Accounts Payable Automation in Five Easy Steps

A Digitech Systems, LLC eBook

DIGITECH SYSTEMS

Executive Summary

Five Easy Steps

SCAN

INDEX

DOCUMENT INDEX FIELD SEARCH

VENDOR:

PO NUMBER: 123456

INVOICE NUMBER:

DOCUMENT INDEX
VENDOR:
PO NUMBER:
INVOICE NUMBER: 123456789
DESCRIPTION:
LINE TOTAL:

RETAIN

RECONCILE

DELIVERY RECEIPT

INVOICE

3-WAY MATCHING

PURCHASE ORDER

REMIT
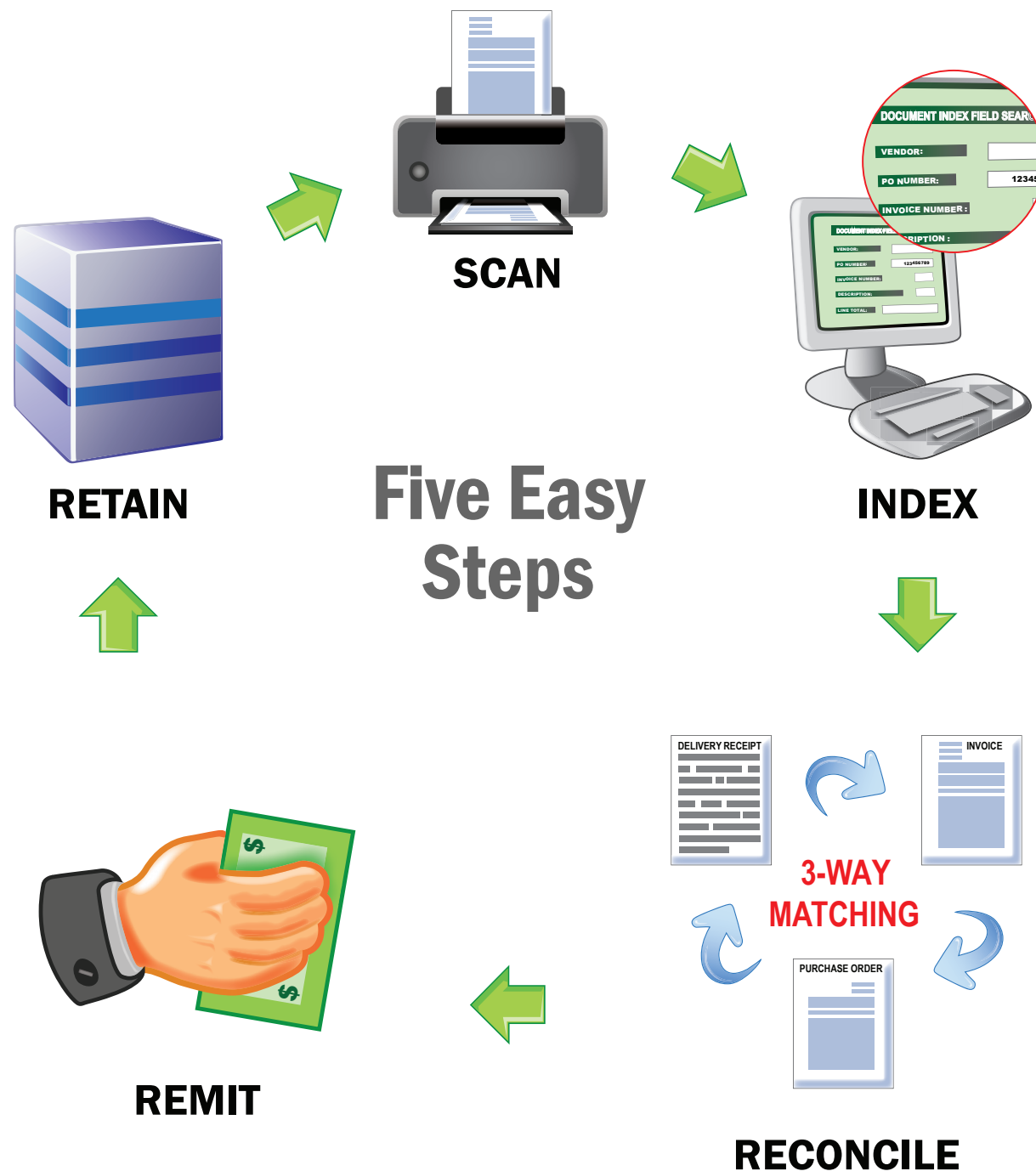
Have you tried to automate your Accounts Payable (AP) processes in the past? Or perhaps you are currently examining options for "going digital." IOFM reports that between 70 and 80% of invoices in the United States are still paper-based, and about 70% of invoice processing costs are related to document handling and manual data entry. This reliance on paper leads to slow processes, lower overall accuracy rates, and higher costs.

In the past, many AP professionals were scared away from automation, because they believed all of their suppliers would have to issue e-invoices in the same standard format in order to become fully digital. This approach can be overwhelming. What hope do we have of convincing hundreds or perhaps thousands or tens of thousands of suppliers to modify their processes to suit the needs of just one customer?

It doesn't have to be so hard!

Though invoices may arrive in many different page layouts, paper forms and file formats, Enterprise Content Management (ECM) can handle them all. Most ECM systems will ingest almost any type of enterprise content and can then group similar items, like invoices, into categories that define processes and apply specialized security. Digital invoices ensure better control of information and are easier to retain in compliance with regulations. Today's scanning and imaging technologies have simplified AP automation. ECM and workflow applications allow the electronic invoices to be sorted, processed, and paid much more quickly. In fact, with today's technologies, AP Automation can be accomplished with an eye toward five simple steps.

> "It costs **$11.76** to process a single paper invoice."
>
> – IOFM

STEP 1: Scan

> ❝ **70 - 80% of invoices in the United States are still paper-based.** ❞
>
> - IOFM

Your automation journey starts by converting any invoices you still receive in paper to digital files that are more secure and easier to work with. To do so, paper invoices should be scanned into a digital format. Once digital, they benefit from the same electronic security, retention, and routing as their electronic counterparts.

Rather than scanning after invoices are processed (often called back file scanning), we recommend scanning upfront—upon receipt—so that natively digital and natively paper invoices follow the same process flow and security measures.

Real Customer. Real Results

IRS
INDUSTRIAL REFRIGERATION SERVICES, INC.

Located in Ankeny, IA, Industrial Refrigeration Services (IRS) specializes in commercial and industrial refrigeration. Their AP department receives approximately 2,000 invoices monthly, and they recently implemented AP automation technology to streamline processing. IRS converts all of the invoices they receive on paper into digital files by scanning them. Invoices are then uploaded to a cloud-based ECM service for management and retention. After eliminating their paper invoices as they are received and automating their AP process, IRS **saves more than 500 employee hours per year**, and they believe **100% of invoices are now secure from loss, theft or damage**. "We use ImageSilo® for just about anything you can imagine, including AP processing," explained Pat Myers. "We're on our way to being completely paperless."

Pat Myers

Shopping List:

✓ Scanning software that works with virtually any scanner at its full-rated speed

✓ The ability to clean-up scanned images using image filters like despeckle and deskew so you get a clean, easy-to-read image

✓ QC that allows operators to quickly assess the quality of scanned images so they can rescan immediately if needed

Companies that switch from paper to digital invoices save $5.46 per invoice.

- IOFM

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> ❝ **Companies reduce invoice handling costs by 53% on average by going digital.** ❞
>
> - IOFM
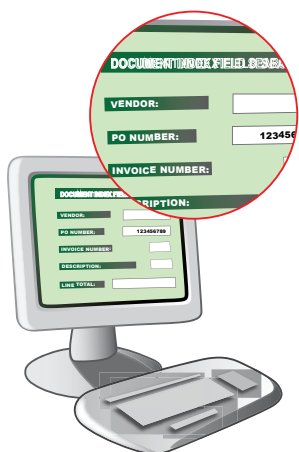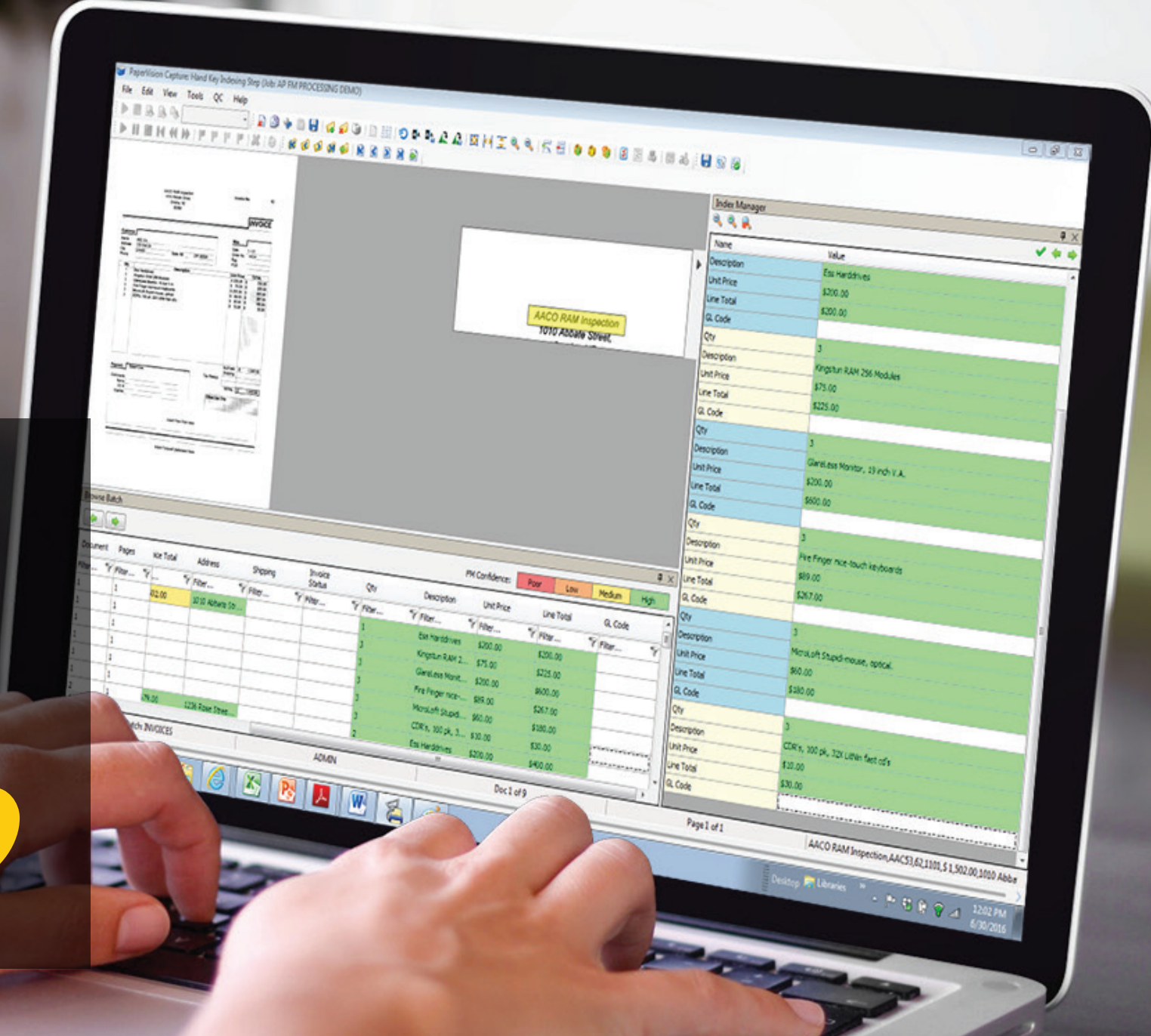
Now that you've gotten rid of your paper invoices, and you've got a bunch of digital invoice files, what do you do with them? Step two is to index the new digital invoices, so you can find them again using keyword search.

Many available solutions include the ability for your staff to hand-key this information, but this manual effort is expensive. Simply Hired reports that the average knowledge worker makes $19.71 per hour, so you want to eliminate hand-keying if possible.

Two new automation tools simplify indexing. Find an application that will sort invoices into categories automatically, and choose one that can extract critical data to automatically populate index values and to share that information with your accounting application.
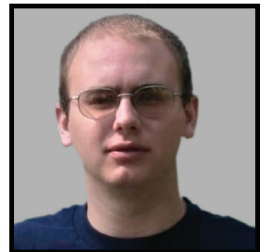
Real Customer. Real Results

Based in Cedar Rapids, IA, MSI Mold Builders produces manufacturing molds for customers in a variety of industries including medical, automotive, and recreation. Their AP department was struggling to keep up with more than 1,200 monthly invoices.

Mold Builders chose PaperVision® Capture to address their AP challenge. Capture included PaperVision® Forms Magic, an artificial intelligence engine, which ingests new invoices as they arrive, classifies them by type, and extracts the critical accounting details such as invoice number and amount, line items and totals, and vendor information.

At Mold Builders, the system also sends invoices into an electronic process for payment, resulting in a fully automated AP function. **The organization has reduced invoice processing time by 75%**. In addition, Mold Builders achieved a 90 percent classification accuracy rate, which means fewer errors and far less manual handling. And, they **lowered the processing cost per invoice from about $63 to less than $16**, saving the company more than $676,000 annually.

Jason Sojka

Shopping List:

✓ Automatic classification of similar documents into categories

✓ Automatic extraction of index information to minimize manual data entry

✓ Integration with leading accounting applications (such as Microsoft® Dynamics® GP, SAP®, and Oracle®) to share data so you aren't keying information

INVOICE
$ _____
$ _____
$ _____
$ _____

70% of invoice processing costs are related to document handling and manual **data entry.**
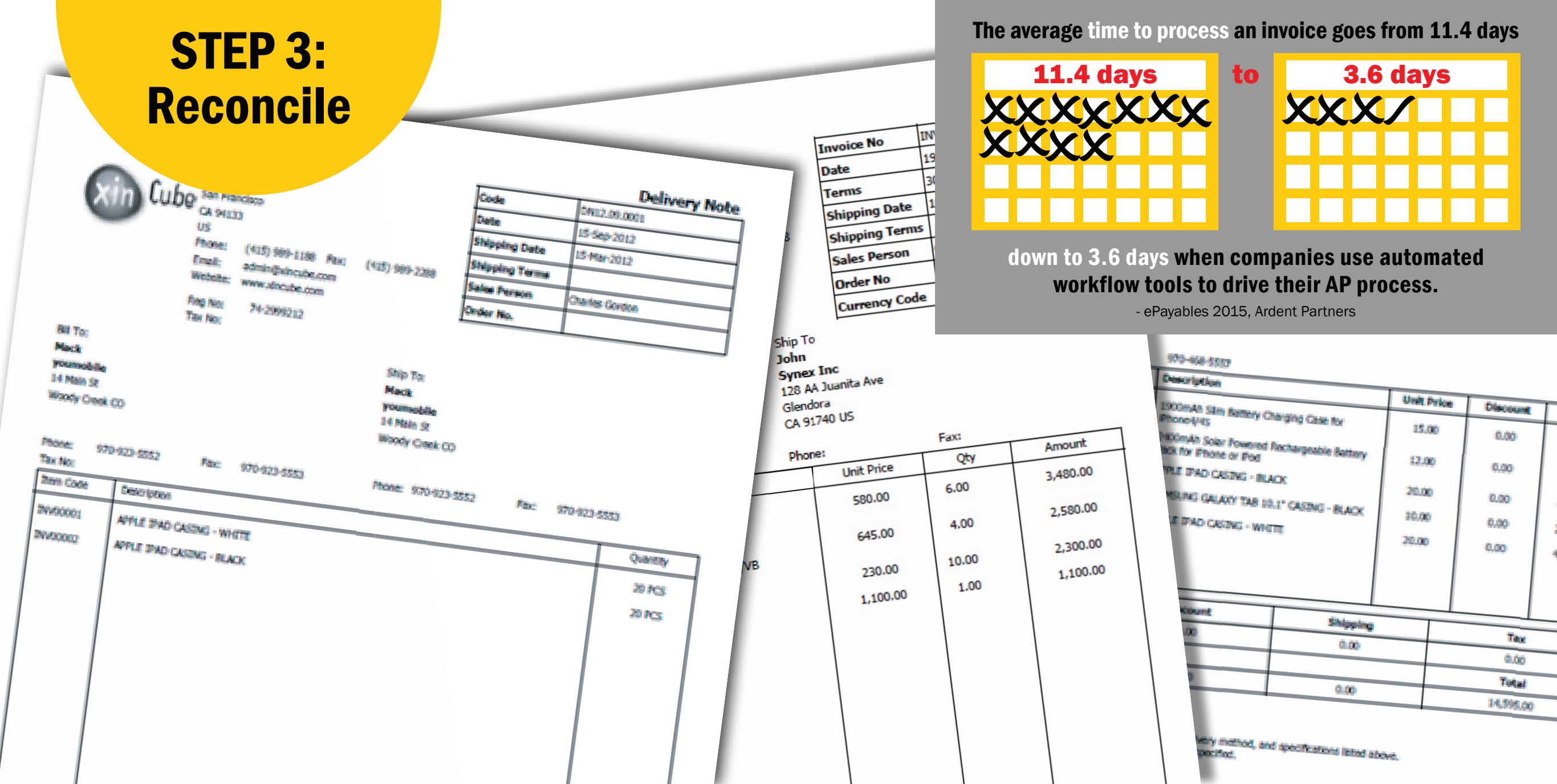
- IOFM

STEP 3: Reconcile

11.4 days to **3.6 days**

down to 3.6 days when companies use automated workflow tools to drive their AP process.

- ePayables 2015, Ardent Partners

3-WAY MATCHING

DELIVERY RECEIPT

INVOICE

PURCHASE ORDER

Now we have scanned images of our paper invoices that have been tagged with index information, so we can easily find them again. What's next? Step three in an automated AP process is to reconcile invoices against supporting documentation.

Once received, invoices are typically compared to purchase orders and goods received records to cross-check line items and totals. This process is known as a three-way match, and it is a critical step in invoice processing, because it is so important to validate invoice accuracy before cutting a check! Document management applications allow AP clerks and accountants to view documents side-by-side to verify purchase order, invoice, and delivery information, satisfying three-way match requirements. Best of all, identifying index values make searching for related documents painless and quick.
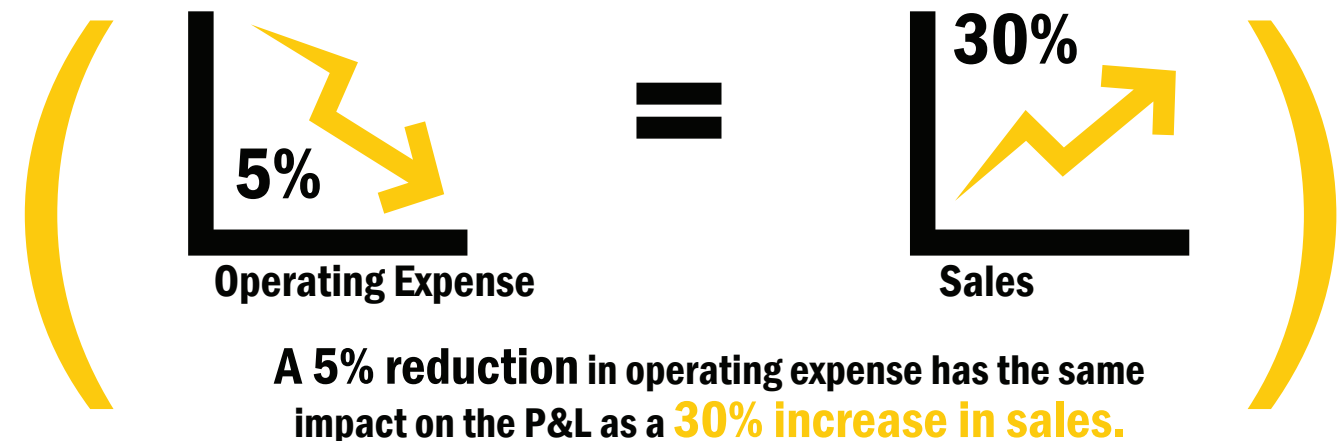
Real Customer. Real Results

Since 1915, Commercial Metals Company has manufactured, recycled, and marketed steel and metal products worldwide. They are a $7 billion enterprise with 120 facilities in more than 12 countries. Tasked with centralizing AP processes across the company's 40 US-based recycling yards, Alberto Centeno quickly realized the only way to effectively reconcile purchase orders, invoices, and shipping receipts in this distributed model was to move to digital processes. Supporting documentation was so hard to find in the existing paper-based system, that in a bad month, it would take maintenance supervisors at each yard almost 200 hours to process just 250 purchase orders.

They implemented a cloud-based document management service for electronic invoices called ImageSilo, and chose PaperVision® Enterprise WorkFlow to automatically route digital invoices through reconciliation and approval processes. CMC reduced the time it takes to complete three-way match for each purchase order by 33%, saving each yard **125 hours monthly**, a total **productivity gain of around 60,000 hours** every year! They have also reduced their cost per invoice processed, which is **saving the company more than $2.6 million annually**.

Alberto Centeno

Shopping List:

✓ The ability to view multiple documents side-by-side

✓ Integration with other line-of-business applications such as inventory management and accounting applications so you can search once and see all related documentation on the same screen

$$\left(\quad 5\% \quad \searrow \atop \text{Operating Expense} \quad = \quad 30\% \atop \text{Sales} \quad \right)$$

A 5% reduction in operating expense has the same impact on the P&L as a 30% increase in sales.

- Gartner

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> **A 2% early payment discount is the equivalent of a 36% reduction in annual interest rate.**
>
> - IOFM

Invoices that are received must get paid, and often suppliers have negotiated discount terms that offer companies incentives if they pay invoices early. Streamlining invoice processing times by routing invoices through approval processes electronically dramatically reduces the time spent processing each invoice enabling the company to take advantage of more early payment discounts.

Electronic routing is accomplished with applications known as workflow or business process management (BPM), and they dramatically speed and simplify your entire AP process! You will setup rules that designate which approval process each invoice flows into. These can be based on virtually any criteria including dollar amount, vendor, or type of purchase. As invoices travel through the workflow, each step notifies a user that an invoice in the system needs attention. They can quickly view not only the invoice, but also any supporting documentation, so they're able to authorize the payment and move the invoice into remittance much more quickly. Even more important, automated processes can help to ensure internal controls are followed with every invoice from the moment it is received to the moment the payment is sent, ensuring compliance with regulations and minimizing any opportunity for fraud.

Real Customer. Real Results

TERRUS®
Real Estate Group

Founded in 2000, Terrus offers strategic real estate planning and real estate brokerage to commercial construction and property management companies. The firm receives about 20,000 invoices annually. Prior to the implementation of AP automation, these were all processed by hand. Employees had to enter information twice—once into the accounting program and again into the document management system. Paper documents were passed by hand for review and approval, and managers spent up to five minutes verifying and approving each invoice.

They converted to digital invoices in 2006. The scanned invoices are automatically uploaded to their cloud-based ECM system, ImageSilo, which kicks off the workflow engine to identify document types and send them through the appropriate approval processes.

Invoices are never lost, and managers can leave electronic comments on invoice files using annotations or textual notes that might explain any reason for delay in approval processes. This process improvement has **saved management 1,150 hours annually** and has resulted in a **30% productivity improvement for staff.**

Phil Akason

Shopping List:

✓ Automatic routing of documents

✓ The ability to search for all related documents from one screen

✓ The ability to apply electronic signatures to documents as required

Why go Digital?

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

The **top six reasons** AP is looking **to switch** to digital invoices **are** related to the **pain of manual invoice approval processes.**

- Paystream Advisors

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STEP 5: Retain

Retention Recommendations:

- Correspondence - 2 years

- Invoices, payment records, expense records, and credit memos - 7 years

- General ledgers, payroll journals, audit reports - FOREVER

  - IOFM

We've cut and sent the check, process complete, right? Hold on. Once paid, the active life of most invoices is over, but financial records are subject to particular retention schedules that require businesses to keep copies for years, which leads us to step number five: retain.

Electronic records are easier and more cost-effective to retain than mountains of paper invoices filling up filing cabinets and offsite storage. In addition, many document management systems include the ability to setup retention schedules as financial records are received. These schedules can notify administrators when documents are due for destruction, and can prevent records from being destroyed without proper authorization. You can choose to retain your records either on your own corporate network or in the cloud.

Real Customer. Real Results

BIGELOW
AMERICA'S · CLASSIC
FAMILY TEA BLENDERS SINCE 1945

R.C. Bigelow is the #1 specialty tea company in the United States. Their AP automation journey began, because of the difficulty of storing and retaining financial records in compliance with tax guidelines. They were saving five years of paper-based information at their headquarters in Fairfield, CT and at the end of each year, a temporary employee was brought in to sort files for offsite storage where they would be held for another two to three years.

They chose a cloud-based service, ImageSilo, to retain their financial records because it was easier to get started and did not require IT involvement to setup.

After automating their AP processes, AP employee productivity has improved by more than 5%, saving thousands of hours annually and eliminating the need for part-time and contract employees to prepare for audits. In addition, Nucleus Research, an independent analyst organization that specializes in the financial return on technology investments, recognized RC Bigelow as a Technology ROI Award winner and calculated their **project ROI at 813% with full project payback in less than two months**. The analysts stated, "Bigelow Tea was able to yield such significant return, because many of the company's manual paper-based processes were eliminated."

Melanie McElroy

Shopping List:
✓ Cloud and on-premise storage are available and the ability to switch from one to the other as needed
✓ Automatic retention terms applied to every document
✓ Management authorization prior to record deletion,
✓ The ability to hold documents past retention deadlines as needed

One gigabyte can hold 15,477 pages.
- Lexis-Nexis

Contact us to learn more about how to automate your AP processes.
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