

# A step-by-step approach to invoice automation

How do you go about getting from where you are today to effective invoice processing automation?

Initial steps don't require new systems at all in order to deliver incremental benefits. Technology only comes into play once a foundation of policies and procedures are established.

Consider the following steps:

## 1. Analyze current processes

Find out how invoices flow through your company today.

- Where are they received?
- How do they get to Accounts Payable (AP)?
- How are they validated and coded?
- What percentage is received electronically vs. in paper form?
- What is the average time it takes to process an invoice?
- How many invoices are processed per year per AP FTE?
- What is the AP cost per transaction (total invoices / AP department cost is at least a rough measure)?

Your goal is to understand how you process invoices today, where bottlenecks and delays exist, and how much it's costing. You will probably find opportunities to improve your current procedures, even in the short term.

## 2. Centralize invoice management

Consider establishing a centralized or shared service for invoice management. Inform your suppliers that they should send all invoices to your AP function and enforce the policy.

(In a benchmarking survey done by the International Accounts Payable Professionals association (IAPP), more than two thirds (64.7%) of members stated centralization was of utmost importance by giving it an importance rating of 5 on a scale of 1 to 5).

Implement a standard approach that captures invoices into some type of electronic form. You may start with a simple document scanning and indexing process. If you need to capture invoices in multiple locations, use a standard approach and centralized electronic filing system that will streamline your manual approval process.

Your primary goal at this point is to capture invoices as soon as possible and to position yourself for later automation.

## 3. Standardize policies and procedures

Define and document standard policies and procedures for processing of PO and non-PO invoices – e.g. duplicity and mathematical integrity checks, matching criteria and tolerances, discrepancy resolution workflow, dispute and approval workflow, etc.

Also document your policies for working capital optimization – e.g. when to take and not take early payment discounts.

Your primary goal is to clarify to your organization exactly how invoices should be processed. This will better guide your current manual processes and prepare you for automation of your policies and procedures.

## 4. Automate

Once you have established your policies, procedures and controls, you are ready to begin automating. At that point you are ready to select and implement a technology solution that provides the elements of automation described in the previous section.

The most important thing to first put in place is a single "processing engine" that will enable you to automate your policies and procedures for validation and coding, matching, discrepancy resolution, payment authorization, and reporting and analysis. You want a single, consistent invoice automation process regardless of how many ways you initially capture invoices. On the front end, you can leverage any electronic invoicing opportunities you may already have in place while using a combination of scanning, OCR and keying to capture paper invoices.

Your goal is to process as many invoices as possible "straight-through" with little or no human interaction, and to significantly streamline the discrepancy resolution process. Once that capability is in place, you can work on incrementally improving the front-end capture process. We will discuss that more a little later.

## 5. Enable supplier self-service

With all invoices being processed in a consistent electronic manner, it's an easy step to make status information available to suppliers via a secure self-service Internet portal.

Your goal here is to eliminate the time AP personnel currently spend on the phone answering supplier questions about where their invoice stands and when they will get paid.

## 6. Proactively request early payment discounts

With the ability to process invoices much more quickly, you will be in a position to take advantage of any early payment discount terms your suppliers may offer.

In addition to current opportunities, you may want to begin asking for such discount terms as you negotiate new contracts. Once you have a real handle on invoice processing, this may be a source of significant savings over time.

## 7. Leverage information for better sourcing

Invoice processing automation can help your procurement department enhance their sourcing activities in a couple of ways.

**First**, with all your payment activity electronically captured, they will have better information for spend analysis for purposes of supplier base consolidation and other sourcing activities.

**Second**, with a reputation for paying on time and making it easy for suppliers to manage their accounts receivables with you, suppliers may be more willing to give your organization preferential prices and terms.

Your ultimate goal here is to provide your procurement people with information and on-time payment performance that enables them to gain even better value from suppliers over time.

## 8. Incrementally automate invoice capture

As soon as you have your back-end invoice processing automated you can turn your attention to finding even more efficient ways to capture invoices on the front end.

This can be done on an incremental basis by implementing electronic invoices with your larger customers or through trading networks, and/or by adding capabilities like invoice upload or "PO Flip" to your supplier portal. All of these methods will act as increasingly efficient means of moving invoices into automated invoice processing.

Your goal here is to continue to take cost and time out of invoice capture – even after you've achieved the big savings from automated invoice processing.

Each of these steps is manageable and provides incremental benefits.

As stated at the beginning of this guide, the direct and indirect costs of traditional manual processing are just not necessary anymore.

The technology to eliminate the great majority of the paper handling is available, affordable, and easily implemented within the context of your existing financial systems. And the benefits go beyond cost reduction to creating a cost management and information availability advantage that will help your company better compete for years to come.

Contact Proactis to discover how we can help to streamline and automate your invoicing processes:

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