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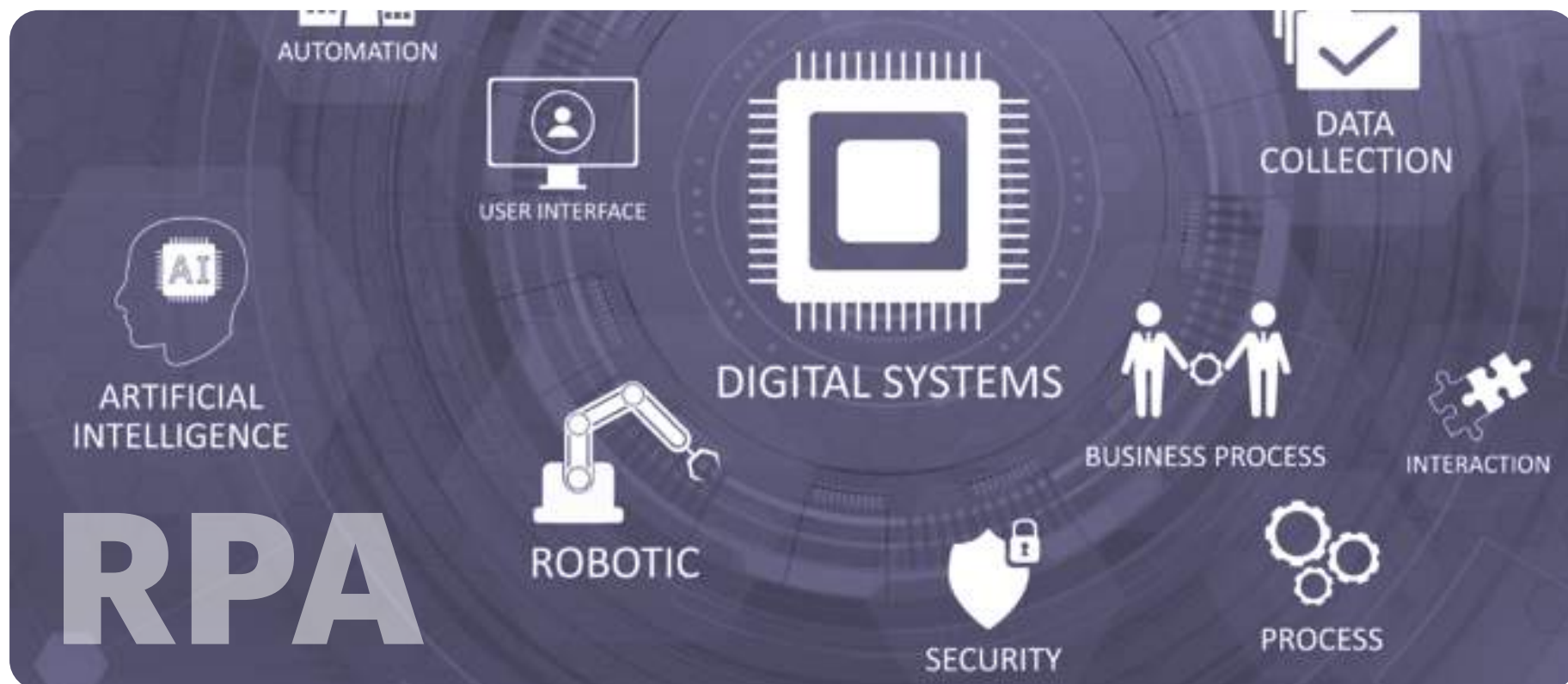
Insiders Guide to AP Automation

Challenges & business models

According to Gartner, extra work caused by human error in finance departments could be reduced by up to 30% annually by deploying robotic process automation (RPA)

And yet, states the 2019 report, "fewer than one-third of finance departments that have deployed RPA have utilized the technology for financial reporting, leaving major efficiency gains on the table."

Despite a plethora of accounts payable (AP) automation tools, email and paper still dominate the North American market, with 80% to 90% of invoices received via one of those two mediums.

Manual processes account for 75% of data capture, with legacy OCR technology—with limited functionality and integration capabilities—used to capture the bulk of the remaining 25%.

The impact of manual processes on finance departments

Fragmented finance systems, deeply entrenched, error-prone manual processes, and high employee turnover results in increasing the cost, complexity, and audit concerns for already overwhelmed AP departments.

Streamlined finance departments, efficient and reliable automated processes, and motivated employees focused on high-value work is the solution.

The challenge, however, is exacerbated by globalization. That requires the normalization of core business operations across borders, while remaining flexible enough to meet local requirements.

Any new business solutions must include currency, language, and tax regulation translation engines facilitating seamless purchase and payment operations as well as data set normalization.

These complexities—and others—can be addressed by applying RPA to financial processes. Then why aren't companies rushing to implement AP automation?

Organizational Obstacles

Mired in complex, manual processes— vetting suppliers, receiving emailed invoices, distributing them to approvers or buyers, resolving issues with account codes, and handling a multitude of other related tasks—optimizing the AP process can be a challenge.

While manual processes require a massive effort— and often result in lost invoices, slow process times, increased accrual efforts, and frustrated auditors—employees develop a level of comfort through familiarity.

Working to the adage, "if it ain't broke, don't fix it," managers themselves tend to become complacent, dismissing the opportunities automation brings.

When questioned, finance executives often cite one of three reasons as obstacles to implementing AP automation:

1. *We aren't ready:* With many organizations uncertain as to what their actual processes are, the thought of standardizing those processes before implementing automation appears a massive mountain to climb.

2. *We have specialized knowledge:* Reluctant to minimize the aspect of human judgment from the AP process, many companies believe their operations are too complicated for software to handle.

3. *The ROI isn't big enough:* With a variety of business models to navigate and ROI challenging to ascertain, many businesses would instead maintain the status quo than venture into the "unknown."

Let's explore each of these in turn.

Obstacle #1: "We aren't ready"

Many organizations believe that—without standardized processes—deploying automation increases the risk of financial misstatements or missed reporting deadlines. But, in retrospect, is that really the case? Challenges related to scaling manual processes in an increasingly integrated world economy snowball over time, creating the very scenario that finance executives fear.

The real question is: *"Do I need to standardize my processes before automating?"*

> Challenges related to scaling manual processes in an increasingly integrated world economy snowball over time, creating the very scenario that finance executives fear.

While it's true that standardizing and simplifying processes can help prevent the automation of needless inefficiencies or complexities, so can choosing the right AP automation business model for your company.

With a vast variety of vendors offering AP automation tools, platforms, and services, navigating your options and making informed decisions can both standardize and automate your processes.

A) In-house vs. Offshore

Many financial institutions offer a business process outsourcing (BPO) service to their clients, usually comprising a simple "lift and shift" of AP processes to an offshore services company.

This transition takes the manual effort—and associated headcount—off your hands. Unfortunately, however, outsourcing scanning and data capture doesn't necessarily eliminate the error count and often you can only count on 60-70% of your invoice volume to be error-free.

These outsourced services often introduce additional challenges such as communicating across time zones or overcoming a lack of understanding of your unique business accounting processes.

While choosing to outsource is often a cultural decision, the alternate option is to automate your AP processes while keeping them in-house. Here procurement, implementation, and deployment decisions need to be made.

> **AP automation solution models can be divided into 4 categories:**
> - **Business Process Outsourcing**
> - **Build Your Own**
> - **Toolkit Platform**
> - **Hybrid Saas**

B) Build vs. Buy vs. Hybrid

Both models have pros and cons. Building your own solution may give you precisely what you needed at the time of design, but is it scalable and flexible enough to meet your future requirements?

Most businesses find building their own AP automation solutions too risky in terms of time, effort, and investment.

A different "build" option is to go with a vendor offering a flexible toolkit platform customized for your business. While this model may give you what you want—and is quicker than building it yourself—the project-based approach still means months of development before you'll begin to see results.

Keep in mind the "build" option can obscure deeply entrenched bad practices that will under the radar – and this would include the opportunity for fraud. As well, there is the danger of recreating the wheel for functions that someone else has formulated an elegant solution for already.

The alternative is to buy a commercial off-the-shelf (COTS) system that can be quickly implemented, including prepackaged invoicing models.

Be aware, however, that possible solutions—for both enterprise and SMB segments—often enforce standardized processes, requiring your employees to adopt—and adapt to—inflexible built-in workflows.

If you're an SMB with relatively "loose" AP processes, this may be a great option. For enterprises with complex established workflows a COTS solution may be prohibitive in terms of flexibility.

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→ Another Option?

The third alternative is a secure, hybrid SaaS solution –– like Palette — offering you the best of both worlds with speed and flexibility.

Hybrid AP automation solutions provide immediate access to most of the required functionality, while providing a platform easily tailored to meet the unique needs of your organization.

C) Hybrid SaaS AP Automation

Software-as-a-Service (SaaS) AP platforms reduce—or eliminate—manual handling, improve accuracy, and enhance communications between systems with intelligent automation.

Support for remote workers, increased flexibility and scalability, optimized efficiencies, and reduced cost-per-invoice makes SaaS an attractive proposition for companies of all sizes.

Remember however that SaaS vendors offer a range of usage, volume, and payment-based subscriptions. Make sure you understand the pricing implications for your business before committing.

> **More importantly, choose a vendor who's in a position to commit to a meaningful partnership for the long term. Large vendors with thousands of customers may not provide the support you need.**
>
> **Choose a vendor with a customer base matching your organization and a reputation for listening to its customers.**

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 Automated PO Matching
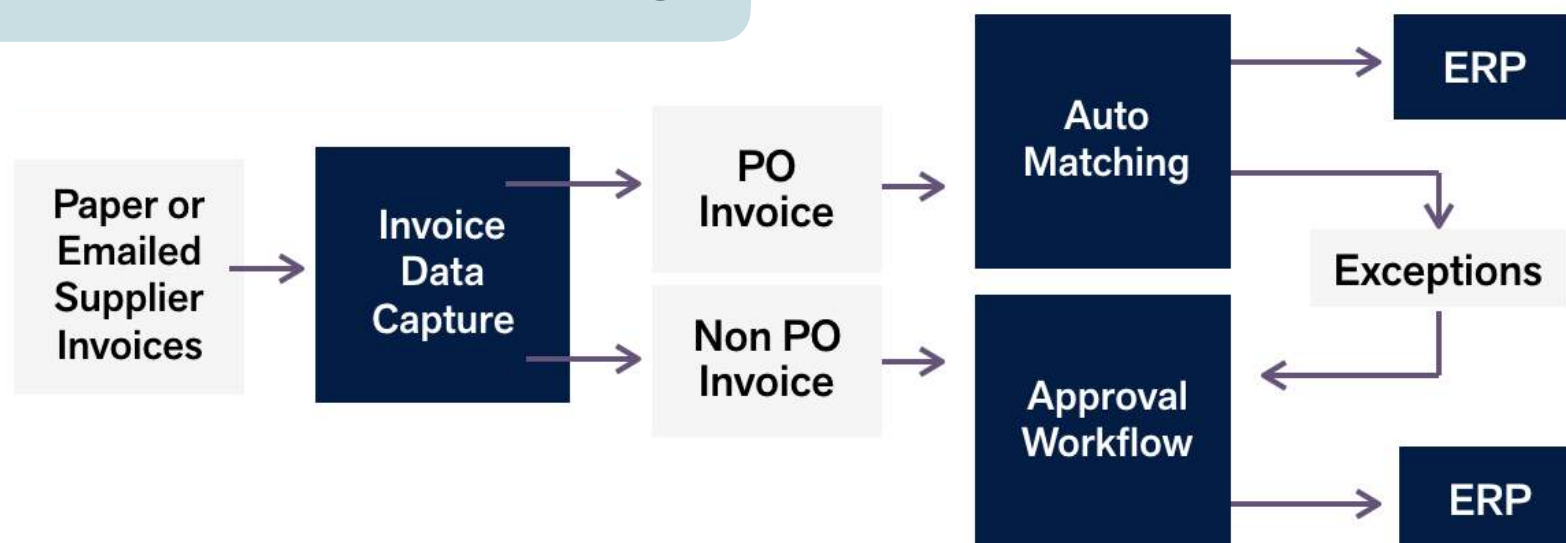
Roadblock #2: We have specialized knowledge

Yes, you have specialized knowledge about your business. How you do things may vary from one department to another, but the basic process is the same.

One thing you don't have is the ability to manually scan thousands of invoices with hundreds of line items and get it right every time.

That's where AP automation vendors like Palette can help. Designed and built by AP professionals for AP departments, Palette speaks the language. We understand purchasing and AP processes, incorporating best practices into a flexible, SaaS model.

Automated 2 & 3 Way PO Matching

An example of this is Palette's automated, three- and four-way PO matching, and workflow management. Using our intelligent capture and OCR solutions, we capture electronic invoices with 100% accuracy, and paper or image data with over 95% accuracy. Once the information is in our system, automated purchase order matching takes over, reducing the approval cycle by up to three times.

Palette's intuitive UI allows you to watch the process as purchase orders with hundreds of line items are matched within minutes of receipt, meaning a huge savings in terms of efficiency, time, and money.

Intuitive Color Coding

As the platform matches invoices, purchase orders, goods receipts and contract data, lines on the screen turn green indicating a match with line-level color coding speeding up error identification and remediation. Highlighted exceptions are automatically sent to the relevant approver—based on workflow rules—for validation and one-click approval.

Once an invoice is matched and approved the automated process sends those invoices to the ERP for downstream processes—such as vouchering and aging before payment—to take over.

This hands-off approach to accounts payable processing increases data accuracy and shortens payment cycles, increasing vendor satisfaction and opening the door to more significant discounts.

Obstacle #3: The ROI isn't big enough

Automation isn't just about speed, and measuring ROI isn't just about licensing and deployment costs for the AP department.

Errors

You can't measure the impact of accuracy but errors cost money, a savings component that is often overlooked. Just a few invoices where the decimal is entered in the wrong place by AP can cause a significant financial impact.

Maverick Spending

Inadequate oversight of indirect spending is often due to decentralization and a lack of protocols, rules, and standards to manage transactions. Automated purchase to pay helps ensure the effective management of indirect spend.

Poor visibility is the primary reason for inefficiency concerning indirect spend. Increased transparency enables the purchasing department to pursue and engage with suppliers involved in indirect procurement, consolidating vendor agreements, ensuring on-time payments, and opening the way for negotiating improved volume discounts. The result is significant cost savings benefitting your entire organization.

Deploying a streamlined purchase to pay process also eliminates endless holding patterns, with POs waiting for approval from multiple individuals spread across the organization, reducing average approval times from days or weeks to minutes. It also provides CFOs with the insight they need into both budgets and indirect spending.

The Bottom Line

When done properly—and with the right software partner—deploying an automated AP solution can benefit everyone within your organization. Reduced manual intervention, streamlined processes, and on-time payments translate to increased employee and vendor satisfaction.

If you haven't yet decided on the way forward, explore your options, choose a partner and solution model that matches your business, and takes steps to deploy without delay. The sooner you begin, the sooner you—and your entire organization—will reap the benefits.

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, on-premise or 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 4,000 customers in 50+ countries.

★★★★★

96% Customer Satisfaction Rating

3,500 Customers Worldwide
250,000 Users

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