



ACCOUNTS PAYABLE AUTOMATION: INSIGHTS FOR 2023

Abstract

The pandemic accelerated digitization in financial operations. Automating a few accounts payable (AP) processes was part of this trend. However, complete cloud-based workflow automation of the AP function is still gathering momentum. Is cloud migration of AP systems worth the effort and expense involved? This PoV provides key insights into accounts payable automation, its benefits and challenges, and upcoming trends for 2023 and beyond.



The accounts payable function is at the heart of corporate financial operations. It includes all types of short-term debt repayments, such as supplier and vendor invoices, partner payments, contractor payments, and legal fees. Since outstanding debts are a liability, efficiency and accuracy in the payment process are

crucial to business success.

The key responsibilities of the accounts payable department are:

- Reviewing, processing, and recording invoices
- Routing invoices for approval
- Remitting payments

- Generating monthly financial reports

Additional responsibilities include negotiating payment terms and discounts, preventing fraud, and maintaining good working relationships with vendors and suppliers.

Importance of automating the Accounts Payable function

Digitizing financial processes helped businesses to stay afloat during the pandemic through supply chain disruptions and remote working challenges.

Although the initial goal was to enable touchless transactions, CFOs soon realized that leveraging technology in payment functions could provide the efficiencies required to reduce overhead costs and enhance customer relationships.

A [study](#) of 400 CFOs across a cross-section of industry groups has recorded the following findings –

- 86% of CFOs believe that digitizing financial operations positively contributes to business growth.
- Over 32% of them agree that automating payables is crucial in driving customer satisfaction, retention, and

revenue generation.

- 70% are digitizing some of their AR/AP processes because they believe this will enable them to provide more value to their customers.
- Over 50% of CFOs have confirmed that digitization has increased the volume of digital payments via ACH (68.3%), PayPal (63.5%), and credit cards (63.5%), enhancing visibility and transparency in payments.

Despite these facts, a [2022 survey](#) found that only 9% of businesses have fully automated the accounts payable function. This means that a vast majority of businesses have either partially automated payment systems or still rely on manual processes, causing undue stress to AP teams, delivery delays, and strained relationships with vendors and suppliers.

According to the Institute of Finance and Management (IOFM), the accounts payable function is the “most time-consuming, laborious and paper-intensive finance and administrative function.”

Automating the end-to-end AP process eliminates manual intervention in invoice processing. This minimises errors and fraud risk and frees AP teams to handle outliers, exceptions, and customer relations. Automation can transform accounts payable into a valuable strategic function by

- Speeding up invoice processing and approval cycles
- Aligning procurement and accounts payable processes to include even non-core goods and services
- Capturing early payment discounts, thereby optimising working capital

Benefits of automating the accounts payable function

Automated systems have the edge over manual processing in efficiency, accuracy, and security. Below are the key benefits of accounts payable automation:

• Cost-effectiveness

Automation drives cost-effectiveness in two ways:

1. The cost per manually processed invoice could range from \$12 to \$35, especially with exceptions and outliers. With automation, it can drop to \$5 per invoice. For organizations with high invoice volumes, this translates into substantial savings.
2. Companies often offshore labor-intensive processes to low-cost locations. According to estimates, offshoring drastically reduces labor costs from [\\$100K/year per FTE to \\$38K/year per FTE](#). Digitizing further reduces them to [\\$13K/year](#).

• Time efficiency

Less manual intervention means faster handling of the end-to-end process.

Automation speeds up invoicing, which helps to maintain cash flow liquidity and meet vendor invoice terms. It also allows you to configure your system to schedule payouts for the ideal time slots.

• Accuracy

Manual data entry and processing can lead to costly errors. Using automation tools ensures accuracy while accelerating the invoice process.

• Compliance and monitoring benefits

Automated systems generate an audit trail of the entire invoicing process, including data on the teams handling it and when specific actions started. This eases compliance and monitoring, minimizes the time and effort needed to fulfil audit requirements, and mitigates the fraud risk.

• Better visibility and insights

Businesses with poor financial processes can lose up to [1% of sales annually and show a 3.3% error rate in their sales](#).

[forecasts](#). Automated systems leverage analytics to generate data-rich reports that provide greater visibility into the key performance indicators (KPIs). This ensures greater visibility into cash flow, procurement, and purchasing and provides actionable insights for growth.

• Scalability

Digitizing the accounts payable function improves scalability by equipping AP teams to handle increased transaction volumes due to organic growth, mergers, or acquisitions.

• Improved working relationships

Consistent and timely payments can earn you an impeccable reputation and make you a preferred partner for vendors and suppliers. Your in-house teams, too, can benefit from the reduction in tedious processes and collaborate more effectively for handling critical tasks.



Core technologies in new-age learning

Deciding between on-premise or cloud-based solutions is important when you plan to automate your accounts payable function. It is crucial to make a future-ready choice since the platform affects the core design, implementation, and support systems of your financial operations.

Until a few years ago, partial automation with on-premise software was the only available solution. Today, however, cloud-based accounts payable solutions are easily available for complete workflow automation.

Here is a quick comparison of on-premise versus cloud solutions for accounts payable automation based on a few key parameters:

• Cost

On-premise solutions involve huge upfront capital expenditure. This includes hardware, software, support, and licensing costs. You save on monthly subscription costs and do not need a fast internet connection. However, you could eventually need expensive hardware replacements and upgrades.

Cloud-based accounts payable solutions are more economical to set up.

They involve monthly subscription fees, but the pay-per-use model allows for greater flexibility. They also provide superior storage, which mitigates paper documentation costs.

• Automation levels

Most on-premise solutions allow for partial automation and require manual entry of invoice data into the company's accounting system. Also, various departments have to track their respective invoices before entering them into the system.

Cloud solutions for AP afford greater workflow automation. They use optical reading technology to enter and process invoice data and require manual intervention only for review in exceptional cases. The system automatically routes invoices to the respective departments for centralized approval.

• Security

With on-premise solutions, you have complete control over your data and software, which is a huge benefit. However, a server malfunction can compromise your data security and backup.

Cloud-based accounts payable solutions mitigate the risk of data loss by storing and backing up data to the cloud. With cloud solutions, AP teams can limit or control user access and get cutting-edge cybersecurity support for fraud.

• Scalability

Scaling with on-premise systems is expensive and time-consuming.

Cloud-based AP solutions offer much greater scalability at lower costs as the additional infrastructure is already established in the cloud.

• Remote access

With hybrid working models becoming popular, remote access is crucial. On-premise solutions rarely provide mobile or remote access.

On the other hand, mobile and remote access is a standard feature of cloud-based AP solutions. This is a huge advantage when AP teams work from remote locations.

As seen above, cloud-based AP solutions can align better with the rapidly evolving business landscape and drive sustainable growth.

Challenges in adopting new-age education

Although the digitization of the accounts payable function is critical for future-readiness, businesses face a few roadblocks in implementing the process. The three greatest challenges in AP automation are:

• Varying invoice formats

Invoices come in various formats, such as PDF, XLS, or TIFF. If the software cannot recognize a specific format, it redirects the invoice to the vendor portal, causing unnecessary delays.

AP teams could try to resolve this issue by communicating with the vendor and convincing them to adopt a mutually acceptable solution. It is also essential to choose an AP system that allows for multiple invoice formats and payment channels.

• Exceptions and errors

Many invoices contain errors such as incorrect entries, coding errors, duplicate entries, or partial deliveries. An automated system is rarely

configured to recognize these errors and take corrective measures. AP employees have to manually track and process these exceptions.

• Varying ERP requirements

Different ERP platforms have different data requirements for invoice processing, such as PO particulars or remittance advice. Vendor invoices may omit the data your ERP system requires, and vendors themselves are often unwilling to supply the information.

Resolving this issue entails extensive follow-up with vendors and manual data entry.

Most roadblocks in automating the AP function can be resolved by best practices

such as:

- Investing in employee buy-in
- Maintaining good working relationships
- Increasing supplier adoption

Choosing a cloud-based AP solution that best fits your business needs



Innovative pedagogies for the new-age education system

With advances in technology and structural changes in business models, business operations undergo a paradigm shift. The thrust towards AP automation is a case in point. Let us see what the future has in store for the accounts payable function:

- **Digital payments will be the norm**

After the pandemic, 67% of organizations surveyed reported an increase in ACH payments and 56% saw a decrease in cheque payments. Around 64% of businesses plan to increase their digital payments soon. Digitization of payments is a welcome trend that will save time, mitigate payment delays, and optimize working capital.

- **An increasing number of payment processes will be automated**

Most businesses have already automated invoice approval. Invoice data entry and processing mostly remains a manual task. With cloud-

based AP solutions on the rise, businesses will automate more tasks, such as invoice capture, payment authorization, and remittance, eventually automating the end-to-end process.

- **Virtual cards will gain acceptance**

Although this trend is in its nascent stages, virtual cards are gaining acceptance as an online payment option due to their security and convenience. Moreover, they often come with added benefits for businesses, such as cash-back offers.

- **AP teams will take on a more strategic role**

Cloud-based AP solutions will automate manual-intensive tasks such as invoice processing, auditing, and financial report generation. This will enable employees to take on more strategic roles, such as managing

vendor relationships and making decisions around cash flow and capital optimization.

- **The AP function will become a strategic business tool**

By adopting cloud solutions in accounts payable, the AP function will no longer be limited to being an invoicing process. It will become a strategic business tool to drive savings, generate revenue, minimize turnaround times, afford scalability, and ensure vendor satisfaction.

- **Analytics solutions will be mainstream**

Cloud-based AP solutions enable the use of analytics for improved business outcomes. Businesses will increasingly leverage big data and analytics to gain strategic insights, identify bottlenecks, drive savings, and better allocate resources.

Conclusion

The accounts payable software market is steadily expanding. It could grow at a [CAGR of 9.1%, reaching USD 17.61 billion by 2028](#). The figures indicate a strong thrust towards fully automating the AP function. The trend is encouraging, because cloud migration and workflow

automation can unlock significant benefits for businesses.

Apart from ensuring accuracy, security, and cost-effectiveness, [cloud-based AP solutions](#) future-proof your business with paperless documentation and high

scalability. Challenges in implementation are inevitable. However, recognizing workflow inefficiencies and finding the right AI-driven business process platform (BPP) can take your organization to new heights.

* For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping **organizations with intuitive decision-making** automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, [Live Enterprise](#) is building connected organizations that are innovating collaboratively for the future.

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