

Success With AP Invoice Automation Requires More Than Paper to Digital

Published 1 July 2019 - ID G00391829 - 12 min read

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Modern invoice automation tools that feature new capabilities such as AI help companies tackle problems beyond paper to digital. Here's how application leaders can leverage new technology to address the entire AP process to increase ROI, reduce manual effort and improve process cycle times.

Overview

Key Challenges

- Suppliers have vastly different capabilities when it comes to generating easily processed invoices. This variability leads companies to higher processing expenses, inconsistent processes and lower straight-through processing rates.
- Invoice automation projects frequently only address document digitization, and ignore matching issues. This incomplete scope reduces the potential ROI and reintroduces problems that would be caught by manual invoice processing.
- Organizations can't improve invoice match rates when there is no visibility to the root issues of match failures.
- Process improvement and error elimination cannot occur without visibility and correction.

Recommendations

Application leaders responsible for procurement applications must:

- Increase supplier participation in e-invoicing initiatives by offering multiple ingestion options that match their technical and business capabilities.
- Improve automated match rates by utilizing accounts payable invoice automation (APIA) solutions with a learning AI-matching engine and smart workflows. Increase savings from early payment discounts by smart matching and workflows that reduce processing cycle times
- Enhance the efficacy of your APIA program continuously by using analytics to identify recurring issues.

Strategic Planning Assumptions

By 2025, 50% of business-to-business invoices worldwide will be processed and paid without manual intervention.

By 2030, 80% of business-to-business invoices worldwide will be transmitted digitally.

Introduction

Is Your AP Invoice Processing Really Automated? Probably Not!

Many enterprises have defined invoice automation as the process of converting paper invoices to digital. However, digitization alone does not adequately cover the complexity and variance of processes required to efficiently receive, validate and process inbound B2B supplier invoices. The implication is that enterprises are missing out on much higher automation speeds, cycle times to payment, cost reductions and additional options for capturing savings.

How can application leaders extend automation deeper into the accounts payable (AP) process and increase the ROI from accounts payable invoice automation (APIA) applications?

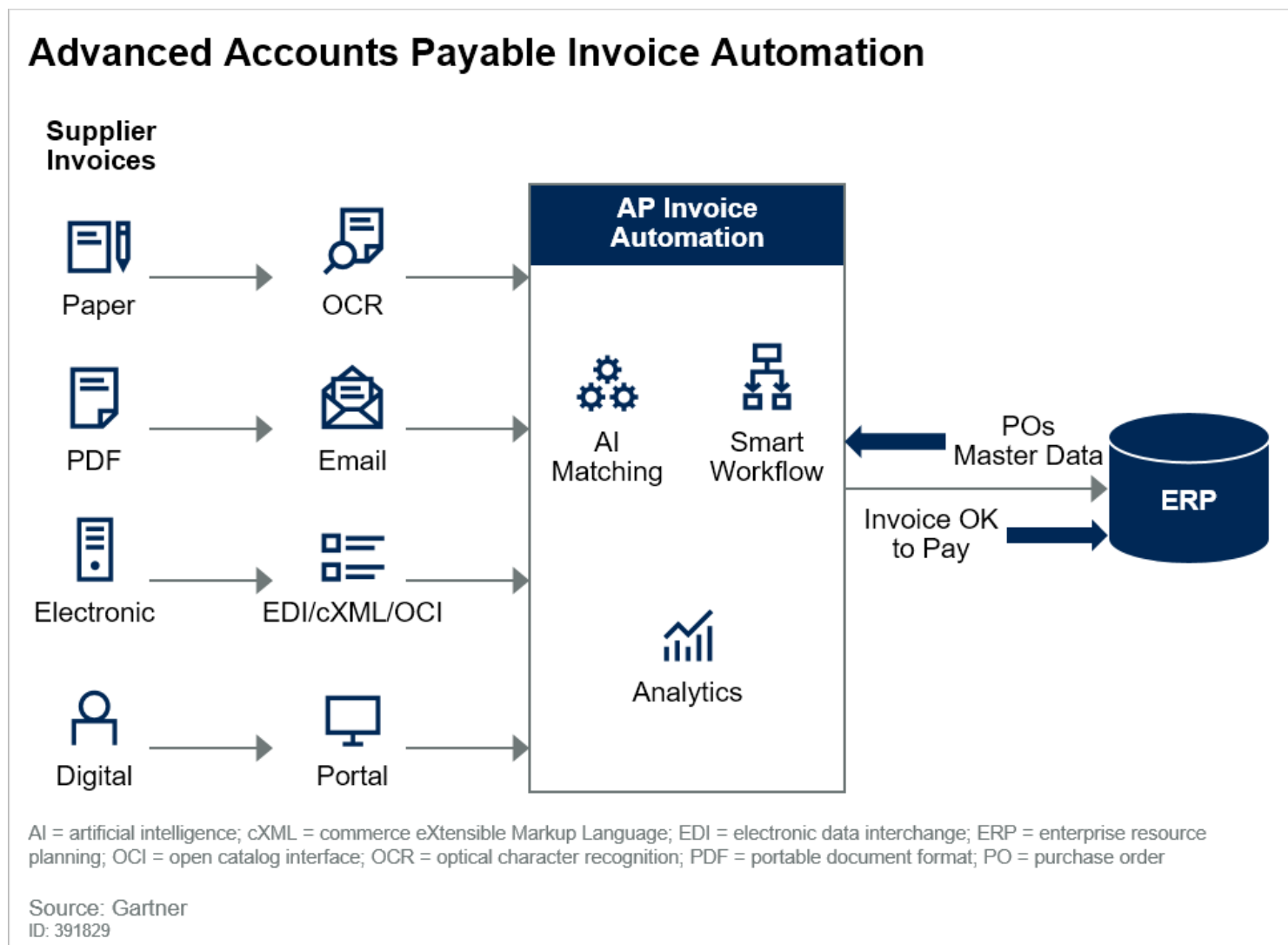
Advances in technology now allow intelligent invoice processing that reduces human touchpoints across the AP process. Increased automation speeds cycle time to payment, reduces costs and increases options for capturing savings.

Enterprises need to think of invoice processing success in a new way. Metrics such as optical character recognition (OCR) accuracy rates and percentage of electronic documents only cover part of the journey to invoice automation. Procure-to-pay (P2P) vendors offer workflow capabilities to automate invoice processing. However, 49% of companies with a P2P suite are still using their ERP suite to process invoices. As such, a functionality gap with P2P suites still exists (see “Survey Analysis: Key Findings and Lessons Learned From the 2018 P2P Magic Quadrant Reference Survey”).

Increased automation will require deeper integration into source procurement and accounting systems to access key data and documents to perform validations and analysis. That access, along with artificial intelligence (AI), smart workflows and analytics, unlock new levels of automation to drive efficiencies and savings (see Figure 1).

Gartner research shows that buyers have a high level of interest in these areas. Nearly a third of organizations want to shorten invoice processing terms to take advantage of cash management programs. The use of these programs is huge. The U.K. companies alone save £14.4 billion annually from discounted payment terms. ¹

Figure 1. Advanced Accounts Payable Invoice Automation



Analysis

Offer Multiple Invoice Ingestion Options for Suppliers

Technology has improved the manner and speed with which organizations can process invoices. Processing invoices typically includes receiving invoices, matching invoices to purchase orders, circulating no-purchase-order (PO) invoices for account code assignment, and routing for approval. However, while automation is increasing, buying organizations are limited by the processes and capabilities of their suppliers.

Invoice structure guidelines are important, but ultimately, the supplier has control over the content,

structure and format of its invoices. Suppliers also have the problem of trying to cater to the individual requirements each of their customers. Suppliers typically will standardize on a format that works well enough with their major customers and waive off requirements from everyone else.

The average organization has a variety of suppliers, both small and large, with varying capabilities and technology maturities. As a result, buying organizations are still receiving invoices in many formats — in most cases, still on paper.

Globally, it is estimated that businesses will only receive 10.4% of their invoices in electronic form. ²

To automate AP processes, organizations must work toward minimizing paper invoices and offer a variety of formats that match the abilities of their suppliers. A process for handling paper invoices will always be needed, but the goal is to make alternate routes more attractive to suppliers.

The following are common invoice formats:

- Emailed PDF attachment
- EDI
- cXML, XML, OCI, and CSV
- Digital Invoices — entered via a supplier portal either manually by the supplier or through a PO flip

Offering suppliers a variety of options for sending in invoices provides the buying organization many benefits. The current providers of P2P suite software, ERP vendors and e-invoice vendors give buyers a multitude of avenues to providing suppliers with these options. Gartner's note, "Competitive Landscape: E-Invoicing, Worldwide" is an excellent reference for providers in this area.

Multiple options make it likely that a supplier will choose a method that works well for them and increase their consistency in submitting invoices. Additionally, offering multiple options allows you

to build out workflows that maximize efficiency for each receiving method. This workflow flexibility will help you to increase automation and identify process bottlenecks, freeing up your AP staff from their tactical tasks. Over time, an organization can identify which invoice receiving options are optimal, and can work with suppliers to transition their submission formats. Incentives such as access to supply chain financing, early payment options, and payment status visibility can motivate suppliers to move to a preferred invoice channel.

Solutions that handle invoices that are aligned to multiple POs allow organizations to extend additional flexibility on invoice structure to their supply base. Solutions that can break single paper invoices into several digital invoices allow suppliers to bill as they provide services, rather than strictly by the PO. Eliminating as many rules as possible on invoice structure and content also eliminates failures that are caused by nothing but technicalities.

**Ultimately, buyers and suppliers will move to a fully digital format.
Government agencies are leading the charge.**

Several countries, primarily in Latin America and Europe, have announced plans to roll out mandatory e-invoicing during the next couple of years with the goal of bridging the gap in collected transaction taxes. A few countries in Asia/Pacific are evaluating options to make e-invoicing mandatory. Gartner expects commercial business to eventually follow.

Automate Invoice Matching With AI and Smart Data Enrichment

Matching invoices to POs reduces or eliminates invoice approval times, and ensures correct financial coding. Also, by removing the need to manage and approve each invoice manually, AP professionals can focus on managing the exceptions, leading to faster resolution times. The resulting shorter cycle time reduces the risk of late payment fees and leaves time to explore different supply chain finance options, such as dynamic discounting.

Getting an invoice in a digital form is just the first step in driving efficiency. Matching high percentages of invoices autonomously is the next frontier. Invoice mismatches are a major problem for businesses attempting to reduce cost and time from their invoice workflow.

Mismatches are driven by multiple factors, some of which are due to supplier billing processes and systems, others are due to the purchasing process itself. Intelligently dealing with mismatches through automation can shave weeks off the cycle time to process invoices.

Typical invoice mismatches that automation can address include:

- Pricing discrepancies at the line level or for the total invoice
- The supplier name is unknown or not identifiable
- Invoice quantities that do not match the PO
- Tax or other surcharges added to the invoice but are not on the purchase order.
- Missing or differing part numbers
- Items made up of multiple subcomponents that lack the same detail in the purchase order
- Missing or incorrect purchase order reference information on the invoice
- A nonexistent purchase order for an invoice
- Invoices that cover multiple purchase orders

Intelligent APIA solutions with built-in AI are driving higher autonomous match rates. APIA solutions use machine learning (ML) to train their AI to perform better out of the box than a simple rules based engine. This training extends both across their customer base and deep into the specifics of each customer. This training across customers was impractical when APIA tools were exclusively on-premises installations. Cloud-based APIA solutions make use of their entire customer base, so their AI engines come out of the box smart, reducing overall training time. The AIs also draw information from core master data and related data stores, such as contracts. This data access allows for more scenarios where automatic population of missing invoice data can solve the issue.

When an invoice is found that does not match a PO, the APIA solution can autonomously run through scenarios to attempt a more sophisticated match. For example, an invoice that breaks out a single PO line item into multiple line items would typically never generate a match. An intelligent matching engine could understand that many lines add up to a single PO line item, and flag the

invoice as a match.

Even when companies have pushed for a no-PO, no-pay policy, some invoices will need an alternative process. There are scenarios – such as with utility bills and taxes – where it is uncommon to have a PO or other purchasing documents. In these cases, the APIA solution can analyze the contracts and spend categories to learn specific vendors where no match is needed to generate an OK-to-pay. AI Identification and automated account coding for no-PO invoices will reduce the need for manual processing.

Smart workflows provide a backstop to quickly resolve issues when smart matching cannot guarantee that a match is available. Smart workflows leverage an understanding of what the most likely issues are, and who within the organization is best equipped to solve the problem. For example, the AI matching engine determines that the line description on the invoice is similar, but needs human validation of the match. The workflow engine would route this to the person who raised the PO, as they would be most familiar with what was purchased. In a different case, the problem may be with a mismatch in taxes. The document would instead be routed to the correct person or system in finance to validate the correct amount. In both of these examples, the solution would highlight the suspected problem on the document allowing the problem to be “triaged” quickly.

In short, the APIA solution should have the ability to understand what is wrong with the invoice, and who the correct person is to solve the problem. Quickly getting the invoice to the right person is important to keep processing cycle times as low as possible. Smart workflows free the organization from building less effective standard workflows that could not take into account the fastest route to solve the problem.

The smart workflow engine should also recognize that all invoices are not equal. Workflows should prioritize high-value invoices, and invoices that are close to payment or discount dates, over low-value invoices. Prioritization can take many forms. The invoice triage user interface should highlight high-value invoices first, and encourage the user to resolve those invoice before others. Workflows with shorter due dates and quicker escalations can be assigned to high-value invoices to ensure quick resolution.

Sample APIA vendors that provide smart processing capabilities include:

- Medius
- The Shelby Group
- Basware
- Esker
- AvidXchange

Continuously Hone Your APIA Processes to Improve Matching Efficiency

All processes need continuous improvement. Modern APIA solutions will provide visibility to where failures are happening across the process. Process improvement can only occur when data is available on where and why invoices are not matching on the initial submission. The data collection and analytics provided by modern APIA solutions allow for root cause analysis that will drive meaningful improvement. End-to-end analytics should be available from the point of invoice capture to OK-to-pay. Best-in-class solutions should provide details on overall success rates and how your enterprise compares to others.

Invoice failure analytics should include the who and the what – which suppliers, which buyers, and the reason for failure. Configure your solution to provide, at minimum, these specific analytics to promote continuous process improvement.

Use these analytics as a guide to identify and prioritize opportunities:

- Count of invoices requiring a reach-out to the supplier for clarification
- Count of invoices received before the buyer created the matching PO
- Count of specific data elements missing on invoices
- Rates of invoices processed by each ingestion method
- Mean cycle time to ingest invoices and mark them OK-to-pay
- Percentage of invoices ingested and paid with 100% automation

The goal is not to blame suppliers or users who generate higher quantities of mismatched invoices, but to improve performance. For example, a supplier might routinely leave the PO number off the invoice. Analytics that show this allow for corrective action, driving root cause solutions to reduce the number of invoices that need smart matching or manual triage. In other cases, it might be missing PO information or specific types of spend that are generating larger amounts of mismatches.

Acronym Key and Glossary Terms

AI	artificial intelligence
AP	accounts payable
APIA	accounts payable invoice automation
EDI	electronic data interchange
ERP	enterprise resource planning
ML	machine learning
OCR	optical character recognition
PO	purchase order
P2P	procure-to-pay

Evidence

Information gathered for this research is the result of hundreds of inquiry calls as well as vendor briefings. It is also backed up by data gathered from the “Magic Quadrant for Procure-to-Pay Suites.”

¹ [“U.K. CFOs Missing Out on £6.7 Billion Each Year by Not Taking Advantage of Early Payment Discounts,”](https://www.home.barclaycard/media-centre/press-releases/UK-CFOs-missing-out-on-6-point-7-billion-each-year-by-not-taking-advantage-of-early-payment-discounts.html) (<https://www.home.barclaycard/media-centre/press-releases/UK-CFOs-missing-out-on-6-point-7-billion-each-year-by-not-taking-advantage-of-early-payment-discounts.html>)

Barclaycard

² Bruno Koch, "E-Invoicing/E-Billing International Market Overview & Forecast," (https://billentis.com/einvoicing_ebilling_market_overview_2019.pdf) Billentis, January 2019

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