The Definitive Guide to Accounts Payable Automation

Created with the savvy finance and accounting leaders in mind, this detailed guide will explain the journey finance and account leaders will face when embarking on the accounts payable automation journey.

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Table of Contents

What's in this accounts payable automation guide?

At CloudX, we understand the dilemmas you're facing if you're a finance and accounting leader embarking on a journey toward accounts payable (AP) automation. Not only will you come across organizational mandates from corporate leadership, but you will often have to do your decision making under stringent reporting deadlines and perhaps even under a tight IT budget, among other things.

Although these dilemmas can be difficult, they are not "end-alls" in regard to adopting an AP automation solution. Instead, they can be catalysts for choosing accounting automation software that seamlessly integrates with your existing ERP or accounting system. They can also prompt you to find an AP solution that meets your business needs and works well for both your AP team and your finance team.

In this guide to automated accounts payable, you will get an overview of the evolution in finance automation and learn how automation can help streamline your accounting operations, reduce errors, and improve cash flow for your business.

Let's get started.

How Manual Data Entry Affects Accounts Payable

Across today's complex international supply chain, digital transformation is shifting the nature of accounts payable workflows. And that's a good thing because manual transaction volumes have increased significantly for business-es, causing burdens within business systems and difficulties managing client and vendor relationships. Not only do these outdated, manual transactions fail to capitalize on the benefits of accounts payable automation, but the resulting drag on the back office can stifle an entire accounts payable team and limit a financial leader's ability to make informed decisions.

While automation use is growing, just a small percentage of businesses have fully adopted end-to-end AP automation. This percentage is poised for change, however, as Ardent Partners reported in 2024 that a top priority for 43% of companies was to deploy an AP automation solution in the back office. As we explore technological capabilities further, we will discuss the many facets of implementing accounts payable automation systems and managing them, plus explore the technology behind AI-powered AP automation.

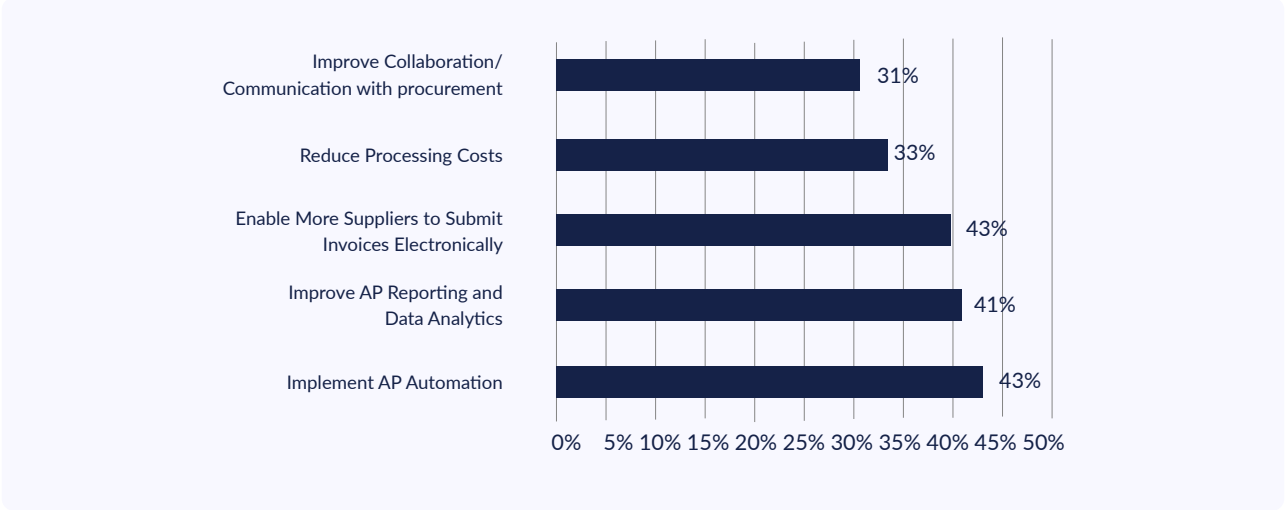# The Problem with Manual Invoice Processing Workflows

A key concept to understand in regard to invoice processing is that just because an invoice can be received electronically doesn't mean it will also process automatically. Many businesses that accept invoices in this manner think they're making major process improvements eInvoicing, but it's just a minor element of what automation can do in terms of efficiency and productivity.

The reality is, many businesses receiving invoices electronically simply print them out and then process them manually into their ERP or accounting systems. This doesn't entirely defeat the purpose of electronic submission, but it doesn't drive process improvement ahead or optimize automation features. While invoice receipt variations are troublesome, a key bottleneck that still exists for businesses today is that they continue to manually glean relevant data from invoices and reconcile those invoices manually into an accounting system after completing 2-way or 3-way matching— manually.

An end-to-end AP automation solution, on the other hand, alleviates these issues by simplifying document flow, eliminat-ing manual data entry, and reducing or eliminating the need for manual validation. In the end, a business's goal should really be to optimize processes and make the technology encapsulating enough to make touchless invoice processing a reality.

As far as why financial leaders seek out process improvement methods, the reasons are varied, but here are the top AP priorities in 2024 according to the report The State of ePayables 2024: Money Never Sleeps by Ardent Partners:

AP Top Priorities in 2024

Priority	Percentage
Improve Collaboration/ Communication with procurement	31%
Reduce Processing Costs	33%
Enable More Suppliers to Submit Invoices Electronically	43%
Improve AP Reporting and Data Analytics	41%
Implement AP Automation	43%

Optimizing Invoice Processing with Automation Tools

AP automation systems vary widely depending on the AP software provider, and the level of integration will often relate directly to a business's budget, operational goals, and existing accounting system. The following technology primers will give you an overview of how automation integrates with data and existing financial systems.

Electronic Data Interchange (EDI)

Electronic data interchange has existed for decades and is considered the gold standard for integrating disparate data systems, although it's not without challenges. In many ways, EDI empowers an organization to bypass other automation methods thanks to its upstream bi-directional integration between a business and a vendor.

Long considered the best option for enterprise-level companies to tie supply chain relationships together, EDI can be difficult to set up and maintain with a vendor. Each individual EDI integration between a business and vendor requires technical effort from both parties, which is easier for multi-billion businesses to manage than it is for small to midsize businesses (SMBs) with fewer IT resources at their disposal.

eInvoicing and Procure-to-Pay (P2P) Options

The invoice is recognized as legitimate, it will reciprocate and authenticate the transaction through a PO flip. This generates a purchase order dynamically and matches it to the invoice.

The function here is beneficial because it allows a vendor to avoid manual processes like generating hard copy invoices, mailing invoices, receiving invThese technologies are newer to the market than EDI and offer some great efficiencies. With these processes, a vendor submits an electronic invoice using a purchase order (PO)-based file exchange that utilizes a file structure such as XML to send the invoice to a business. From here, the invoice interacts with the eInvoicing or P2P platform, and ifoice paperwork in the mail, and other downstream activities such as scanning and filing. Furthermore, through an eInvoicing or a P2P platform, some of a business's general ledger (GL) coding components can be automated because the data

exchanged via the acceptance and authentication process dictates how a transaction gets recorded.

All great, right? Maybe, maybe not. This approach makes a ton of sense, in theory, but there's still a caveat: difficulty with vendor adoption. The technologies behind eInvoicing and P2P software require broader adoption to work seamlessly. In other words, these technologies require vendors to also make changes to their IT systems. For this reason, adoption has lagged due to deployment challenges, which emphasizes the need for more effective solutions like AP automation software.

Business Process Outsourcing (BPO)

Business process outsourcing (BPO) has become common over the past two decades, especially as large enterprises focus more on AP processes. For companies looking to avoid the complexities of document process transformation, outsourcing to regions with lower labor costs have offered significant economies of scale. While this may be initially appealing to some CFOs and controllers, relying on offshore personnel who may not be fluent in a company's native language can lead to errors when processing data, which will compound if unresolved.

Any resulting errors can strain vendor relationships and require advanced workflows to manage problem transactions effectively. In some cases, this necessitates a hybrid approach: Offshoring basic data processing while handling more complex, relationship-driven tasks at the home office. Not surprisingly, this model has come under scrutiny in recent years, and for some, the lack of direct oversight and trust in offshore processes makes the approach untenable.
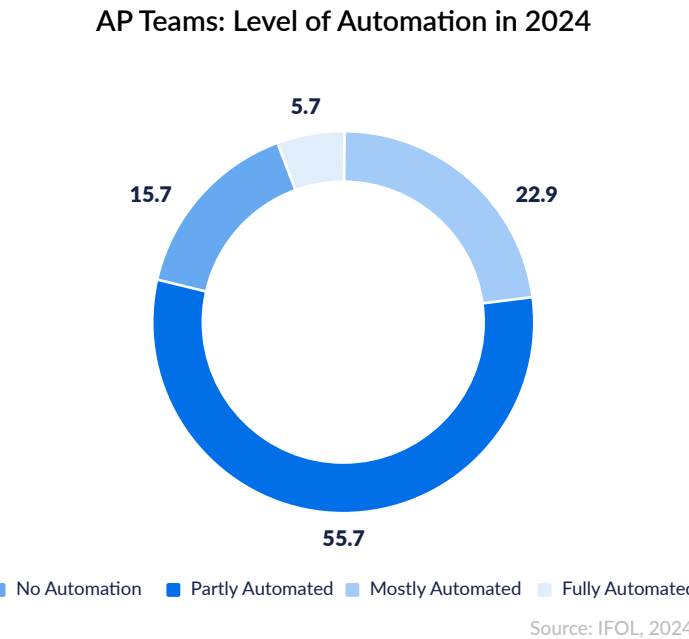
AP Automation Technology

With a more advanced technology stack than other automation tools, AP automation software eliminates up to 100% of manual data entry, reduces or eliminates

accounting errors, and automates matching processes and approvals. It also gives accounting staff increased visibility with real-time transaction updates and allows staff to quickly expedite automated invoice and payment processing, reducing the risk of human error.

AP automation as a service option has been growing in adoption for over ten years, although for many companies, there's been a barrier to entry from a cost standpoint. When you consider the requisite technology stack to automate the AP document process, you have to factor in a number of components—which explains why pricing is generally higher.

Another thing to consider with AP automation is that you need full access to reporting and payment features in order to gain complete visibility of accounts payable. A combination of all these elements is required if you want to develop a true end-to-end AP automation experience.

The Institute of Financial Operations & Leadership (IFOL) conducted a survey of AP Teams in 2024 and found that the majority of them had adopted partial automation. Here is breakout of the degree of automation achieved:

AP Teams: Level of Automation in 2024

5.7

15.7

22.9

55.7

■ No Automation ■ Partly Automated ■ Mostly Automated ■ Fully Automated

Source: IFOL, 2024

Looking back 10 to 15 years, companies used to pay thousands (even millions) of dollars to bring these systems in-house. Maintaining them required large data centers, servers, and IT staff, in addition to costly license fees.

Today, companies have shifted to cloud and SaaS platforms, which offer the same technology as in-house systems without being wedded to those delivery models. Initially, the only barrier here for many businesses has been cost and the need to still manage intricate, disparate systems outside the scope of core business functions.

It's also important to consider that there is a big difference between adopters and non-adopters of automation technologies regarding KPIs, such as cost to process an invoice (CPI), time to process an invoice, and rate of early payment discount capture. The metrics tend to vary widely, but once automation is introduced into an accounts payable system, it can vastly improve efficiency, propel back office functions, and generate wins via increased savings and profits.

The chart below shows the difference between those who continue with manual tasks (novice) and those who have embraced AP automation (innovators).

Metrics	Novice	Mainstream	Innovator
Average processing time from invoice receipt to approval	45 days	23 days	5 days
Average processing cost per invoice (combination of paper and eletronic)	$15.00	$6.70	$2.36
Percentage of invoices received electronically	3%	9%	32%
Percentage of invoices terms discounts captured	18%	40%	75%

Document Process Outsourcing (DPO)

We have an admitted bias towards this approach because we believe it represents the best of all worlds since you can fully offload your AP processes. When high technology is placed in the cloud, it gets managed by a dedicated team of technologists who understand the crucial nature of systems integration and who understand niche systems like OCR, therefore making it easier to implement AP software solutions.

This automation model enables a business to use technology tools to impact AP processes without having to manage the processes themselves. Document process outsourcing also harnesses BPO attributes in terms of taking manual processes away but without having to entrust a foreign company with all the labor, therefore reducing risk.

Finally, because the technology stack here is available in the cloud, infrastructure costs are drastically lowered all around and the cost of entry affords many companies the opportunity to utilize the technology. Many DPO models offer pay-as-you-go type options and bill you only for what you use, versus license-oriented models.

Creating Value Through Integrated Payables

The Power of Automated Payment Options in Accounts Payable

Beyond the obvious AP automation gains related to improving manual invoice processes, a layer of added value exists that's often untapped and paramount to the success of an AP department. This is where integrated payables come in, and it means automating payment processes as part of an overall back office strategy.

Success here will deliver tremendous impact for the visionary leader who progressively and proactively works to align front-end automation efforts with a back-end goal of optimizing payments. Few other areas offer such low risk and high-yield rewards.

When looking at the B2B payments landscape most businesses face, especially in the U.S., it's clear that many organizations are still dependent on costly, time-consuming, and outdated methods like issuing physical checks. Part of the problem here is that the U.S. has no mandated governmental compliance toward a payment standard. This isn't the case in other regions of the world.

In 2023, Insider Intelligence and eMarketer forecasted 2024 U.S. B2B payment transaction shares by percentage, and here were their projections:

U.S. B2B Payments Forecast 2024
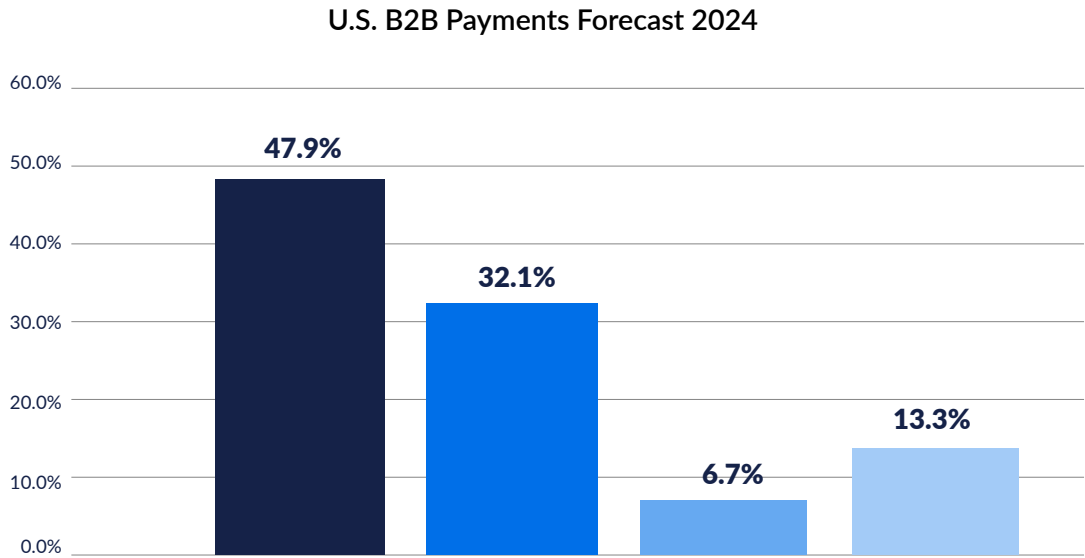
Bar chart showing: 47.9%, 32.1%, 6.7%, 13.3%

Overall, because the B2B space has a myriad of payment options available, many businesses find themselves having to accept a variety of transaction types. For this reason, some savvy CFOs and Controllers have recognized the inefficiencies of paying with legacy methods and have begun working at creating value through better payment streams ... and it's to that we want to turn the attention now.

The Power of Digital Payment Methods in Accounts Payable

Electronic payment methods have revolutionized the way businesses handle transactions. By eliminating the need for paper checks and manual processing, AP automation helps provide faster, more secure, and cost-effective payments to vendors. With this technology, electronic payment methods can significantly reduce administrative overhead, minimize errors, and provide more control over financial processes.

Wire Transfer

Wire transfers are highly valued for their speed and security, often allowing funds to be available in the recipient's account within hours, depending on the financial institutions involved. They are also considered final once processed, providing peace of mind to both parties involved in the transaction. However, despite these advantages, wire transfers are often associated with higher fees and they may require more detailed processing and authorization.

Automated Clearing House (ACH) Payments

The Automated Clearing House (ACH) is a network that facilitates electronic payments and fund transfers between financial institutions, and one of the key advantages is its lower transaction fees, making it an attractive option for businesses processing recurring payments or paying vendors in bulk. ACH is particularly useful for high-volume, routine payments where immediate settlement is not criticalroutine payments where immediate settlement is not critical.

Virtual Credit Card Payments

This e-payment method funds a single-use, digital credit card that can be tailored to pay either an individual invoice

or batch of invoice transactions. Such payments can run on various payment rails including Mastercard, Visa, and American Express.

The added benefit to the payee is participation in cash rebates and thus the creation of a monetized and sustainable cash rebate stream into the business, which can be streamlined through accounting software. Overall, this card type best combines the controls, expediency, flexibility, and profitability that collectively create an unparalleled business advantage.

In summary, all of these payment methods can be integrated into an AP automation effort, creating value across the entire spectrum of invoice transactions—from presentment to payment to records archival.

The Power of Visibility in Automated AP Systems

The difference between manual and automated AP processing is significant. With automation, you gain access to dynamic process insights, real-time reporting, and detailed audit trails—capabilities that simply don't exist in manual systems.

By implementing robust AP automation and integrated payables platforms, you not only streamline your back office processes but you also set the stage for optimizing value. Once automation is in place, the next step is leveraging data and insights to improve cash flow, ensure compliance, and maximize financial performance.

Other Ways Automation Benefits Your Business

Accounts Payable Dashboards

AP dashboards provide real-time visibility into your workflows, offering valuable insights that drive efficiency and cost savings. With a centralized view of pending invoices, due dates, approvers, vendors, and payment discounts, you can easily track and manage key metrics.

These dashboards allow you to quickly filter and analyzedata, helping you prioritize invoices, capture early payment discounts, and avoid late fees. Then, by leveraging real-time insights, your AP team can streamline processes, optimize cash flow, and make data-driven decisions with confidence.

Automated Financial Reporting

Most AP automation and ePayment platforms offer customizable reporting features, allowing you to generate reports and export them to Microsoft Excel or Google Sheets for further analysis. These reports can provide valuable insights into payment trends, vendor activity, and processing efficiency, helping your business assess internal workflows, from processors to approvers.

Many systems also support scheduled reporting, streamlining month-end close and accrual processes. Additionally, with real-time access to key financial data, your team can quickly evaluate departmental performance and make informed decisions without the delays of manual reporting.

ERP Integration

Seamless integration between AP automation and your ERP system enhances efficiency by eliminating manual data entry and reducing errors. Automated syncing ensures that invoice and payment data flow directly into your ERP, keeping financial records up to date and improving accuracy. This integration also strengthens compliance by maintaining a clear audit trail of transactions, reducing the risk of discrepancies.

With ERP integration, your business gains real-time visibility into cash flow, outstanding liabilities, and vendor payment history. This connectivity enables better financial planning, accelerates approval cycles, and supports scalability as transaction volumes grow. Overall, by integrating AP automation with your ERP, your organization can achieve a more streamlined, data-driven approach to accounts payable management.

Vendor Payment Optimization

AP automation also lets you optimize vendor payments by leveraging pending invoices to drive cost-saving opportunities. For example, you can use automation to offer suppliers faster payment in exchange for a discount. If a vendor opts not to participate, their payments can still be processed according to your pre-negotiated terms

With automation, these payment strategies can be executed dynamically and digitally, eliminating manual effort while maximizing financial benefits. This flexibility not only improves vendor relationships but also enhances cash flow, reduces costs, and drives greater overall value for your organization.

Probably one of the most valuable benefits of AP automation offers is the ability to pay vendors with virtual cards. Virtual card payments not only enhance security by reducing fraud risk but also offer your business significant financial incentives in the form of cash rebates. Every time you use a virtual card for payment, your business can earn a percentage back, turning AP from a cost center into a revenue-generating function, ultimately saving on processing costs. Additionally, virtual cards streamline reconciliation, accelerate payments, and improve vendor acceptance—all while strengthening your bottom line.

Accounts Payable Automation Software: Getting Started

TAs you consider the best path forward for your AP automation, it's essential to explore the methods and tools that will most effectively meet your goals. If you're not satisfied with current processes, now is the time to take action.

We would like to offer you a free demo of our AP automation and payment management software, plus a free benchmark assessment of your current AP operations. As you explore technology options, we will guide you through the transformation process and help you unlock the full potential of your accounts payable functionality.

Please fill out our online form to request your demo and assessment.

Questions? Please email us at **info@cloudxdpo.com**

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