable process does not present a risk of fraud.

31%

of **medium** sized businesses think their current accounts payable processes are putting them at an **unreasonable risk** of fraud

23%

of **large** businesses think their current accounts payable processes are putting businesses at an **unreasonable risk** of fraud

And, as the above information shows, it is medium sized businesses which most think their accounts payable systems are making them susceptible to fraud, with a significant number (**23%**) of large businesses feeling the same.

Since 2016 those with absolute confidence of how robust their accounts payable process is in addressing fraud has grown from **17%** to **24%**, suggesting by this measure trust in processes is improving.

“The potential for fraud exists where there is a lack of control and visibility. Automated processes that consistently provide rules and roles for approval and visibility and audit trails throughout the processing of transactions are likely to restore management’s confidence in their ability to combat fraud.”

Duplicate Payments

The accounts payable process is working well if the results are complete, accurate and timely. Duplicate payments are a symptom that questions the completeness of processing and reduces trust in the process.

A bold **21%** claim to have never made a duplicate payment and 6% were unsure, leaving nearly three quarters (**73%**) admitting to making duplicate payments. The area of concern would be where these are a regular occurrence.

32%

of businesses make **duplicate** payments on “a **regular occurrence**”

Almost a third (32%) of UK businesses' finance decision makers say their current payment processes have resulted in them making duplicate payments on a regular basis.

This is another symptom, like exposure to fraud, which suggests that a sizeable percentage of businesses cannot trust their accounts payable process.

Such errors impact:

- Internal confidence in the process, how accurate are the accounts if this happens regularly?
- the confidence of suppliers when receiving these, and
- productivity, resources have to be allocated to track down and retrieve these payments and understand why they occur.

“Many businesses operate within small margins, so they cannot afford to be duplicating payments, especially not as often as this research suggests many are. Asking suppliers for money back is not only time and labour intensive, but quickly paints a poor picture of a business in the eyes of those suppliers.”

“Any businesses that are frequently duplicating payments need to put some time and investment into improving payment processes as a matter of urgency.”

“Delivering financial control while empowering the end user, without introducing unworkable constraints, is the ultimate objective for Financial Directors looking to improve their POP and Invoice Processing.

“But for the most part, this is not happening within UK businesses, as demonstrated within this research.

“Even among those issues which have reduced, like fear of fraud, threats remain a major concern, again suggesting not enough is being done to introduce user-friendly, robust and efficient processes which not only improve the business function of AP and POP, but which also protect the financial and reputational stability of UK companies.”

KEY TAKEAWAYS

- More than half (**54%**) of finance decision makers are concerned that current processes and systems are not fit for purpose and difficult to use while **10%** are actually working around existing processes because they are so inefficient
- While fear of fraud because of inefficient processes has decreased in the last two years, a significant **70%** of finance decision makers still feel POP systems are making them vulnerable. **75%** feel the same about accounts payable systems.
- **60%** of businesses are struggling to pay suppliers on time. **20%** consider this to be a significant problem within their business. This does represent a fall from 2016, potentially showing that publicity and regulations are having an improving impact.
- Nearly a third (**32%**) of businesses admit to making duplicate payments on a regular basis.
- A significant number of businesses (**40%**) are failing to take advantage of accessible automated AP and POP processes and are forcing their finance teams to deal with manual, paper-based systems, which are inefficient and leading to problems.
- Finance departments are not being given the kind of technology they need to automate simple processes which would free them up to deal with exceptions. It is concerning that nearly three quarters (**73%**) of teams spend less than one hour a day on exceptions.

About Invu Services Ltd

Founded in 1997, Invu develops Electronic Document Management (eDM), Accounts Payable (AP) and Purchasing solutions for a range of sectors, particularly those which are highly document dependent, or where compliance is important. Invu's comprehensive product suite encompasses document and content management, workflow, document automation and collaboration solutions.

Invu is a Microsoft Gold Partner as an Independent Software Vendor (ISV). The company and products, therefore, meet the stringent requirements of the Microsoft Partner Program introduced in 2010.

Invu partners with a range of software vendors, such as ABBYY, a data capture, recognition and extraction tool provider, whose Flexicapture technology sits at the heart of many Invu solutions, and IRIS, which Invu supplies Document Management to around 20% of the top 100 UK practices as the IRIS Accountancy Solutions document management product of choice.

More info is available at www.invu.net

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Invu



@InvuECM



InvuEDM



Contact Us

Invu Services Limited
Blisworth Hill Farm, Stoke Road, Blisworth,
Northampton, NN7 3DB, UK

Telephone: +44 (0) 1604 878 010

Email: info@invu.net

The logo for INVU: features the word "INVU" in a bold, dark blue, sans-serif font. To the right of the "U" are two small red dots stacked vertically, resembling a colon.