PALETTE

Your ultimate guide to AP automation

Everything you need to know before investing in an AP automation solution

1 What is AP automation?

Accounts payable automation is enterprise software that streamlines supplier invoice processing and provides both visibility and control over invoice approval business processes. The main purpose of AP automation is to get an automated and streamlined process for invoices. AP automation solutions allow financial management professionals to work optimally, while having the needed resources to do more, faster – and with less focus on manual work.

The most common AP automation solutions include functionality such as importing invoice data, invoice processing, approval workflow, PO matching, a system for auditing and archiving, detailed reporting, and cost analysis.

Let's take a closer look of the process that starts from importing invoice data into the system.

Digitization of invoice data and e-invoice

The primary condition for automation is the digitalization of invoice data and the ability to transfer this data between different systems automatically and seamlessly. For supplier invoices, this means that information moves seamlessly between the company's ERP, purchase orders, accounting, and AP automation systems. And for this to happen we need to have all invoice data in digital form.

We could say digital invoice processing is the "bread and butter" of AP automation.

What is an E-invoice?

An E-invoice or electric invoice is the most efficient way to receive and transfer invoice information to the system as the invoices are in a digital form from the outset. Invoices are immediately available and do not need to be scanned or

Invoice Data Transfer
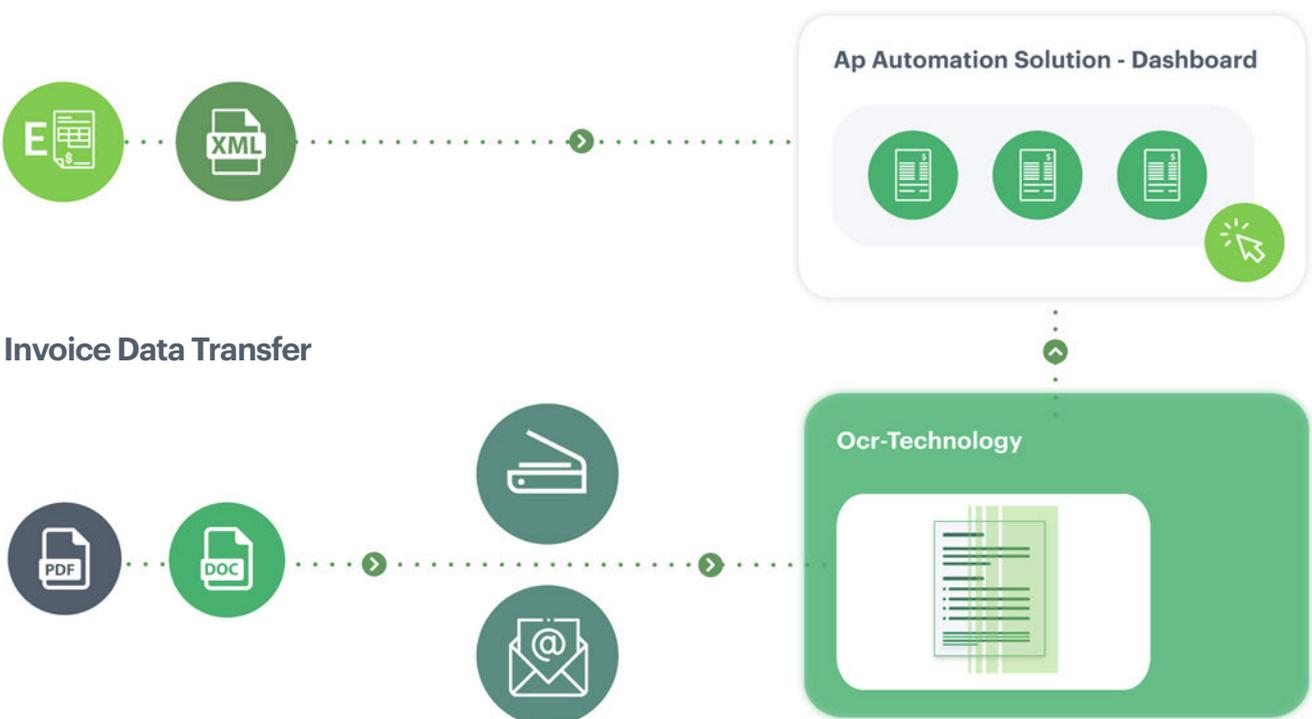
interpreted. This enhances internal financial management, reduces costs and is one of the most efficient forms of digital invoice processing.

Do we have to have e-invoices to be able to use AP automation solution?

You can receive invoices in any form. Whereas e-invoices are in digital form from the outset, paper invoices and pdf invoices must be digitized before invoice automation is possible. To make this happen companies use various scanning services and OCR-technology.

Digitization of paper invoices

Paper invoices are brought into digital form by invoice scanning solutions. This is done by the company itself (for lower volumes) or you can use invoice scanning services that do it for you. Invoice data is then collected using OCR-technology, also referred to as OCR invoice processing. This means that a separate program recognizes the invoice data and exports it to electronic form.

Digitization of pdf invoices

Pdf invoices are handled the same way as paper invoices except they do not need to be scanned. That means sending these invoices to a separate e-mail address where OCR-technology picks up the needed data.

After the invoice data is in digital form, invoices are imported to the AP automation software solution.

Automated invoice processing

After importing the invoices, all supplier invoices are visible in a central dashboard showing invoice status in real time - and it's time to process. This is where the automation and predefined rules determine what route the invoice will take. Some invoices require manual effort from the AP department such as accounting and verifying the correctness of the invoice. After this the invoice can move on to approval workflow. Some invoices can be handled 100 % "touchless" with automated invoice processing.

Let's look at the simplified process:

Invoice Matching Software

As invoices arrive in the system, they are checked for possible automation routes. That means the system looks for corresponding documents that determine how to process the invoice. These are usually purchase orders and contracts. If such a document is found, the AP automation solution can process the invoice automatically. If everything adds up, the invoice can move on to payment.

AP department – The center for vendor invoices

For invoices that do not have a matching document, such as Non-PO invoices, usually require pre-processing such as verifying the correctness of the invoice and adding accounting information. This is usually done by the AP department and requires approving by the right people.

An invoice approval workflow

This refers to the approval process workflow before the payment is processed. The route an invoice takes can be automated by predefined rules. Approvers then get notified when it's their time to check the invoice.

ERP system

Approved invoices are sent to the ERP for recording and payment.

Ap Automation Solution - Dashboard

Automation Possibilities

Approval Workflow And Variances

Touchless Process

Automated Matching

Contracts

Purchase orders

Variances

Data Transfer

Erp

PDF

XML

DOC
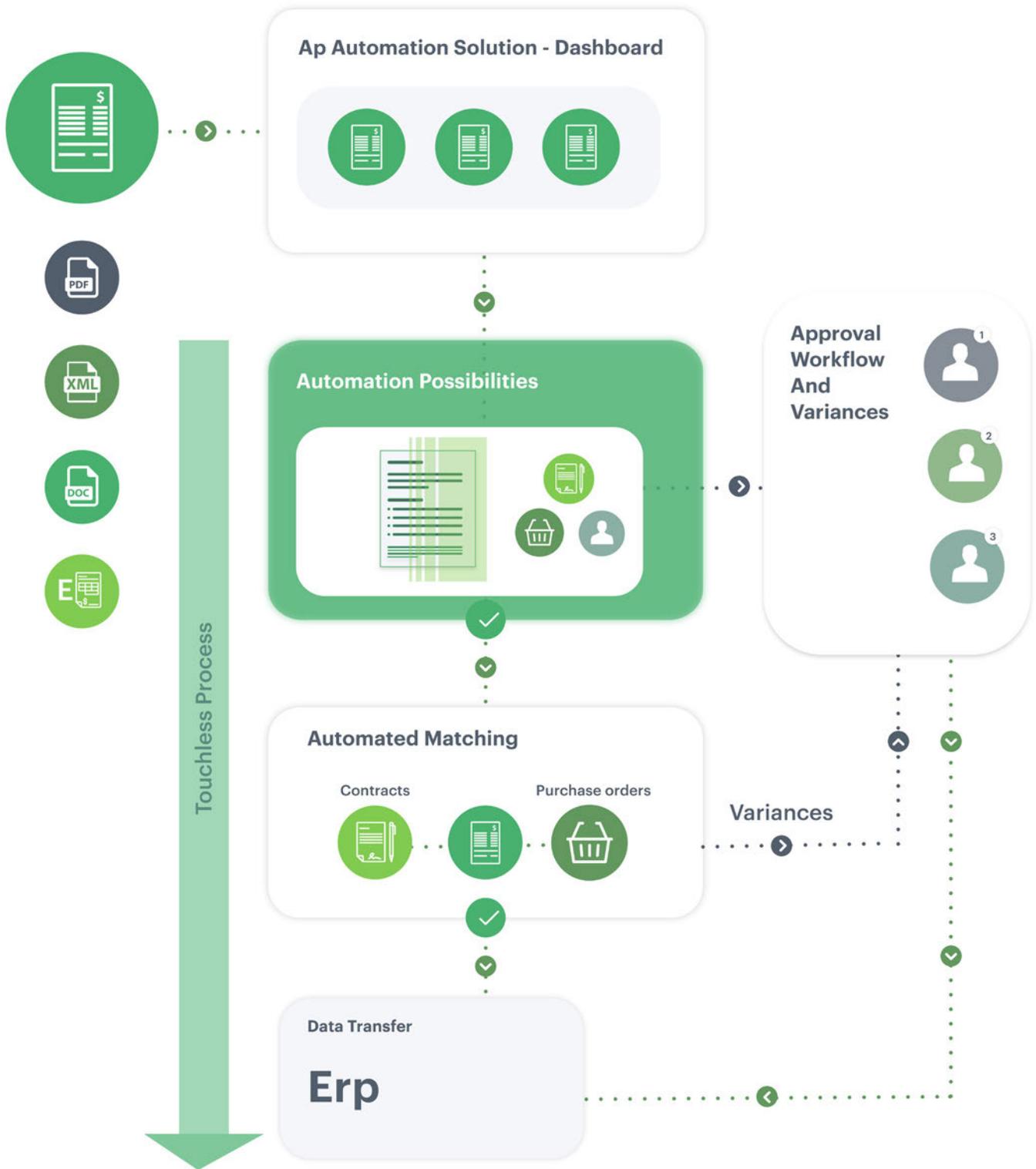
2 — Key words and terms in AP automation

An AP automation solution is a great way to increase the automation level of all kinds of invoices, including the PO process.

PO-Invoice

Most companies do some form of matching of vendor invoices to purchase orders (PO) or contracts. For PO-invoices, the software matches invoices to internal purchase orders, or to purchase orders imported from an external ordering system, or a combination of the two. If the invoice amount and order amount match, the invoice is matched in full, and the account postings and authorization for payment for the invoice are inherited from the purchase order. *This is also called a 2-way match*.

2-way match and 3-way match

2-way matching refers to the process where an invoice is verified against its corresponding PO (purchase order). For 3 way matching in accounts payable, the invoice is verified against its corresponding PO and the goods/delivery receipt.

Non-PO invoice

The non-PO invoice (or cost invoice) means that there is no matching purchase order document. The system uses a piece of reference data (as predetermined by your staff) from each invoice and automatically routes that invoice to the appropriate person with an automated approval workflow.

Recurring Invoices

A recurring invoice is generated when a vendor automatically charges customers for goods or services at regular intervals. Recurring invoices are usually associated with cell phone bills, utilities, cleaning services, and maintenance fees. Once contract information has been entered into the system, all recurring invoices can be automated up to 100 % with the AP automation software. Incoming invoices are automatically matched to the contract, and if they match, the invoice will be transferred to payment without contacting approvers.

Automated approval workflow

The approval workflow refers to the process of approving invoices before they are paid. Non-PO approval workflow is needed when the invoice cannot be processed automatically (like PO-invoices or recurring invoices). This means Non-PO invoices or invoices that for some reason do not match according to predefined rules. Invoices can be assigned different workflows in a variety of ways, such as based on a contract or reference number.

What is touchless process or automation level?

The automation level refers to the percent of invoices that require no manual work and are processed by the solution. The contents of these invoices are automatically identified, and are compared against the purchase order or contract. They inherit the account postings and are posted in the ERP-system without anyone having to handle them.

3 What is invoice matching and how does it work?

Matching, or comparing information from different sources has been mentioned many times in this document. Matching refers to the process of comparing information on an invoice with documents that created the cost to make sure everything is correct. Very often these cost-creating documents are purchase orders (PO) or contracts.

AP automation software compares the invoice data to the original data and recognizes possible exceptions – automatically.

## Matching with an AP automation solution

We have the invoice data ready in the AP solution. For the automatic matching and PO management to happen we also need to bring the cost data into the same system, which is the purchase order and/or contract.

PO Matching

In an ideal situation, companies can create purchase orders in the very same system that handles their invoices, but that is not necessary. PO data can also be brought from external sources, such as the ERP-system or purchasing system of the company.

The AP automation software matches the invoice data lines to the original PO, and if everything is in order, the invoice inherits accounting information from the PO and moves straight to booking and payment. No-match or non-PO invoices are automatically sent to the appropriate approver.
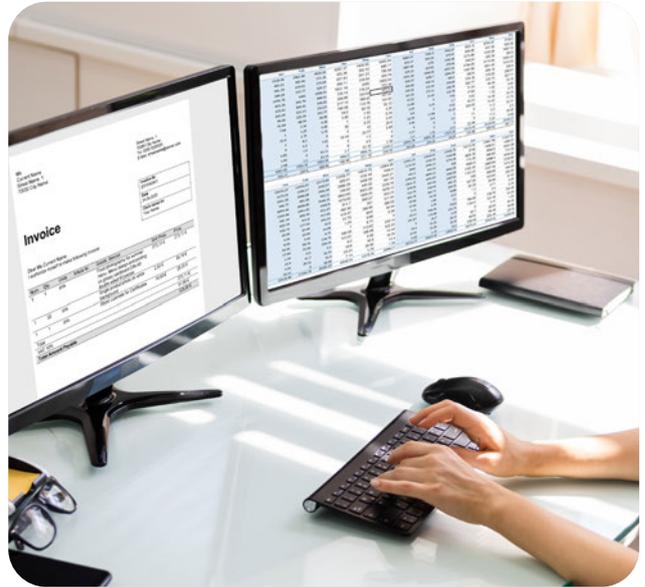
Requisition created in the AP automation solution

Buy Buy Buy

PO from external system

Ext.

Approval Workflow

Ok

Purchase Order
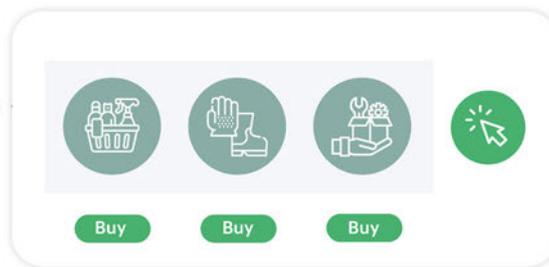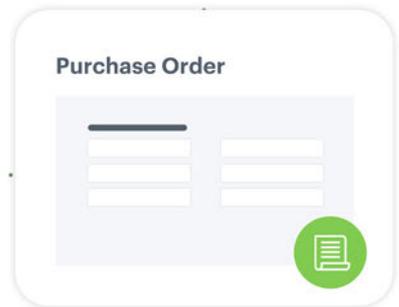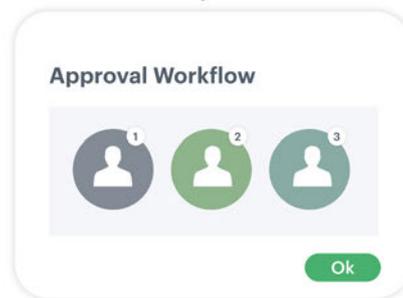
PO-Invoice
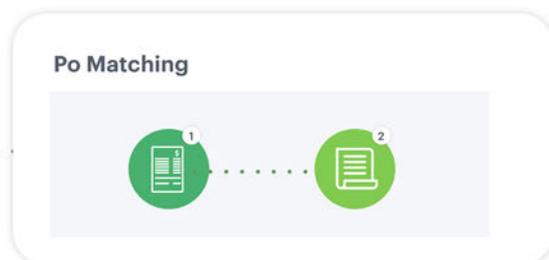
Po Matching

Contract matching

Contract matching usually refers to recurring invoices. These are often based on contracts such as cell phone bills, utilities and cleaning services. The AP automation solution works as a database for all these contracts and incoming recurring invoices are automatically matched to contracts or tracking numbers. No-match invoices are automatically sent to the appropriate approver.

Self-billing

Some contracts and vendors do not send an invoice. In these situations, the AP automation solution creates invoices automatically using self-billing. These invoices reflect the contract terms.

Recurring invoices

Contract matching

Cleaning Services

Contract

Archive

Tolerances

How much can the amount of the invoice vary from the original document? Tolerance rules can be set at both the total and line levels, and as percentages or precise amounts. Slightly different invoices do not have to be processed manually and the supplier invoice process becomes more efficient. If the vendor invoice deviates too much from the defined tolerance limits, invoice automation takes over and the invoice is transferred to the approval workflow.

$ %

0   10   100   200   300   400   500   60

Why matching within an ERP system can be a challenge

Once an invoice is entered into an ERP it's assigned a "match/no match" status. If for any reason there are price differences or problems with the goods receipt, the invoice cannot be processed by the ERP. Typically, the finance department must cancel the transaction, and then perform time-consuming manual work to clear the exception. This is what differentiates between AP automation matching and trying to match in the ERP.

Matching can happen on different levels

Invoices are matched to purchase orders based on predefined rules and limits. Palette uses the purchase order number, contract number, reference, or any other information on the invoice to generate an approval workflow and facilitate coding. Invoices that match a purchase order or contract within a set tolerance are sent for payment.

Matching of incoming invoices can be done on multiple levels:

Line level

Where the invoice has lines (an itemized invoice), you can match it at line level. The system checks the delivered quantity or amount against the quantity or amount specified by the order line. An invoice line is matched in full if it matches an order line and the information is within permitted variances set in the business rules. If the invoice lines match the purchase order lines, they inherit the account postings and authorization from their matched purchase order lines.

Matching at total level

If no lines are detected on the invoice (a non-itemized invoice), matching is attempted at the total level. If there is an order linked to the invoice, the system matches the amount on the invoice and the order amount to verify that they are matched within

the permitted variances that have been set. Matching is done in relation to the delivered quantity or amount. If the invoice amount and order amount match, the invoice is matched in full, and the account postings and authorization for payment for the invoice are inherited from the purchase order.

Flexible matching

One invoice can contain items from multiple purchase orders, and one purchase order can be matched to multiple invoices – whether they have been delivered in part or in full. Many different values can be used to identify a matching order line. If no part numbers are detected on the invoice for example, the unit, item, price, description, etc., can all be used to identify the correct purchase order line.

Invoices	Purchase Orders

One - One

Many - One

One - Many

Many - Many

4 Benefits of AP automation

The economic impact of an AP automation solution can be a substantial. Here we've listed some of the most important positive outcomes finance professionals experience.

Decreasing time spent by 70 %

On average, adopting AP automation in an AP department can reduce time spent on a manual AP process by as much as 70%. This is what US Farathane experienced, of which you can read more about below. By decreasing the time spent, companies can also increase the number of invoices processed – without adding to headcount.

Shortened turnaround times from days to minutes

According to research from The Aberdeen Group, it may take companies with minimal automation 16.3 days to process an invoice. With a comprehensive AP automation solution, the time is much less. This time can be shortened down to minutes or even no handling time at all with the highest level of automation.

Up to 97 % less errors

The problem that many growing companies face is a growing number of invoices with the same amount of staff. As pressure builds to make processes more effective and faster the number of human errors increases. We all make mistakes, especially in repetitive, manual tasks. AP automation solutions make the processing of PO-invoices fully automated with a reduced need for manual effort.

It leads to cost savings from 40% up to 60 %

Research companies have found that manually processed invoices cost, on average, $12 to $30 per invoice, considering the salary costs. In a case study by the Aberdeen group, most companies that automated their AP process showed a savings of 40 % to 60 % in processed invoices cost.

Case: US Farathane dropped their processing cost by 43 %

US Farathane is a leading supplier of highly engineered plastic fabricated components to the automotive industry that operates across several different facilities in the states of Texas, Tennessee, Missouri, and Michigan.

The company's Accounts Payable had a 100 % paper based manual process, with all documentation being sent to corporate headquarters, inundating the AP department with paperwork that needed to be processed manually and then filed for future reference.

Anticipating an increase in growth, and therefore an increase in invoice volume, USF realized that it was not practical to continue using this manual process and decided to automate its invoice processing.

US Farathane chose Palette as its AP and purchasing automation provider due to its high level of functionality, its ability to meet technical demands, and because it was the most user-friendly system of those tested.

The Results:

- 70 % drop in cycle times
- 43 % reduction in processing costs
- 20 % growth in invoice volume without an increase in headcount

Read the whole Case Study

5 — 5 steps towards finding the best AP solution for your organization

Looking into different options and truly mapping the needs for an AP automation solution is always a great way to start the project. This applies to both options; replacing the current solution in use or when looking for a brand new one.

Miikka Suikki, Senior Consultant at Palette Software, has worked with many different organizations in connection with system replacement projects. He advises: "Many companies are updating their existing system without mapping alternative solutions, despite the fact that another model might serve their businesses and customers' needs better."

1 — Identify the scope

To identify the scope of the solution, it's good to think about the whole invoice approval process from start to finish. This helps to determine what is needed from the AP solution.

- Which parts of the process of handling supplier invoices should be in the scope? And what can be left out? Such features can entail for example: invoice scanning and capture, workflow automation, PO matching, contract matching, and a purchasing system.
- What stakeholders does the AP automation solution affect? What are their goals for the new system?

2 — Map and challenge your current processes

To truly transform your business processes you need to scrutinize your current invoice processing practices. Rather than choosing a solution that fits around your ways of working, dare to challenge your current processes.

- What does the invoice process look like today?
- What are the known bottlenecks you are looking to solve?
- How many users (invoice approvers, AP team etc.) does your company have? Some AP automation solution providers have user license fees – this is good to check early in the buying process
- What does the ideal process look like?

3 — Identifying other system dependencies

AP automation solutions bring the best efficiencies when integrated with the ERP. This makes the automation level even higher and helps companies with moving, analyzing, reporting and storing important invoice data.

Identify the scope · Map & challenge current processes · Identify system dependencies · Map IT requirements · Business Case
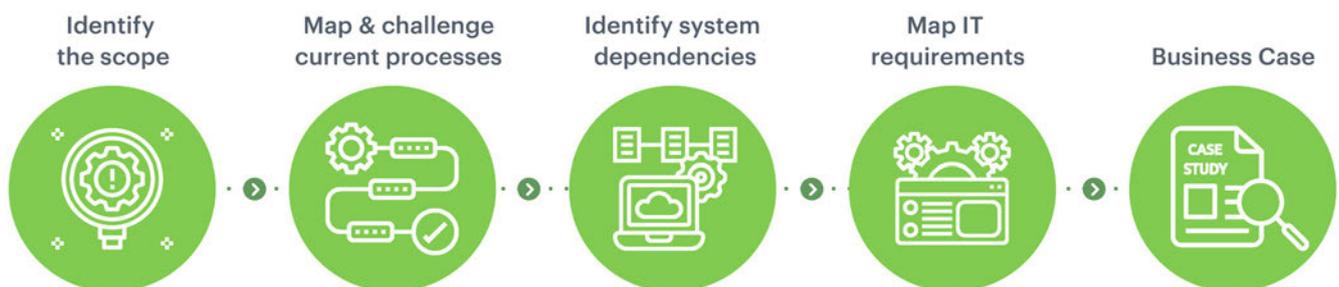
ERP Integration

ERP integration refers to the process of connecting and synchronizing your ERP system with other business applications such as eCommerce, CRM, EDI and AP automation. In essence, connecting all key points a business leverages to input, manage, track and output data that's meaningful and important for the business. These systems can be seen as an extension of the ERPs core functionality.

Multiple ERPs

What happens if a large customer acquires a business that has a different ERP? It's wise to check that the potential AP solution supplier offers multiple ERP connections.

Other systems?

Map out all important business systems, such as purchasing systems.

4 Mapping IT requirements

It's important that every organization chooses a solution that meets their IT needs.

- Is there a need for flexibility in terms of possible customizations and integrations?
- What are the security constraints that should be brought up early in the process?
- Is there a reason NOT to choose a cloud solution?

5 Business Case – Ensure your decision is in line with company strategies, now and in the future

Assess your current situation and identify where next-generation AP automation software can improve efficiency and profitability. Ensure your decision is in line with company strategies.

Although processes differ vastly from company to company, the key question that executives and other decision makers ask will be the same: is the solution worth the investment?

- How much will the system cost? This includes running costs as well as implementation costs, maintenance and upgrades. Link to BLOG: saas or on-premise
- What hard savings would the company be able to gain through the system? For example, saved working hours, reduced costs for late payments and fraudulent invoices, capitalized payment discounts, etc.
- Soft savings. For example, user friendliness and ease of use, time savings, increased visibility and control, as well as improved supplier relationships.

6 The features to look for in your next AP solution – our tips

While every business has different needs there are certain features that will benefit all organizations, given the opportunities and challenges that ongoing digital transformation presents.

Every organization will benefit when their AP automation solution vendor provides:

Flexibility

When you grow, your AP automation solution should grow with you. Look for a vendor that can adapt to changes in technology and scale up or down to suit your needs.

A customizable approach

Choose a vendor that can be sensitive to any business requirements.

Easy implementation

Select a vendor that can guide you through the implementation process and transform your AP processes.

Maximum automation

If it's possible to automate it your AP system should be able to handle it. Choose the vendor that will remove the greatest number of manual touch points and save you the most time.

Support

How important is local support to your organization? Preferably select a vendor that offers support in your local language and preferred time zone.

Schedule an Appointment to increase the productivity in your organization

SCHEDULE AN APPOINTMENT

PALETTE SOFTWARE

Palette Software is a market-leading vendor of financial process automation for domestic and global corporations, including AP Automation and Purchase to Pay Automation. Palette solutions automate the connecting and matching of purchase orders, invoices and contracts in the cloud. Customers experience significant and measurable cost savings, productivity gains and operational excellence. Palette solutions are GDPR compliant and optimize financial management for more than 2,500 customers in 50+ countries.