Accounts Payable Automation 101

A MineralTree Topic Paper

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While manual and paper-based processes have remained the status quo for as long as businesses have been paying invoices, accounts payable is finally following suit in a world of business operations that are rapidly shifting towards automation.

A recent Forrester report found that automation technologies across all business functions are becoming a key investment for businesses. The reason for this shift? To put it simply, the benefits of effectively implementing automation technology are too great to ignore. By automating accounts payable specifically, businesses have improved operational efficiency by 80% and can earn an ROI of 366%. Additionally, businesses that automate accounts payable are making leaps and bounds toward mitigating one of the greatest sources of fraud risk within their company.

In this topic paper, we present everything you need to know about AP automation, including why it is necessary, how it works, key factors to consider when making your transition, and how to plan a transition that will minimize overhead while optimizing your ROI.

Understanding The True Cost Of Accounts Payable

In the 2019 State of Accounts Payable, we found that only 13% of respondents estimated invoices cost more than $10 each to process and pay, even though the true cost of paying invoices is $12, according to the American Productivity & Quality Center. This is the fourth consecutive year that finance professionals have failed to accurately estimate the cost of this business process, and it continues to quietly eat away at the bottom line of businesses across industries.

Here is a breakdown of the key factors driving up the cost of paying invoices, and it's important to note that these costs are variable and depend upon the volume of invoices a company handles on an ongoing basis:

| True cost of paying invoices | $12^{00} | |

Time Costs

- Preparing invoices
- Approving invoices
- Reconciling errors

Hard Costs

- Paper copies
- Document storage & retention fees
- Late payment fees

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In addition, another major item driving up accounts payable costs is the cost of paying with paper checks. Paper checks remain the most popular payment method in B2B payments in spite of a bevy of electronic alternates that are cheaper, more secure, and more efficient. The cost of paying with a paper check now runs as high as $5 per payment. Here is a breakdown of costs that go into making check payments:

True cost of paying paper checks

$5^{00}

Time Costs

- Collating checks & backup documents
- Signing checks
- Preparing positive pay files

Hard Costs

- Stamps & envelopes
- Check Stock
- Laser Printing

What Set Of Manual Tasks Define The Full Accounts Payable Process?

1.
Manual Invoice Capture

2.
Manual Invoice Approval

3.
Manual Payment Authorization

4.
Manual Payment Execution

At the end of the day, every accounts payable team needs to jump through the same hoops and complete the same set of tasks every time that they receive an invoice. Although there are slight variations between how teams go about accomplishing this work, this is generally how it goes:

Manual Invoice Capture

The process begins when invoices arrive via email, regular mail, or fax; all of the information has to be coded into your accounting system. The manual transfer of data creates the possibility of input errors, which then require additional staff time to correct. The process can slow down even more when reconciling invoices with purchase orders.

Manual Invoice Approval

Invoices then need to be distributed for approval, either by hard copy or email, to the department heads that utilized the vendors' products or services so they can verify receipt and confirm if the time has arrived to issue the payments. Depending on the invoice amount, an invoice can travel through multiple people before it arrives in front of the person who can actually sign-off on the final approval. This can drag the payment process on for weeks, and it is incredibly challenging to keep track of all of the different invoices that are out for approval at any given time. For that reason, it's easy for invoices to slip through the cracks and go unpaid until they are already past due

Manual Payment Authorization

Once invoices are approved by department heads, the AP manager needs to pick which are getting paid in the next payment run, and then get them in front of the CFO or Controller to authorize the payment to be released. This too can extend the timeline for payment if the person authorizing the payments is away from the office. For this reason, payment authorization could easily be the biggest bottleneck in the process.

Manual Payment Execution

Once payments are authorized, AP teams must execute them, either by mailing checks or setting up electronic payments. Managing electronic payments manually, especially while making credit card payments, is not easy because the AP Manager must set up separate payments for each individual vendor, and also carefully manage the process of exposing the entire company to fraud risk by sharing financial information in the process. For this reason, many businesses are missing out on the many benefits that electronic payments can provide. Additionally, if due dates are not diligently monitored, it's easy to miss deadlines and sacrifice early-pay discount opportunities.

Why Manual Accounts Payable Has Been Missing the Mark

To complete all these steps, **the AP team often has to spend an inordinate amount of time pushing paper or emails in front of department managers in order to get the entire process under way.** From there, it's typically some form of organized (or disorganized) chaos as AP managers are juggling dozens of email threads to follow up on approvals.

Inevitably, invoices are sent by vendors directly to department heads, buried in their inbox, and the AP team doesn't find out about them until they are already past due. **This frustrates vendors awaiting payment—the same vendors that provide vital services to help the company deliver products and services to its customers.**
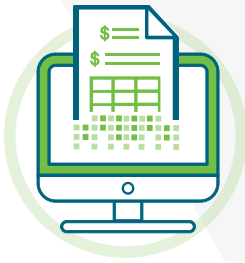
All of this unfolding on a daily basis will take a toll on any AP team, and also keeps them locked into reactive processes that prevent them from focusing on anything beyond getting invoices paid. Then, as a company's volume of invoices continues to grow, the traditional approach to keeping up has been to add headcount. **While this will enable teams to maintain the status quo for some time, it will only serve as a temporary fix until the invoice volume exceeds the team's new capacity,** triggering them to repost the same job opening once again.

On top of all of this, paper-based, manual AP processes also expose the entire businesses to fraud risk every time a company receives, processes and pays an invoice. **Paper checks, the payment method of choice in the world of accounts payable, are also more susceptible to fraud than any other kind of payment.**

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How AP Automation Addresses These Shortcomings

| 1. Invoice Capture | 2. Invoice Approval | 3. Payment Authorization | 4. Payment Execution |

AP Automation addresses the shortcomings of manual accounts payable by enabling AP managers to orchestrate the entire AP process in a simple, scalable way that ends up requiring a fraction of the time. Here's what a typical automated AP process looks like:

Invoice Capture

During the invoice capture step, physical invoices are automatically entered and recorded at 99.5% accuracy by leveraging a combination of Optical Character Recognition technology and human review—and sync directly with your accounting system. This ensures that all data is accurately recorded, and drives down the costs associated with fixing errors and reconciling those errors with vendors. Additionally, leading AP Automation solutions employ features that automatically detect when duplicate invoices are captured, and flags them for review before they can move forward in the payment process.

Invoice Approval

For invoice approvals, captured invoices will enter automated workflows that trigger requests for approval to department heads with invoices attached. These invoices can be approved with one click within the email notification. The departmental approvers can be pre-determined based on internal policies and GL accounts, and workflow rules can be set for specific vendors and invoice amounts that exceed set thresholds. Automated follow ups are sent to approvers, eliminating the need for AP managers to spend their time chasing down approvals, and also making it very difficult for unpaid invoices to slip through the cracks past their due date.

Payment Authorization

At the payment authorization step, an invoice payment can be accepted or rejected from any device as approvers work at the office, at home, or on the road. This eliminates the bottleneck that approvers can create just by being away from the office. Additionally, this separation of roles builds the key payment control of segregation of duties into the process and protects companies from employees either forcing fraudulent checks through the approval process or accidentally paying invoices that shouldn't be paid.

Payment Execution

When payment execution occurs, approved payments are scheduled for payment, and and when they occur they will automatically sync to close the invoice in your accounting system. Approval records, invoice copies, receipts and payment records are all attached to the invoice to streamline any payment history research that's required later on. Businesses also gain easier access to more secure and efficient payment methods—such as ACH transfers, credit cards, and virtual cards—while still allowing for paper check payments as well. This opens the door for companies to begin thinking more strategically about their payments to optimize cash flow, working capital, and potential rebates and discounts.

Remittance details are sent automatically after payments are completed. This takes a tremendous burden off of the AP staff by offering a new level of transparency to vendors, and eliminating the need to respond to the steady stream of inquiries that vendors tend to make on the status of their invoices. Additionally, all payments are preserved within a centralized repository of payments that can be easily viewed and searched in case any vendors claim a payment has not been received.

The Benefits of Automating Accounts Payable

Automating accounts payable provides immediate benefits to the AP team, but also can have a positive impact across the broader organization as well. Here are the three immediate benefits companies see as a result of automating accounts payable:

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1. **Increased efficiency—** After automating accounts payable, businesses have increased their operational efficiency by as much as 80%. These gains are made by eliminating all manual intervention from the end-to-end process, and consolidating all activity into one centralized workflow.

2. **Enhanced security—** Automating accounts payable builds simple and repeatable payment controls into everyday AP processing so teams don't even need to think about them as they are enforced. Segregation of duties, dual-factor authentication, and tokenization are all examples of payment controls that come with AP automation. These extra layers of security maintain the integrity of payment protocols and mitigate the risk of company financial information falling into the wrong hands.

3. **Increased command over cash flow—** With AP automation, teams can keep on top of all payment deadlines, including early-pay discount deadlines, and capitalize on opportunities to make early payments that prompt discounts to kick in. It is much easier to ensure that all payments are made on time, enabling businesses to avoid late payment penalties. Additionally, because automation enables more electronic payments - which can facilitate payments faster, automation enables businesses to hang on to large sums of capital that are due for payment as long as possible, and enjoy extended working capital.

Benefits that extend beyond the accounts payable team and out to the broader business include:

• **Improved vendor relationships—** Vendors are key stakeholders in the operations of any business. With accounts payable serving as the liaison between a company and its vendors, AP automation makes it easy for AP teams to serve as good stewards of a key relationship for the business, and build a relationship of trust that features high-quality service, discounts, and flexibility in payments.

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- **Simplified company audits—** Audits are a necessary evil for every company. How the audit experience goes for companies has a lot to do with how the accounts payable team records and maintains their vendor invoice data over the course of a year. AP Automation automatically records all required documentation into one central repository, and makes audits a breeze for all parties involved.

- **More strategic projects—** By liberating the finance team from the tedious and time-consuming tasks that are required to manually process and pay invoices, they can focus on investing in technology to create the same kind of efficiencies in other departments across the organization.

Key Factors to Consider When Selecting An Automated AP Solution

As you look for an automated accounts payable solution that meets your needs, there are two key factors to consider upfront:

- **End-to-End or Point-to-Point.** The first is to decide on whether to deploy a complete end-to-end solution or multiple point solutions for each of the distinct steps—invoice coding, approvals, payment authorization, and payment execution. While investing in point solutions helps smooth individual steps in the AP process, the approach ultimately limits the return on your investment. In contrast, by automating the end-to-end process through one complete solution, you preserve all accounts payable operations—including approval and payment details—in one centralized database. You also simplify transitions between each of the four steps. At the same time, you avoid the overhead of managing multiple vendor relationships that comes from deploying point solutions.

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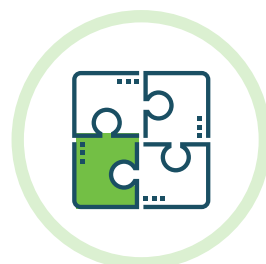
- **System Integration —** Another key consideration is to identify a solution that will integrate directly with your existing ERP system and your bank accounts. This allows you to avoid file uploads by syncing both systems with the AP system so that updates between systems flow automatically. The information you run reports on is always up-to-date—with no extra spreadsheet programming required! You also gain complete transparency into every payment because your payments are being made from your bank account. Some solutions may use settlement accounts, which result in bulk debits from your bank account, making it challenging to reconcile, or undo a payment.

In addition to the type of solution you deploy and its integration capabilities, **look for an automated AP solution that provides these key features as you go through the vetting process:**

- **Duplicate invoice detection—** Paying the same invoice twice is costly. It requires extra time to cancel one of the payments and creates an awkward situation when talking with vendors to recover the funds. A solution with automated duplicate invoice detection saves time during the invoice approval process and eliminates the possibility of paying the same invoice twice.

- **Automatic PO matching—** Manually matching incoming invoices against existing POs can be a time-consuming, tedious, and error-prone task. An automated solution employs advanced algorithms and artificial intelligence techniques to match invoices against purchase orders and identify discrepancies. This helps AP departments ensure the PO controls that manage vendor costs are in effect.

- **Automatic payment scheduling—** Automated payment scheduling removes the burden of manually tracking payment deadlines and discount requirements by providing pre-set functionality for approved invoices. AP teams can optimize cash flow while eliminating costly fees from late payments.
- **Virtual card technology—** One-time-use credit cards provide a "plastic-less"

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payment method to securely process specific vendor payments for set dollar amounts. These virtual cards utilize tokenization technology, which produces a unique credit card number for each vendor payment that can only be used once, and only for the amount designated. Just like credit cards, virtual cards also provide an opportunity to earn rebates.

Key Considerations When Planning Your AP Transition

As you plan your automated AP transition, there are additional considerations to keep in mind:

- **Make sure IT is in the loop throughout the entire process.**
  We recommend bringing IT in before you commit to buying a solution to ensure there are no compatibility issues with your current environment. If you run into technical issues during the implementation or experience a major issue afterwards, your IT team will prove invaluable.

- **Are you making other cloud investments?** If you opt for a cloud-based automated AP solution, also consider the timing of other cloud investments. For example, it makes sense to implement AP automation and ERP in the cloud at the same time. Simultaneous implementations limit the time spent in transition, when the AP team is less productive as they learn the new processes. They can learn the new AP process as they learn the new ERP system, and as a result, reach optimal efficiency more quickly.

- **Leverage your solution vendor's expertise.** Also be sure to utilize the vendor's support team for the solution you deploy. Established vendors have built a strong foundation of knowledge through facilitating thousands of implementations.

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By keeping the lines of communication open, the vendor can show you how to apply the best practices that increase the likelihood of a smooth transition and avoid the pitfalls that tend to derail implementations.

Your Best Path To AP Automation

There are a wide variety of ways that AP Automation is currently defined and many solutions available from which you can choose. When deciding which solution is right for you, it's important to understand that taking a holistic approach to automating accounts payable and investing in a solution that streamlines the end-to-end process will deliver greater efficiency, improved control over cash flow, and enhanced protection against fraud.

MineralTree is leading the AP Automation paradigm shift by providing the most comprehensive approach to automating your accounts payable process. With market-leading features, a simple implementation process, and praise-worthy customer support, MineralTree continues to redefine what is possible in the realm of AP efficiency.

Take The Next Step

When considering both the hard and soft costs associated with accounts payable, processing invoices can cost as much as $12 per invoice. By automating the four steps, you can reduce the cost of the process by up to 60 percent. You can also refocus your resources on more strategic activities, including identifying other business processes that need improvement to create even more efficiency.

MineralTree is an example of an accounts payable automation solution that integrates directly with corporate bank accounts and accounting systems. The solution keeps overhead to a minimum by paying for itself as quickly as 60 days after the simple implementation.

For information on how MineralTree Invoice-to-Pay can help you automate and streamline the entire accounts payable process—from invoice capture to invoice approval, payment authorization and payment execution—contact us today at **617.299.3399** or email **info@mineraltree.com.**