



*Including the  
questions you need  
to ask vendors!*

## BUYER'S GUIDE

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# AP AUTOMATION



# The accounts payable function has changed.

The purpose of this guide is to enable the reader to accurately evaluate the capabilities of the wide range of software offerings available, whether you are looking to automate the accounts payable function for the first time or have decided to re-evaluate the capabilities and costs of existing applications.

The guide also highlights the hard questions you should ask every vendor to clarify what is really on offer, as it is often what you don't ask (and the vendor avoids explaining) that leads to future disappointment.

A summary of all the questions you need to ask is provided at the end of this document.



## AP automation components

There are six key areas to investigate. The reader should keep in mind that, as with any automation process, the primary objective is to achieve the maximum productivity gains for

- Capture the purchase invoice information
- Determining the general/nominal ledger (and other analyses) coding information
- The capabilities of the approval process

everyone involved whilst providing visibility of the process to everyone that needs to know; all whilst keeping the experience very simple and easy.

- Deployment and the user experience for both Finance and the Approvers
- Integration capabilities with your existing accounting software
- Reporting and information access

# Capture the purchase invoice

There are three primary methods of capturing the image and information from a purchase invoice. These are detailed below and largely depend upon how you receive your suppliers' invoices.

## Simple Scanning

Scanning the invoice, keying in the invoice information, and linking the image against the transaction in the accounting software is the most basic form of invoice automation. This approach has been around for a long time and delivers the least value as far better methodologies have superseded it. It should be avoided or, if in use, the AP automation application should be reviewed and probably replaced.

## OCR (Optical Character Recognition) or Document Management

OCR scanning of the paper invoice to capture the invoice data is the common approach of most AP automation applications. Within this approach, there are a number of different elements that need to be explored to understand what is really on offer.

## Onboarding

What is rarely highlighted is that for the OCR process to work, every supplier must first be "onboarded". The OCR software is effectively taught where the relevant information is on the page for every supplier's invoice to enable it to learn to automatically extract the data. It is an important and time-consuming process to get right. Typically, the supplier onboarding process has been undertaken by each organisation using the software, but this approach has been replaced by some vendors undertaking the supplier onboarding process on your behalf.

The benefits of a centralised process are that it aggregates all onboarded suppliers by the vendor making them available for every organisation that utilises that supplier. This approach of leaving this critical task to experts, who spend their day analysing multiple different invoice formats in different languages and currencies, saves you a great deal of time and always delivers a higher level of data accuracy.

*Ask the vendor which approach they use and consider avoiding any application that requires you to undertake the onboarding process; because it is simply a waste of your time. Also, check the number of onboarded suppliers in their portfolio.*

## OCR capture accuracy

OCR data accuracy is very rarely highlighted or discussed, simply because it cannot deliver 100 per cent accuracy. For example, a leading vendor for Sage claims an 80 per cent OCR accuracy record, although more sophisticated applications can push this into the mid 90 per cent.

This inherent inaccuracy is the biggest weakness of OCR. However, it can be mitigated by undertaking automated data validation checks to ensure that the invoice values are always correct. A basic validation is to sum up the line level values to ensure they equal the net value of the invoice, to have calculated the VAT correctly and compared against the VAT total, and also to check that net plus VAT equals the gross invoice value. Usually, this requires a high degree of human intervention on every invoice scanned for OCR.

*Ask the vendor to explain their OCR data capture accuracy and the data validation checks taking place, as this will highlight the level of confidence you will have in the data the application extracts.*

## PDF Invoices (including digital documents such as Word/Excel/.txt formats etc.)

Every business has experienced the rapid growth in suppliers emailing their invoices as a PDF document and, for most businesses, emailed PDF invoices are already the primary delivery mechanism. For some organisations, emailed PDFs already represent over 90 per cent of all the inbound invoices.

*Review the number of invoices you receive as an emailed PDF. You should also be aware that the vast majority of suppliers will willingly send their invoices this way because it saves them circa £1 for each invoice they generate, and every invoice is delivered instantaneously, 100 per cent of the time, increasing the likelihood of prompt payment.*

The advantages of processing a digital document such as a PDF compared with using OCR or paper invoices are significant.

- By asking your suppliers to send invoices to a specific email address, it is possible to automatically extract the invoice data for processing without intervention on your part.
- The fully automated data extraction process reduces the time taken from the receipt of an invoice to the data being usable to a matter of seconds.
- Because all the information about the invoice is already in an electronic format held within the PDF, it delivers a far higher accuracy of data than can be achieved by even the best OCR technologies.

The optimal approach to AP automation is to receive as many invoices as possible directly via email as a digital document, as doing so removes all the laborious scanning effort and the inherent inaccuracy of OCR.

*Ask the vendors how they deal with emailed digital documents or PDF invoices. Your expectation should be that these are captured and processed without touch and with confidence of 99.9 per cent accuracy overall and 100% accuracy on the invoice values.*

### **Header and Line**

It is important to determine whether the application is simply capturing the invoice header data, i.e. supplier, invoice number, order number, date, net, VAT and gross etc., or if it

also captures the line level information. Some vendors will offer a choice but will usually charge more for the line level data extraction. If the vendor's process does not capture line level information, you will be faced with additional keying work on every invoice to determine the appropriate description, coding or costing entries for your general/nominal ledgers and project accounting records. Similarly, VAT treatment may be different at line level and this needs to be correctly recorded for your records to accurately present your business transaction history.

*Ask the vendor the options on both header level and line level extraction and the costs for each. Avoid solutions that do not offer line level data extraction as it significantly reduces the level of automation available.*

### **Invoice capture summary**

To maximise the productivity gains and speed of processing, getting your suppliers to send their invoices via email as a PDF delivers the optimal outcome. This relegates the less accurate and more time-consuming OCR methodology to an ever-reducing number of paper invoices over time.

# Capturing the general ledger coding information and approval process

Having digitally captured the invoice with the relevant PDF image attached, the next step is to add the general ledger coding information, usually prior to the invoice being sent for approval, but also enabling the approver to enter the correct coding if that is your current methodology.

The objective of AP automation is to, where possible, fully automate adding the correct general ledger information without user intervention. This may be against a simple general ledger structure, or include departmental analysis, location analysis and even job or project related coding.

As important, the relevant general ledger coding may be allocated against the entire invoice or be different for each line within the invoice.

*Ask the vendor about the capabilities of their general ledger coding structure. Does it handle both header and line level coding and check how it will work if you have multiple locations, departmental analysis or use job or project costing analysis?*

The general ledger coding process has always reflected the knowledge and experience of the accounts payable staff in that they can identify the relevant general ledger code for departmental analysis and who was responsible for the purchase to get the appropriate approval.

Detailed analysis of general ledger coding practices across 20,000 users shows that, for most organisations, between 60 per cent to 80 per cent of general ledger coding can be fully automated with the correct information being appended to the invoice without user intervention.

A simple example is that a given supplier always relates to a given department and this is always allocated to a single general ledger code. On entering the first invoice for this supplier, the accounts payable staff “default” the department

and general ledger code and thereafter, this information is automatically appended to the transaction and delivered directly to the Approver without any human intervention.

This is a classic example of machine learning at work where the AP automation software has the capability to capture the knowledge and experience of the accounts payable staff and apply the rule on receipt of all invoices that follow.

In order to utilise this defaulting capability on the majority of invoices, the AP automation application will need the functional sophistication to enable the simple capture of the relevant rule sets, both at invoice header level, but also at invoice line level.

A common example of invoice line level defaulting is mobile telephone bills, where each telephone number is detailed at line level in the invoice and allocated to a specific department. On processing the first invoice, a rule is applied to the telephone number to default it to the correct department or general ledger code. Thereafter, the processing of these invoices is fully automated.

*Ask the vendor to explain and demonstrate their capability to capture rules that enable the automated coding of the department or general ledger codes. This will make the difference between continuing to need accounts payable intervention on most invoices, to only touching the minority, the exceptions.*

Exception Management describes the way the AP automation application enables the majority of invoices to be processed without user intervention, leaving just the exceptions. Using the telephone bill example, imagine a new mobile phone is purchased and that the automation software does not know how to code it. The invoice is now sent to accounts payable for review prior to approval, and the task for them is now to

identify the reason it could not be processed.

Exception Management requires the automatic highlighting of the single (or multiple) invoice line(s) that requires coding, taking the user to that specific line automatically. Once coded correctly and defaulted to the relevant department, it will be processed automatically thereafter.

*Ask the vendor to demonstrate how these exceptions are managed to see whether you will have to try and identify the problem visually, or whether it is made extremely easy and fast to address.*

# The capabilities of the approval process

Many AP automation applications will still require accounts payable intervention to decide the correct approval process for every invoice, despite the fact the majority will be the same every time for a given supplier.

The first important capability is to offer the ability to default the correct approval process, using similar capabilities to automatically append the correct general ledger default codes. A significant proportion of suppliers are always related to the same department or approver, so once this has defaulted, the invoice is captured, the general ledger coding added, and this is sent to the correct approver with zero touch by accounts payable.

*Ask the vendor about the ability to automatically default the correct approval process and explain the criteria that can be applied to achieve this. The level of flexibility offered will determine how much of this process can be fully automated.*

A key objective of automating the approval process is to be able to configure and maintain the smallest number of approval processes possible. This is achieved by having the flexibility and intelligence built into each approval process to automate the appropriate number of approval steps required.

A simple approval process may require just one approver, but most organisations will require a multistep process, often based on the value of the invoice being approved. But this may also change based on the type of purchase, for example, capital expenditure verses overhead.

The ideal solution is to create a single workflow process which automatically triggers further approval steps when certain criteria are met. For example, invoices under £500 can be approved by management, over £2,000 require a second approval from senior management, over £5,000

by the CFO and over £10,000 by the MD.

This dynamic approach to approvals is very important, as the alternative is to create an ever-increasing number of approval processes for every possible scenario and then manually select the correct one every time, but also maintain them when circumstances or staff change.

*Ask the vendor to demonstrate the creation of a multi-step workflow and the criteria you can add to automatically determine, and then implement, the correct approval steps required every time.*

A very useful capability is the creation of "Approval Groups" to deal with either invoices that could be approved by multiple people, or where account payable does not know which individual needs to approve it. The invoice is delivered to the Approval Group and once approved by one individual, moves the invoice to the next step in the process, maintaining a detailed audit trail of both the approver and the time and date it was approved.

*Ask the vendor to demonstrate the creation and use of an "Approval Group".*

The goal of any approval process is to reduce the time from the invoice being received to the approved invoice being posted to the accounting software ready for timely payment. So, it is important that the approver is automatically notified of an invoice awaiting approval and can undertake the task at any time from any device.

*Ask the vendor to explain how the approver is notified, what functionality exists to generate automated reminders and then demonstrate the user approval experience from any device; especially a smartphone. Detailed analytics show that*

*smartphone approvals have rapidly become the most common form of approvals and they also deliver the fastest turnaround.*

Another key aspect of approvals is dealing with the queries, where the invoice approval has been denied. As the query can be dealt with by the approver or passed back to Finance to arrange a credit note, it is important that everyone knows the status of the invoice and who is dealing with it, to manage supplier credit control calls.

*Ask the vendor to show how invoice queries are managed, the ability to flag the invoice being under query, and what notes can be captured against it to deal with supplier credit control. Also check whether the software will deliver automated reminders to make sure queries are fully managed to a resolution.*

An “out of office” functionality is another key requirement, where the approver is on holiday or perhaps off sick for several days. The goal is to enable the user (or the application admin staff) to set a “nominee” that becomes responsible for these approvals whilst the individual is away. The user updates the application to say they are away from the office and their approvals are immediately presented to their nominated user. On approval, the system retains an audit trail of who approved the invoice, including the date and time stamp.

*Ask the vendor to demonstrate the “out of office” capabilities for both the user to instigate or for admin to instigate in their absence.*

One of the biggest benefits of invoice approvals is to enable the approver to undertake this task whilst they are away from the office. This can be done from any computer with access to the internet, or more conveniently, directly from their mobile device.

*Ask the vendor to demonstrate the approval process from a mobile device, preferably from a free app downloaded from the relevant app stores.*

Whilst most of us are comfortable using technology, there remains a (reducing) number of people that will want to see a physical copy of the invoice, with the audit trail of approvals prior to the invoice being paid. This requirement has often been a primary blocker to invoice automation as this requirement often comes from the top management of the business.

The goal becomes the ability to generate Approval Batches. This is the grouping of approved invoices that require final sign off, either prior to posting them to the accounting software, or to enable payment to the supplier. The batch can either be approved on screen or printed as a hard copy invoice with accompanying approval audit report attached.

There should be a high degree of flexibility in the generation of these reports; for example, by supplier, by department, by value, by general ledger code or project, as this delivers the information in a logical order and is very popular with the same senior management that wants to retain a physical aspect of the process.

*Ask the vendor if they can provide a hard copy of Approval Batches, as it may make the difference between getting sign off for the project or not!*

# Deployment and the user experience for both Finance and the Approvers

The biggest barriers to change are usually the cost of the application and the resources required to deploy and train your staff to use the new solution.

From a cost perspective, most invoice capture and approval processes are based on the number of companies it will automate, the number of users that need access to the application and the number of invoices that are being processed.

*To ensure that you are getting an accurate quote, carefully consider who will need access (it is often more than you might think) and review the number of invoices you receive. This is a good time to check how many of those invoices already arrive via email as a PDF because you are probably printing them out!*

Modern AP automation applications have been designed to be “plug and play”, meaning that you should be able to fully deploy the application without external support. Your ability to do this, and maintain the application through changes into the future, will be determined by the ease of use and the quality of the support both within the application and through online support resources.

*Ask the vendor to demonstrate their support capabilities and clarify the availability of direct support services from a member of their staff.*

The advantage of “plug and play” is that an AP automation application should be fully deployable in a very short timeframe. Perhaps 30 minutes for a simple deployment, but less than half a day for a complex set up. This speed of deployment is critical to being able to get the solution live with the minimum amount of disruption and achieving the huge time savings immediately.

Equally as important, the application should be very simple to use for the Administrators (the people in your organisation responsible for set up and maintaining the application), the Operators (usually the accounts payable staff) and perhaps most important, the Approvers’ experience, because when they use it diligently, it can take as little as a few minutes from invoice receipt, to a fully approved invoice sitting in your accounting software ready for payment.

*Ask the vendor to demonstrate the three key activities of set up and ongoing administration, the Finance experience, and the end user experience. Everyone claims ease of use, but ultimately you need to be the judge of whether it’s true or not.*

To be able to make the change, it is important that senior management is unanimously convinced of the benefits to the business. It is too easy to just focus on what AP automation will do for Finance, so be sure to both understand and communicate the benefits that are delivered to the senior management and the approvers, or the project is unlikely to happen.

The most significant change for the Approvers is the wealth of real-time information that becomes available on their suppliers. Rather than depend on monthly management reports and continuous calls to Finance, the exact status of every invoice can be securely accessed by everyone that needs to know.

This includes supplier turnover, the status of every invoice whether awaiting approval, under query, approved and even whether it has been paid. As key supplier relationships are often critical to the approver’s department and therefore critical to the business, this information can be invaluable.

Every approver will welcome the real-time availability of this information, as it will help them build strong relationships with their key suppliers (especially if they are paid promptly), whilst also getting best value pricing, suitable credit limits and the best payment terms.

*Ask the vendor to highlight the supplier information available to the approvers and senior management, and make sure that this is highlighted to them, as it usually ensures they fully support for the plan to change.*

# Integration capabilities with your existing accounting software

Whilst integration with online applications like QuickBooks, Xero and similar software is very straightforward, the same is not true for older accounting applications that are deployed on your own servers.

Integrations with applications like Sage 50, Sage 200, Pegasus Opera, Exchequer and others can be achieved, but the method of integration determines the amount of work, and possible issues, that will arise in day to day use.

In the ideal world, the integration is in real-time, where all of the supplier and general ledger static information (supplier account codes, payment terms, currency codes, general ledger account codes, department account codes, job costing account codes) is accessed in real-time by the new application. This is the only way to ensure that every invoice is always using valid accounting data and ensure that the finally approved invoice is always successfully posted to the accounting software.

*Ask the vendor to explain their integration methodology and whether there is any work that is required by you to keep both the supplier or general ledger (etc.) up to date, or to capture and then import data into your accounting system.*

Other integration methodologies include the regular manual capture and import of the supplier and general ledger information and the manual export of approved invoice, followed by a manual import into your accounting software. Whilst this approach can be successful, it requires both time and diligence to ensure that it takes place as any mistakes will be reflected in the accuracy of your accounting information.

# Reporting and information access

AP automation delivers the catalyst to rethink the way information is shared between Finance and the rest of the business about their suppliers.

Finance requires the comfort in knowing that once an invoice has been sent for processing that it can never be lost by the automation software vendor prior to the invoice data being received back, ready for the approval processes. This is particularly important as it may take the vendor up to four days to process a new supplier for the first time.

*Ask the vendor what information is provided within their application to verify that an invoice has been received by them and is currently being processed.*

There are two types of reports that are required to get the most out of AP automation.

- Activity reports that provide visibility of the invoices and your ability to manage the process through the invoice capture, the approval process, query management and supplier management for the credit control conversations with your suppliers and internal management, including approved invoices awaiting payment
- Financial reports that provide the financial information that should include a real-time view of accruals based on every unapproved invoice, the volume and value of the unapproved invoices and a detailed weekly or monthly cash requirements report to simplify maintenance of your corporate cash flow analysis.

*Ask the vendor to show what information is being maintained in real-time within their reporting capabilities, as this determines how valuable their software will be to the business as a whole.*

In most cases, Finance does not want to share all this information with the rest of the business, so it is important that the application can be configured to only provide the information that is relevant to each individual.

*Ask the vendor to show how easy and fast it is to control who can see what, ensuring that approvers have access to only the information that relates to them.*

It is equally important that everyone is able to find the specific information they are looking for, so delivering a search capability that is both very powerful but also easy to use is very important.

*Ask the vendor to demonstrate their search capabilities within the reporting section, using multiple searches to drill down to the relevant information. Also, check whether this information can then be easily exported (e.g. PDF/Excel) to update other associated activities.*

One of the core objectives of AP automation is to enable the approvers to gain access to all the relevant information about their suppliers, without needing to constantly interrupt Finance. It is worth remembering that most of the business's key suppliers are usually set up by the approvers and often they can be crucial to the performance of your business.

Keeping these suppliers on-side will determine the prices that you pay them, your credit limits, and your relationship with them. As we all know, every business has its good customers and not so good customers and the tendency is to take better care of your best customers.

AP automation provides the opportunity to enable your senior management access to the real-time and relevant information about their suppliers, every invoice in the approval process, every invoice under query and even every

approved invoice that has not yet been paid; and they will support the automation project to get it!

This is the information that they need to get best value from those suppliers, which is currently hidden away in the accounting software and filing cabinets.

*Ask the vendor how they enable and manage access to the relevant supplier information for the approvers.*

AP automation should offer so much more to senior management within the business than a mechanism to simply improve the capture and processing of invoices, predominately for the benefit of Finance.

For most businesses, the people that work with the suppliers and approve their invoices for payment are the senior managers and directors of the company, so it is only appropriate that they also benefit from the AP automation project.

*Speak to your senior management and ask them whether real-time information about the financial status of their suppliers and the ability to see every invoice ever processed on-demand would be beneficial to them; especially if it included an extremely easy and fast approval process.*

From our experience, once the senior management know what is available to them, they become the strongest advocates for automation and ensure the project gets the support it needs to start!

# BUYER'S GUIDE: AP AUTOMATION

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## CHECKLIST

### Capture the purchase invoice

- Ask the vendor which approach they use and consider avoiding any application that requires you to undertake the onboarding process; because it is simply a waste of your time. Also, check the number of on-boarded suppliers in their portfolio.
- Ask the vendor to explain their OCR data capture accuracy and the data validation checks taking place, as this will highlight the level of confidence you will have in the data the application extracts.
- Review the number of invoices you receive as an emailed PDF. You should also be aware that the vast majority of suppliers will willingly send their invoices this way because it saves them circa £1 for each invoice they generate, and every invoice is delivered instantaneously, 100 per cent of the time, increasing the likelihood of prompt payment.
- Ask the vendors how they deal with emailed digital documents or PDF invoices. Your expectation should be that these are captured and processed without touch and with confidence of 99.9 per cent accuracy overall and 100% accuracy on the invoice values.
- Ask the vendor the options on both header level and line level extraction and the costs for each. Avoid solutions that do not offer line level data extraction as it significantly reduces the level of automation available.

### Capturing the general ledger coding information and approval process

- Ask the vendor about the capabilities of their general ledger coding structure. Does it handle both header and line level coding and check how it will work if you have multiple locations, departmental analysis or use job or project costing analysis?
- Ask the vendor to explain and demonstrate their capability to capture rules that enable the automated coding of the department or general ledger codes. This will make the difference between continuing to need accounts payable intervention on most invoices, to only touching the minority, the exceptions.
- Ask the vendor to demonstrate how these exceptions are managed to see whether you will have to try and identify the problem visually, or whether it is made extremely easy and fast to address.

### The capabilities of the approval process

- Ask the vendor about the ability to automatically default the correct approval process and explain the criteria that can be applied to achieve this. The level of flexibility offered will determine how much of this process can be fully automated.

- Ask the vendor to demonstrate the creation of a multi-step workflow and the criteria you can add to automatically determine, and then implement, the correct approval steps required every time.
- Ask the vendor to demonstrate the creation and use of an “Approval Group”.
- Ask the vendor to explain how the approver is notified, what functionality exists to generate automated reminders and then demonstrate the user approval experience from any device; especially a smartphone. Detailed analytics show that smartphone approvals have rapidly become the most common form of approvals and they also deliver the fastest turnaround.
- Ask the vendor to show how invoice queries are managed, the ability to flag the invoice being under query and what notes can be captured against it to deal with supplier credit control. Also, check whether the software will deliver automated reminders to make sure queries are fully managed to a resolution.
- Ask the vendor to demonstrate the “out of office” capabilities for both the user to instigate or for admin to instigate in their absence.
- Ask the vendor to demonstrate the approval process from a mobile device, preferably from a free app downloaded from the relevant app stores.
- Ask the vendor if they can provide a hard copy of Approval Batches, as it may make the difference between getting sign off for the project or not!

## Deployment and the user experience for both Finance and the Approvers

- To ensure that you are getting an accurate quote, carefully consider who will need access (it is often more than you might think) and review the number of invoices you receive. This is a good time to check how many of those invoices already arrive via email as a PDF because you are probably printing them out!
- Ask the vendor to demonstrate their support capabilities and clarify the availability of direct support services from a member of their staff.
- Ask the vendor to demonstrate the three key activities of set up and ongoing administration, the Finance experience, and the end user experience. Everyone claims ease of use, but ultimately you need to be the judge of whether it's true or not.
- Ask the vendor to highlight the supplier information available to the approvers and senior management, and make sure that this is highlighted to them, as it usually ensures they fully support for the plan to change.

## Integration capabilities with your existing accounting software

- Ask the vendor to explain their integration methodology and whether there is any work that is required by you to keep both the supplier or general ledger (etc.) up to date, or to capture and then import data into your accounting system.

## Reporting and information access

- Ask the vendor what information is provided within their application to verify that an invoice has been received by them and is currently being processed.
- Ask the vendor to show what information is being maintained in real-time within their reporting capabilities, as this determines how valuable their software will be to the business as a whole.
- Ask the vendor to show how easy and fast it is to control who can see what, ensuring that approvers have access to only the information that relates to them.
- Ask the vendor to demonstrate their search capabilities within the reporting section, using multiple searches to drill down to the relevant information. Also, check whether this information can then be easily exported (e.g. PDF/Excel) to update other associated activities.
- Ask the vendor how they enable and manage access to the relevant supplier information for the approvers.
- Speak to your senior management and ask them whether real-time information about the financial status of their suppliers and the ability to see every invoice ever processed on-demand would be beneficial to them; especially if it included an extremely easy and fast approval process.



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