

A Primer on Accounts Payable (AP) Automation

What is Accounts Payable Automation?

There was a time in the not too distant past that a company's processing and paying of invoices was a completely manual process:

- Receiving mail
- Opening it
- Reviewing its contents
- Collecting invoices
- Physically rerouting other mail as appropriate
- Getting authorization to pay the invoice
- Writing a check
- Inserting the check in an envelope
- Etc.

We have to tip our hats to the accounts payable (AP) departments of yesteryear. Their staffers could grab an envelope, slice it open, read its contents, and make a decision about its disposition faster than you could say "accounts payable automation!" But, of course, even the best of the best couldn't hold a candle to today's automated systems.

So, what is AP automation? Interestingly, while we envision it involving scanners, networks, computers, and data traveling at light speed (and in most cases it does), any well-defined process (even a paper-based one) that is implemented and adhered to is technically "automation" to a degree. In fact, Merriam-Webster defines automation as: "the technique of making an apparatus, a process, or a system operate automatically."

That footnote aside, AP automation in its most modern sense involves the receipt, ingestion, validation, approval, payment, and storing of invoices. In short, you could say that it is "AP processing that follows a defined set of steps."

The Evolution of AP Automation

Knowing that AP automation is a very labor-intensive process that is prone to error at just about every step, companies are constantly looking for ways to improve it. This has led to an ongoing evolution over the years, including:

- **Decrease movement of paper.** Organizations have always understood that the more physical movement of paper that is involved in AP processing, the slower the process is and the more likely to produce errors. Some of the earliest attempts to "automate" the process were simple

actions like moving the people involved in the AP cycle into closer proximity, a reaction that was, literally, a step in the right direction.

- **Process standardization.** It used to be that invoices were received somewhat haphazardly and might end up on the desk of anyone in a company. Consequently, lost documents, missed payments, and angry vendors were not uncommon. Eventually, forward-thinking companies began formalizing procedures, attaching routing sheets to invoices, and implementing strict controls over the process. This was an improvement, but problems remained.
- **Changes to invoices.** Somewhat ironically, progress toward an automated and “paperless” AP process initially required improvements to paper invoices. In order to be scanned effectively, companies moved to invoices that were more substantial than the tissue paper-thin versions that were sometimes used in the past. Standardization of invoice form data also became more common. While advanced AP automation systems can detect the information they are looking for anywhere on a form, simpler systems have to rely on the data’s position in order to extract it.
- **Adoption of technology.** As computers became both cheaper and more powerful in the 1990s, AP departments began to integrate them into their processes. The departments became more centralized and began focusing more on efficiency and cost reduction.
- **Use of SaaS.** With the advent of high speed internet and “cloud computing,” it became clear that paper invoices and checks were no longer a necessity. Software as a Service (SaaS) platforms made it simple for organizations to do much of their business online.
- **Advanced AP automation.** With large portions of a company’s AP workflow today being digital, AP automation makes more sense now than ever before.

Benefits of AP Automation

In most companies, AP automation initiatives pay for themselves many times over in a fairly short time. Nevertheless, the investment of time and capital involved can be significant. Consequently, it’s important for people looking to get buy-in and approval from executive management to have an in-depth understanding of the benefits AP automation will provide. They include:

- **Immediate access to invoice information.** Once you’ve made the leap and digitized your AP process, data such as invoice details, processing status, a detailed audit trail, and invoice images is never more than a few clicks away for authorized users.
- **More throughput without increased headcount.** Companies that automate can grow their operations without expanding their AP department.
- **Development of key performance indicators (KPIs).** Manual processes are notoriously hard to track and measure. Automated processes, on the other hand, can be reported on and analyzed in great detail, which makes it easier to improve them.
- **SOX compliance audit trails.** In order to meet the requirements of the Sarbanes-Oxley Act, you must be able to track your invoice processing.
- **Reduction in late-payment penalties.** AP automation enables you to process invoices much faster, which helps you stay within payment terms.

- **Early payment discounts.** Not only can the fast turnaround of invoices prevent penalties, in many cases it can result in substantial discounts.

5 Signs You Need AP Automation

It's not hard to convince companies of the benefits of AP automation. However, it may be difficult to get approval for a project unless you can demonstrate a need for automation. Here are five telltale signs that your business is suffering the negative consequences of inefficient AP processing:

1. **You are paying late fees.** If despite your best efforts you are still not getting all of your invoices out on time, this should be a red flag.
2. **Your AP headcount rises rapidly as the business grows.** As noted above, with AP automation, the same number of team members can handle significant increases in AP volume.
3. **You have trouble closing out a month.** If you struggle to get the books closed on time, or your closing process begins to take noticeably longer, you can benefit from automation.
4. **You are making errors.** As AP departments struggle to keep up with growing volumes and/or with shorter turnaround times, they frequently begin to notice inaccuracies in their processes.
5. **You are receiving vendor complaints.** When your vendors start calling or email to express their frustration with the timeliness or accuracy of payments, it's time to automate.

Keys to a Successful AP Automation Initiative

AP automation, like any business initiative, can flow smoothly or it can be a bumpy ride. In order to ensure success, there are a number of steps your provider should take.

First, it's critical that they **develop an in-depth understanding of your business** in general and your AP process in particular. What consumes the greatest number of hours? Where are your bottlenecks? What causes you the most frustration?

Next, you must **define and document very specific goals**. Simply saying that you want to process invoices faster and more accurately is not enough — obviously, those things are a given. Instead, you need to assign numbers, like, "We will increase processing speed by 60 percent or more and get our error rate below five percent." And these are just a few examples of what should be a detailed list of objectives.

At this point, you need to work with your provider to **evaluate the available toolsets** and select the tool(s) best suited to meeting your goals. While customization of tools is an option, it's most efficient to find systems with standard functionality that is close to what you need. Next, you should **assemble a project team** that includes people from your AP department, management, and IT. It's imperative that AP automation be a cross-departmental project.

Using input from all stakeholders, you then need to **build a prototype** of the solution. People you've identified as "super users" should push this prototype to its limits, with new insights being the basis of the next iteration. Once you have an official first version of the solution, it's important to do **detailed user acceptance testing**.

Finally, after the live version has been in production for a period of months, you should **assess how it is performing and make changes as needed**. This will be an ongoing process.

You've Automated - Now What?

With your AP processes successfully automated, it's easy to think that your work is done. And it certainly can be. However, you get much greater ROI if you give some thought to what you can do with all the data your new solution is generating. Where can additional improvements be made to the system? How can staff members get more out of its functionality? What kinds of integrations could be created not only to benefit the AP department, but departments throughout the company?

Ultimately, it's fair to say that an AP automation can be complete but it's never "finished." And that's a good thing! There are always ways to get more from the system as you continue to pursue ever-greater speed, efficiency, and effectiveness.