

Invoice Cycle Time: What Is It and How To Improve It



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Metrics and KPIs are important for staying on top of accounting processes, including processing accounts payable.

While every business needs to pay bills, it's how efficiently you process those bills for payment that can directly impact your business.

In fact, the more time you spend processing invoices, the more money you spend as well.

Every hour that your AP department spends copying invoices for processing, manually matching invoices with purchase orders and shipping receipts, and

manually entering those invoices into the system once they have been approved, is an hour lost to more productive tasks.

An automated accounts payable process can significantly reduce the number of hours required to process invoices manually.

Automation is also a must if you want to take advantage of early payment discounts as well as manage cash flow properly.

While the number of invoices you process daily directly impacts your invoice cycle time, the processes you're currently using impacts that time even more.

But what exactly is invoice cycle time and why should you be concerned about this benchmark?

What Is the Invoice Cycle Time?

Invoice cycle time is the number of days it currently takes your accounts payable department to process an invoice once it's been received.

The processing tasks measured in invoice cycle time include:

1. Invoice Receipt

Once the invoice is received, how long does it take to get the invoice to the right place?

If you're using an automated AP application, invoice receipt is quick and painless, automatically moving from one step to the next without much human intervention needed unless there's an exception found.

However, if you're manually processing your invoices, how quickly the invoice moves to the next step depends greatly on how it's delivered.

Mailed invoices need to be routed to the correct individual, and if they're emailed, they'll need to be printed for processing.

Invoice Validation

Once an invoice has been received, it needs to be verified.

The best way to verify an invoice is by using the three-way match, which matches an invoice to a purchase order and delivery receipt.

If a purchase order was not used, you'll have to verify its authenticity in another way.

3. Invoice Approval Preparation

Once an invoice has been authenticated and there are no exceptions found, the invoice will need to be approved.

If you're using an automated purchase order system, approval may not be necessary, since the purchase order was approved.

However, invoices without a corresponding purchase order will need to be approved.

The approval process is what typically pushes the invoice cycle time up.

The manual approval process is ripe for bottlenecks, including invoices getting lost or misplaced during the routing process.

In theory, while an invoice should be quickly approved, the reality is that an invoice, routed manually, can often remain on an approver's desk for days or even weeks.

And for invoices that need a second approval, such as those over a certain dollar amount, approval time can quickly rise.

4. Invoice Payment

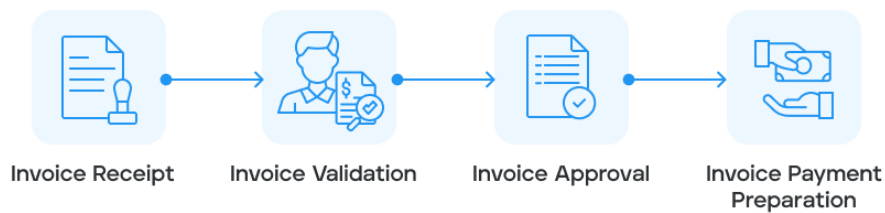
Once an invoice is routed back to AP after approval, it will need to be entered into your accounting software application, where it is scheduled for payment.

2. If you're using a manual AP system, the invoice will need to be entered

into your accounting application.

Data entry is not necessary with an automated AP system, which will integrate with your accounting software or ERP and process the invoice ready for payment immediately upon approval.

Invoice Cycle Time Tasks



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How Do You Calculate Invoice Cycle Time?

It's a fairly simple process to calculate your invoice cycle time by determining the number of days required to complete the steps listed above.

Manual Invoice Cycle Time

Invoice Cycle Task	Days to Complete Cycle
Invoice Receipt	1-2 days
Invoice Validation	1-2 days
Invoice Approval	4-7 days
Invoice Payment Preparation and Data Entry	1-2 days
Total Invoice Cycle Time	7-13 days

In the example above, a company using manual AP processes may spend between 1-2 days getting the invoice to where it's supposed to go.

This can include copying an invoice that is emailed or routing the invoice to the correct staff member.

Invoice validation may also be fast, at one day, or expand to two days if an exception is found, or matching documents need to be located.

However, if a purchase order to shipping receipt has not been received, processing times can rise.

Invoice approval time can vary widely depending on internal processes in place for approving invoices.

Finally, invoice payment preparation should only take one day, but if there are numerous invoices that need to be entered, additional time may be needed.

That puts your average manual invoice cycle time at 7-13 days.

Automated Invoice Cycle Time

Invoice Cycle Task	Days to Complete Cycle
Invoice Receipt	1 day
Invoice Validation	1 day
Invoice Approval	1 day
Invoice Payment Preparation and Data Entry	½ day
Total Invoice Cycle Time	3½ days

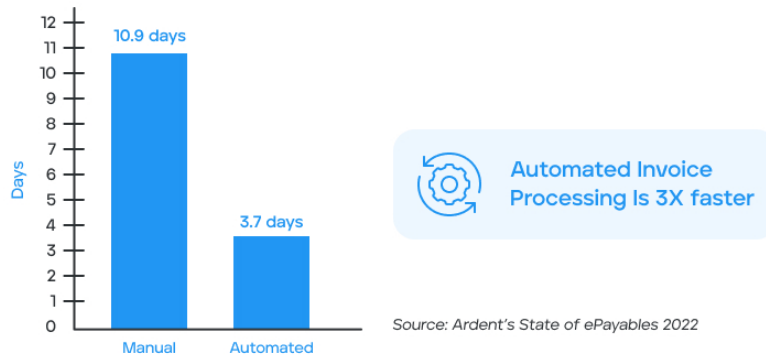
For our second example, a company using invoice automation, invoice cycle times are reduced dramatically.

Since an automated AP system receives an invoice and automatically performs a three-way match, the invoice can be routed for approval almost immediately, using a custom workflow approval process.

Once approved, the invoice is ready to be paid.

While these are just examples, both examples fall within the range cited by Ardent Partners State of ePayables for 2022, which estimates manual cycle times of 10.9 days versus automated processing times of 3.7 days.

Average Invoice Cycle Time: Manual Vs Automated

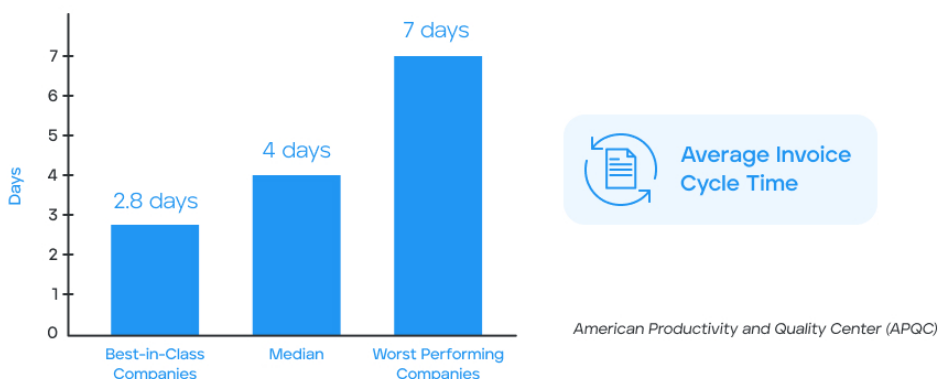


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What Is the Average Invoice Cycle Time for a Typical Company?

According to the American Productivity and Quality Center (APQC) metrics, best-in-class companies have an average invoice cycle time of 2.8 days, with a median time of 4 days, with those on the bottom of the list taking 7 days or longer from invoice receipt to payment setup.

Average Invoice Cycle Time



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How Does a Poor Invoice Cycle Time Impact a Company?

Higher processing cost is the number one way that poor invoice cycle times can impact a business. It may be a well-worn cliché, but time is money.

And the more time you spend processing invoices, the more it's going to cost you; in additional labor hours, the loss of early payment discounts, and fees and penalties due to late payments.

If your invoice cycle time is high, it's likely due to the use of manual processes.

Every hour spent copying an invoice for distribution, performing a manual three-way match, or entering invoice data manually is costing your company money.

Add to that the days or possibly weeks that an invoice sits on someone's desk waiting to be approved, and your costs can quickly become unsustainable.

What Are the Challenges With Invoice Processing?

The biggest challenge businesses face with invoice processing is delays, since delays cost your business money.

The delays can start at the beginning when the invoice is received.

If you're not currently using e-invoicing, chances are that you're still receiving paper invoices in the mail.

But even if your invoices are being emailed to you, if you're not using an automated system, you still have to download and print those invoices and make sure that they get to the correct AP team member.

Next, when an invoice is received, it has to be validated for authenticity.

Following that, AP staff will need to complete three-way matching, which ensures that the invoice data matches the same data found on a purchase order and shipping receipt.

If there's a discrepancy, you'll have to pull the invoice and complete some follow-up work to determine which documents are accurate.

Finally, the biggest challenge with invoice processing is timely invoice approvals. With a manual system, even if the invoice is routed for approval immediately, there are often significant delays in the approval process.

And once the invoice has been approved and is routed back to AP, clerks will still have to enter the invoice manually.

How Can you Improve Invoice Cycle Times?

If your invoice cycle time is greater than seven days, it may be time to work on creating internal processes that can improve that time.

Remember, the higher your invoice cycle time, the more inefficient your AP processes are.

While there are ways you can improve manual processes, the best way to improve your invoice cycle time is to make the switch to an automated AP application like PLANERGY, which uses a combination of artificial intelligence and machine learning to automate time-consuming manual tasks like the following:

▪ Manual Data Entry

Entering invoice data can take up a significant amount of time. Automation eliminates the need to enter invoice data manually.

▪ Approvals

Manually routing invoices for approval causes more processing delays than just about any other process.

Invoices routed for manual approval often sit on the approver's desk for days, or even longer.

Manually routing an invoice also raises the possibility of it getting lost in

transit, buried under stacks of paper, or being routed to the wrong person.

Using automated approval workflows gets the invoices where they need to go promptly, where they can be electronically approved and routed back to AP for quicker processing.

▪ **Three-Way Matching**

An integral part of processing invoices is completing three-way matching. Three-way matching requires invoice data to match the corresponding purchase order and shipping receipt.

If an exception is found, additional follow-up is required. Using AP automation, three-way matching is completed automatically.

No more hunting down purchase orders and shipping receipts. And if there is an anomaly found during the automated matching process, the invoice is flagged for additional follow-up.

▪ **Storing Documents Digitally**

When processing invoices an AP automation solution will automatically store and backup the documents.

With PLANERGY, this will include any relevant documents from the procurement process too - the PO, GRN, supplier quotes, etc.

Having documents available with powerful search functionality saves time manually storing the documents but also makes it easier to search for documents later.

▪ **Reduces Human Error**

Accounts payable automation reduces the amount of human error occurrence. Reducing manual entry and repetitive tasks reduces the opportunity for errors.

Reducing errors helps to eliminate late fees and other penalties.

• Identify Incorrect Payments and Fraud

Automation also reduces the possibility of accounts payable fraud, eliminates duplicate payments, and offers electronic document management, allowing you to go paperless (or close to it), while keeping files organized and easily accessible.

How Planergy AP Automation Can Improve Invoice Cycle Times



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Finally, automation allows you to speed up your invoice cycle time, allowing you to take advantage of early payment discounts.

An investment in an automated procure-to-pay application allows you to streamline the entire AP invoice cycle from invoice receipt to payment preparation, giving your AP team more time to concentrate on more important tasks.

What's your goal today?

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