AP Automation in NetSuite - Looking beyond automatic invoice creation

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Introduction

Since the very first businesses existed, accounts payable has been one of the most important and undoubtedly one of the most manual, error-prone, and most vulnerable (from a security perspective) functions in a business.

At best, manually processing vendor bills is duplicate effort as the data has already been entered by the vendor. At worst it provides several touch points where errors can be made and go unchecked, or worse, amendments can be made deliberately to remove funds from your business – impacting your operations, time, finances and reputation.

With pre-existing trends showing increased adoption of cloud-based technology and automation solutions only fuelled by the impact of the Covid-19 pandemic, this white paper discusses the concept of Accounts Payable (AP) automation with particular reference to its application within a NetSuite environment.

In addition to looking at the technological aspect of automation, the function of AP is discussed in detail to outline the positive impacts AP automation can have on a business from the perspectives of efficiency, accuracy, security, and managing cashflow.

What is Accounts Payable Automation? (Hint, it's more than scanning!)

AP Automation means automating your vendor bill management process.

As you probably already know, accounts payable (AP) refers to the process of an organisation paying for goods or services which they have received in credit.

Therefore, AP automation refers to the use of software to automate various tasks throughout the AP process with the aim of making it more efficient and cost-effective whilst removing the possibility of human error or fraudulent behaviour.

By its very nature, the AP process is initiated by an external stakeholder – the vendor. So, from the first step in a traditional AP process, there is margin for error and a need for the involvement of multiple individuals to progress things.

Beyond the receipt of the invoice, as AP is the whole process of paying money out of the business, it is essential that all the details are checked, correct, accounted for, and paid to the correct account.

Typically, **AP processes** consist of four key stages:

Receiving vendor bills	Matching bills to existing POs and receipts	Bill approvals	Payments

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So, the need for checks and the involvement of multiple people doesn't stop once the invoice is entered into the finance system, neither does the margin for error or fraud, if anything it increases and becomes more important the further down the line you go.

> It is important to note that the discussion around AP automation should relate to the entire AP process and not just one phase of it. By only automating one part of it (e.g., invoice creation), you are likely just creating a bottleneck somewhere else down the line (e.g., posting) where there is a greater consequence if an error is missed.

What do you mean, we have OCR, haven't we automated our AP already?

If you have a decent OCR in use, you can get PDFs converted to XMLs quite nicely, but calling that AP automation would be the same as having four wheels and calling that a car. It can streamline the creation of transactions, but true AP Automation covers the whole process, from receiving vendor bills to paying them. So, you should be looking for a solution to manage matching, posting, approving and secure payments too!

Common Challenges in the Accounts Payable Process

Accounts Payable is traditionally one of, if not, the most manual and time-consuming tasks in the finance department.

Whilst the future of AP looks set to become completely electronic with the continued evolution of eInvoicing technology (which we cover in depth in a separate white paper), data shows that AP is still a very document-heavy function within businesses. A recent survey reported invoices being received as PDFs, or even paper, 52% of the time.[1]

The EU commission (which created the PEPPOL framework and should be recognised as a leader in the development and deployment of eInvoicing) is currently predicting that eInvoicing will not become mandatory until 2028.
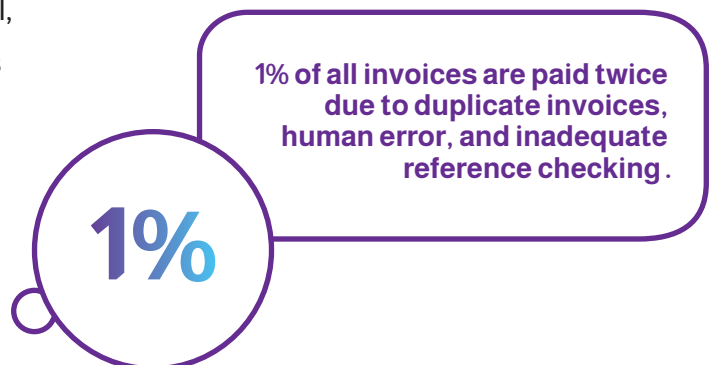
A recent survey reported invoices being received as PDFs, or even paper, 52% of the time.

52%

https://www.ssonetwork.com/finance-accounting/whitepapers/accounts-payable-automation-keeping-your-processes-in-the-safe-zone

At the time of writing this paper, that is still five years away and does not reflect a truly global approach, (e.g., the US is currently only in the initial stages of piloting eInvoicing frameworks) – so, for the foreseeable future it's safe to assume that documents and, unless automated, manual entry is here to stay.

Beyond the fact that managing your AP processes results in your team spending (wasting) a lot of time entering and re-entering data instead of doing something meaningful, it can have much wider ramifications across the business in relation to cash, operational delivery, and supplier relationships:

73%

73% of businesses had experienced strained corporate relationships with suppliers regarding payment delays .

63% of AP staff reported regularly working overtime due to opaque processes.

63%

1% of all invoices are paid twice due to duplicate invoices, human error, and inadequate reference checking .

1%

62% of businesses reported that suppliers had withheld products or services due to issues with payments.

62%

70% of businesses cite issues with visibility of payables negatively impacting forecasting.

70%

https://www.resourcefulfinancepro.com/articles/duplicate-payments-cost-risk/

https://www.pymnts.com/accounts-payabXle/2022/pymnts-intelligence-leveraging-ap-automation-to-improve-billing-processes/

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The Full AP Automation Conversation:
What are we actually addressing?

When discussing accounts payable and AP Automation, it can be extremely easy to get caught up in the deliverables and the technology side of things (e.g., OCR or supplier portals) as opposed to perhaps looking at just how strategic a function AP is in the context of your business.

Challenges around recording and making payments can impact everything from customer experience and staff retention to cashflow and supplier relationships.

Perhaps most importantly though, businesses need to remember and recognise that the purpose of the accounts payable department is for money to leave the business.
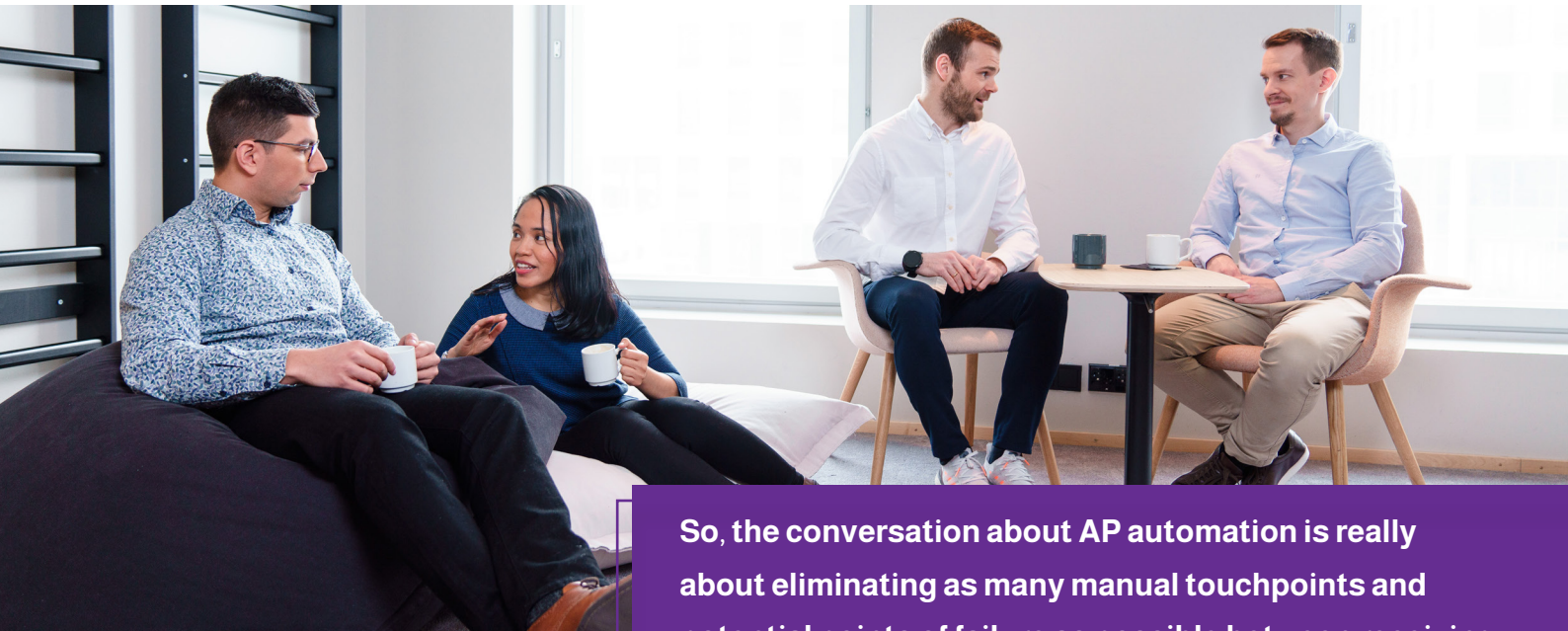
So, the conversation about AP automation is really about eliminating as many manual touchpoints and potential points of failure as possible between receiving invoices and making payments.

Whilst this is obvious, **what it means in practice is that the expectation is for the bank balance to reduce, and as such, it can be easy for small errors or fraudulent behaviour to go relatively unnoticed.**

I.e., if $10k just vanishes from the bank one day, you notice. If on the other hand, a payment run is scheduled, and the bank balance reduces by approximately the correct amount (even to the nearest $1k) how likely is it that any issue will be detected?

Accuracy
- Critical vendor invoice details
- Remove risk of paying in order

Efficiency
- Speed of processing – accelerate period close
- Use of employee time – no duplicate entry
- Impact on other departments – ensuring everyone has what they need

Security
- Eradicate opportunity to amend details
- Efficient, multi-tier and auditable approvals

Cash
- Quicker visibility of cash due out
- Improved cashflow forecasting

The Four Stages of AP Automation:

Often, and understandably, AP automation is synonymous with OCR, AI, and invoice creation.

However, given the goal of AP automation is to remove as many touchpoints as possible between invoice receipt and payment, it is important to follow the process beyond invoice creation and look at what happens at every stage up until and including payment.
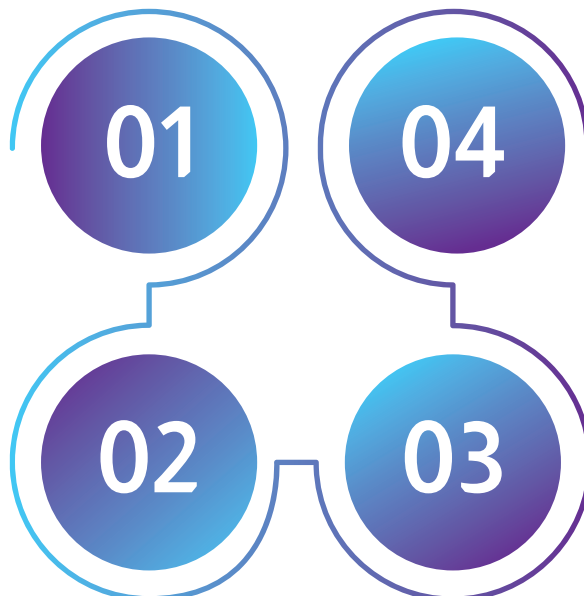
Whilst every company has their own unique processes and route to payment, we generally recognise four key stages of AP. In terms of the discussion around AP automation, the theory is that if you only automate one part of the process, you may just be moving the bottleneck further down the line and, as a result, you may not actually improve processes or increase security overall.

Invoice Creation

There are two common methods of automating the creation of invoices: scanning and eInvoicing.

01

04

Payments

The most important step!

Invoice Posting

Other than payment, invoice posting, is arguably the most important stage of accounts payable

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Invoice Approvals

Similar to posting, approvals is an area where manual validation is absolutely necessary.

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Invoice Creation

Generally speaking, there are two common methods of automating the creation of invoices: scanning and eInvoicing.

If this stage is not completed effectively, the next stage of the process cannot occur without manual data entry.

Invoice scanning tools use Optical Character Recognition (OCR) technology to recognise the text within a digital image and scan information from documents (e.g., PDFs) into your finance system.

Artificial intelligence (AI) is also used in the invoice scanning process as it helps the system to both validate the information and 'learn' from each document with a view to continually enhancing the accuracy with which information is captured.

Regardless of which method we discuss, the aim of automation is the same at this stage - to use technology to extract the necessary information from the vendor invoice to automatically populate the transaction record within the finance system.

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One of the most relevant examples of this would be that the system will continually improve how it recognises things such as vendor logos and specific invoice layouts.

This ensures that it both captures the correct information more often (amounts, due dates, tax codes etc.) by knowing where the vendor details these things in their documents, but that it can also begin to predict things like accounting classifications based on repeat behaviour. For example, it can suggest that the bill from your marketing agency should be posted against marketing expenses as it knows this is where that vendor's costs are allocated.

It is worth noting, as with almost all topics of conversation relating to AI currently, these tools are working to the best of their ability. As such, manual validation is the only way to guarantee the correct allocations are being made – this is covered more in a few sections when we discuss approvals.

Critical data to be captured at the point of invoice creation would normally include:

- **Vendor name**

- **Vendor address** (country)

- **Invoice ref** (combined with vendor name preventing duplication)

- **Invoice date**

- **Payment due date**

- **Invoice total**
  - **- Exc. tax**
  - **- Inc. tax**

- **Item line information**
  - **Description**
  - **Quantity**
  - **Price**
    - **- Exc. tax**
    - **- Inc. tax**

EInvoicing takes a more technical approach and involves the sharing of invoice data electronically and directly between the vendor and client systems via defined and regulated frameworks. As mentioned earlier in this paper, eInvoicing is a rapidly evolving approach and will likely become the default mode for invoicing in the not-too-distant future, however for the time being, most businesses will increasingly rely on a combination of scanning and eInvoicing when implementing AP automation.

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Invoice Posting

Other than payment, invoice posting, is arguably the most important stage of accounts payable. The date which the invoice is posted, combined with the detail of where it is being allocated to and why has significant implications for the financial reporting and submissions, tax liability, and profitability of the business.

As such, manual validation will likely always be needed at this stage. (Even with the most repetitive transactions, there may occasionally be an exception which a system could not identify)

It should be noted that manual validation is not entirely bad. Given the potential consequences of incorrect behaviours, no AP process should ever be truly automated from end-to-end. The goal is more about removing unnecessary manual touch points as opposed to all manual touch points and the approvals process covered in the next section discusses the best way to minimise manual effort around this stage.

So, the conversation around automation at the posting stage is about how technology can maximise the efficiency and accuracy with which data is created within the core finance system. This ensures your staff are validating data rather than entering or editing it.

Largely, this relies on a well-structured and clearly defined purchase ledger with an equally well managed inventory and services list, ensuring that wherever possible there is a consistent and systematic way to create suggested postings based on default values driven by vendor and item line information.

This would normally include:

- GL Code
- Department
- Class
- Location
- Custom Segments

> " Other than payment, invoice posting, is arguably the most important stage of accounts payable. "

Invoice Approvals

Similar to posting, approvals is an area where manual validation is absolutely necessary.

Without manual approvals, invoices can easily be posted to incorrect areas in the system, and worse, paid, regardless of whether goods or services have been received, or even if the invoice has already been paid previously. (As mentioned earlier, it's reported that 1% of all invoices are paid twice due to human error or inadequate reference checking).

So, if the approval itself is not automated, how do approvals fit into the AP automation conversation?

As mentioned earlier, it's reported that **1%** of all invoices are paid twice due to human error or inadequate reference checking.

Well, two ways:

1. The allocation of approval requests:

Ensuring the approval process is system-driven and managed within a well-defined criteria and hierarchy. As in, approvers being automatically requested to approve transactions within the bounds of the system based on things including total spend, budget allocation, and need. Managing this within the system should ensure consistency, simplicity, and transparency throughout the process.

For example, a marketing expo requiring a spend of $20k for the stand and merchandise is initially approved by the events manager, secondly the CMO, and finally by the CFO due to a company policy that anything more than $10k requires CFO sign off.

Whereas the travel and accommodation for the event was signed off by the events manager only as it was less than $1k.

Off-the-shelf, NetSuite provides very strong functionality for this between its configurable workflow engine and reminder portlets. Depending on your requirements and approval process, there may be a case for approvals to be managed without relying on the native NetSuite interface.

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2. The accuracy of the data presented to the approver

The fact that someone is in a position to approve spend on behalf of the company usually indicates that they are senior. Whilst we cannot say anything with absolute certainty, more often than not that also means they are very busy.

So, at the point of engaging their time, the aim should be to make it as quick and easy as possible for them to view the information they require to make a decision and progress the process as they see fit (approve, reject, or query).

All the points covered in relation to scanning and posting come into effect here. I.e., is the data in the invoice transaction accurate based on the data within the vendor bill document, and has it been allocated correctly? Getting these stages right makes the approval much simpler.

In addition to the data, other areas you may consider in relation to your approvals process when reviewing AP automation solutions are:

• Does the solution manage three-way matching prior to the approval process?

This is where the system would automatically check the invoice against the initial PO and goods received note to ensure everything matched prior to creating the approval. The benefit being that if everything matches, the approver doesn't have to check the 'real world' situation or get into an external dialogue with colleagues prior to making their decision. They can easily see from the transaction that everything is as it should be by proxy of everyone else having done their job.

• How do approvers view what they need to in order to make their decision?

Addressing the efficiency, accuracy, and security elements of the conversation – it's important to ensure that approvers can access as much information as possible within the system they are using to remove the inefficiency and risk of managing everything external to the solution, e.g., via emails and spreadsheets with various attachments.

Ideally, a portal interface which can be securely accessed from any device to provide visibility of the transaction record and supporting documentation makes it quicker, easier, and safer all-round.

Payments

The most important step!

Up until this point, everything is recoverable and amendable should a mistake or fraudulent activity occur. But when payments are submitted – that is the actual cash leaving the actual bank, so it's imperative that everything is exactly as it should be.

Surprisingly, in most ERP and finance systems, despite the importance of this step, making payments is often one of the most manually intensive and fragmented processes, relying on downloads and uploads of files which can be altered outside of any auditable system.

The topic of banking integration to ERP solutions may justify a whitepaper of its own, however, to summarise, many of these challenges result from the fact that global banks usually involve a myriad of different acquisitions, jurisdictions, financial regulators, and a tech stack which most of us would struggle to comprehend. As such, it is very difficult for ERP providers to develop a global, off-the-shelf integration.

Like approvals, much of the conversation around automating payments relies on the component parts of the AP process prior to the payment stage.

If the entire process is managed correctly and automated wherever possible, the end product should be a system-driven suggested payments report which is accurate based on POs placed, orders delivered, and invoices received which have been approved well in advance of the payment due-date.

Realistically, if the rest of the process is followed, the payments report shouldn't even need checked. It does, though – do check it, always check it – it's too important not to!

The final step of making the payment (normally nowadays, submitting a payment file to the bank) should also be automated to remove the manual elements, and thus risk of error or fraud, from the last few critical stages.

This step normally requires discussion with your ERP or AP automation provider and your bank. Sometimes banks can connect to ERP solutions using technology known as bank feeds – as alluded to above, this is often unavailable due to a misalignment of technical requirements.

In the absence of a direct bank feed, one of the most common approaches to managing this is to use an sFTP (Secure File Transfer Protocol) to securely transfer the payment file from your ERP solution to the bank. Your bank should be able to provide you with their sFTP address and example file formats to ensure your export meets their requirements and can be sent to the correct location.

At this point, there is usually the option for one final check and manual click to submit the file from within the banking interface.

Whilst there is still technically room for interference, executing your payment submission this way ensures that any changes made prior to the export from the ERP system should be auditable within that solution. Likewise, any changes made on the banking side should be visible and attributed to a user (who can only access the bank with secure credentials) at the specific date and time the amendment was made. In essence, it is as secure as it can be until you have the technology to completely integrate your ERP and banking setups.

AP Automation for NetSuite

NetSuite is the world's original, and still leading, cloud-based financial management software. Whilst to some its interface and core functionality may seem standard today, that is only down to the fact that NetSuite set the standard for what businesses should expect from their finance systems today.

A clean, simple, user-driven interface built around dashboards, reminders and KPIs which can be easily and securely accessed from any device with access to the internet.

Furthermore, NetSuite reinvented the financial management and ERP marketplace with its key concept – **a single data source**.

Even if you only use NetSuite for financial management (I.e., not for inventory, projects, or CRM), the concept of the single data source is pivotal to the extent NetSuite is designed to facilitate automation and improved visibility throughout your business.

So, the concept of automation and improved visibility is at the heart of everything NetSuite offers. This is undoubtedly why it is so widely deployed and still growing, and their client numbers and client list tells you everything you need to know about how well the system drives scaling businesses.

As standard, NetSuite does offer a number of features which are extremely valuable to accounts payable departments across the world – notably its inbuilt configurable workflow engine, employee centre, and native approval functionality. In the US, the system even offers invoice capture functionality as standard for many customers who meet the required criteria.

In short, if you are already using NetSuite, you have an amazing (arguably the best) platform to build out a full AP automation setup.

When it comes to implementing AP automation within NetSuite, if your business is outside of the USA, currently you require a third-party solution (e.g., a SuiteApp) to facilitate at least the invoice creation and payment elements of your AP process.

Furthermore, depending on your preferred processes, you will likely benefit from additional functionality designed specifically for AP automation around the posting and approval parts of the process (e.g., three-way matching, or automated pre-posting).

If you are investigating an AP automation solution for NetSuite, a few key considerations should be:

> **In short, if you are already using NetSuite, you have an amazing (arguably the best) platform to build out a full AP automation setup.**

• **How many subsidiaries do you need to manage and where are they based?**
At the time of writing, NetSuite's standard offering is available to single company setups based in the USA. So, if you are outside of the USA or need to manage multiple subsidiaries, you will likely need a third-party solution.

• **How large is your AP function and how many invoices do you process monthly?**
This will help you to contextualise and put a financial value against your current manual AP processes.

(Length of time to process an average invoice) x (number of invoices) x (average AP salary)

WARNING: Calculating this number may cause stress which will be worsened if you include a % value to account for margin for error.

Realistically, this will give you a strong indication of how deeply you should look to automate your AP and where the cost/benefit lies of investing in an end-to-end automation solution.

If you have a high volume of invoices, it is also worth ensuring that any third-party solution has the bandwidth and capability to handle your business now and in the future. It is always worth asking for references from businesses with similar volumes to you.

• What functions are offered by the solutions you are considering?
Does it cover the four functions of the AP process outlined in this paper (Invoice capture, posting, approvals, and payments)? If it only offers part of the process, what is the process to prevent bottlenecks or error at other points?

• Does the third-party solution function natively within NetSuite or will the app remove critical documents and processes from the day-to-day NetSuite setup?
This question is about where you want your critical business and financial processing to take place.

Normally, businesses invest in NetSuite for the aforementioned single data source and automation capabilities. As a result, many existing NetSuite users will already have automations and workflows in place, whilst those considering implementing NetSuite would normally also be looking to invest in the system as a single source of truth.

It can be a costly exercise to implement a secondary system at the point of implementing NetSuite, and for existing users, it can be equally costly to reverse any existing workflow processes and customisations out of NetSuite into a new system. In addition to the capital spend on a new system, as well as the time involved to change processes, it also dramatically reduces the amount of information accessible to users, approvers and auditors working within NetSuite.

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Conclusion

Invoice Creation

Posting

Approval

Payment

To conclude, when discussing AP automation it is first of all best to take a step back and look at the AP function as a whole. Rather than running AP simply as a means to an end, review it as a strategic function within your business - understand the weaknesses and risks within your current processes and look at what tasks you can automate to fully contextualise the value you will gain end-to-end.

It is important to recognise that the concept of AP Automation applies to a lot more than simply invoice creation and OCR. Whilst creation of invoices may seem like the most manually intense and error-prone process, only automating this step simply moves the bottleneck down to the individual or team responsible for the classification or posting of invoices.

Remember, your AP process doesn't stop when the invoice is created, so why should your AP automation solution?

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Whether you are considering, or you are already using NetSuite, it is one of the most powerful and configurable financial management solutions available today. So, you have an amazing foundation for automating your AP function. Based on your strategic review, ask yourself and any potential vendors the questions outlined in the final section of this paper.

Given the size of the investment, combined with the off-the-shelf capabilities of NetSuite, surely it makes sense to implement a solution which will enhance the core system and provide additional visibility within the single database as opposed to removing key functionality and business-critical documents from the transaction record within your finance system?

Whatever option you choose – ensure your team are happy with it and that the data captured and entered is accurate. Without that, you're going nowhere fast.

About Staria

With 20+ years' experience in delivering growth-focused financial strategy and technology solutions for some of the world's most rapidly scaling businesses, Staria has always prided itself on being a pioneer and champion of the latest platforms and initiatives to improve how businesses manage their processes, cash, and most importantly, their people.

We offer a broad and comprehensive portfolio of services and solutions to help businesses improve their financial strategy, operations, reporting or technology. A part of this offering is our end-to-end AP Automation solution developed specifically for NetSuite.

An End-to-End AP Automation solution for NetSuite

Staria's AP Automation solution goes beyond invoice scanning, making it a complete end-to-end solution for NetSuite that incorporates invoice scanning, vendor bill automation, invoice approvals and payment processing in a single solution. Flow seamlessly from capture to posting, posting to approval, to secure submission of payments files to your bank, all from NetSuite.

In removing the need for manual processing and risk of error at every stage of your AP process, our solution ensures a quicker and better process for your team, improved cashflow management, and enhanced vendor relations.

Do you want help on your AP Automation journey? Contact us!

www.staria.com