

# Invoice Processing Cost: What Is It, How to Calculate It, and How to Reduce It



## IN THIS ARTICLE

- What Are the Main Steps Involved in Invoice Processing?
- What Is the Average Cost To Process an Invoice?
- How Do you Calculate Invoice Processing Costs?
- How Many Invoices Can Be Processed in an Hour?
- What Is the Cost To Process an Invoice With a Credit Card?
- What Is the Invoice Processing Cost for a Company That Processes 100,000 Invoices per Year?
- What Are the Benefits of Invoice Processing Automation?

Every time you process an invoice, it costs money.

From the hourly wages paid to your AP team to complete the three-way matching process to the cost of printer ink, envelopes, and postage needed to mail a check to a vendor, the AP invoice process may be costing your company more than you may think.

But before we cover how to calculate your invoice processing cost, let's go over the main steps involved in invoice processing.

## **What Are the Main Steps Involved in Invoice Processing?**

Accurately processing an invoice requires multiple steps, with three main steps involved, whether you're using manual processes or processing invoices using AP automation.

### **1. Invoice Receipt**

After an item or service has been purchased, the vendor or supplier will provide an invoice. A paper invoice may be received in the mail or it may be sent electronically as a PDF.

Once received, the invoice is authenticated by the AP department which typically includes verification that the goods or services notated on the invoice have been received.

If a purchase order was used, the invoice should be matched against the corresponding purchase order and receiving slip to ensure that all three documents match.

This three-way process should be completed for any invoice received that

has a purchase order.

If the three documents do not match, the discrepancy should be investigated before routing the invoice for approval.

## 2. **Invoice Approval**

After three-way matching is completed, the invoice is then routed to the correct individuals for approval. If there is not a streamlined invoice approval process in place, this step can cause significant delays for a variety of reasons.

For instance, invoices can get lost in transit, misplaced, buried under other papers, or even routed to the wrong party.

This results in late approvals and late payments, which in turn means late fees and other penalties.

## 3. **Invoice Payment**

Once an invoice is approved, it's entered into your accounting software application, where it remains until approved for payment. AP staff should regularly run an accounts payable report so that management can approve payments when due.

The invoice payment process should also be completed by two different staff members to ensure that all payments are valid.

## Invoice Processing Steps



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## What Is the Average Cost To Process an Invoice?

According to Ardent Partners' State of ePayables 2022 report, the average cost to process a single invoice is \$13.11, with smaller businesses likely to spend even more. But Adobe estimates the cost at between \$15 and \$40 for a single invoice.

Imagine paying \$40 to process a single invoice if you process hundreds or even thousands of invoices every month.

## ■ Average Cost To Process an Invoice



The average cost to process a single invoice is **\$13.11**

Source: Ardent's State of ePayables 2022 report

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## How Do you Calculate Invoice Processing Costs?

It's not difficult to calculate the true cost of processing an invoice. It's important to understand that not all costs are the same.

Some are considered hard costs, or costs that are directly involved in the invoice processing workflow such as AP staff labor costs while soft costs are indirect costs involved in invoice processing such as the monthly subscription cost of your accounting software application.

To properly calculate the cost of invoice processing, you'll need to examine your current process from labor costs to ancillary costs such as envelopes, ink, and even check stock, calculating costs for the following areas:

## ▪ Labor Costs

Labor costs will be where you spend the most money processing invoices and can involve the following tasks completed by the accounts payable department:

- Receiving the invoice from the vendor or supplier
- Completing three-way matching on the invoice
- Routing the invoice for approval
- Entering the invoice into the accounting software application
- Generating the AP report
- Approving payment for invoices due
- Processing payments which can include printing checks or paying via ACH transfer
- Attaching all relevant documents to the check or payment stub
- Stuffing checks into envelopes and attaching postage
- Filing all invoices in the vendor file

Using a manual invoice process will drive up the cost of processing an invoice, with these costs reduced as you add more AP automation.

Of course, AP staff may not be the only ones that need to have their labor hours included. Accounting managers, controllers, and purchasing department staff should also have any relevant time included in the labor calculation.

A sample labor calculation may look like this:

Position	Hourly Wage	Monthly AP Hours	Total Cost
AP Clerk	\$20	100	\$2,000
Senior AP Clerk	\$25	20	\$500
Accounting Manager	\$30	10	\$300

<b>Total</b>		<b>130</b>	<b>\$2,800</b>
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Now that you know the total labor cost for AP, you'll divide the cost by the number of invoices processed for the month. In this instance, we'll say that 125 invoices were processed for the month.

$$\$2,800 / 125 = \$22.40$$

That means that the labor cost for processing each invoice is \$22.40. You may also want to include approval time in the calculation, which would drive up the per-invoice cost considerably.

Next, we'll calculate the next two categories.

## • Cost of Infrastructure

Along with direct costs such as AP staff, there are also infrastructure costs that need to be considered when calculating your invoice processing cost.

For example, if you're using accounting software to process AP and pay bills, you'll want to include the cost of the application.

Let's say the software has a cost of \$125 monthly, with a usage of around 25% per month, you would calculate the cost as follows:

$$\$125 \times 25\% = \$31.25$$

When you calculate your per invoice cost, you'll need to include this total.

## • Payment Costs

Whether you pay bills by writing checks or by ACH transfer, there is a cost involved.

If you run checks and mail them to your vendors and suppliers, you'll need to factor in the cost of checks, the cost of postage, and the cost of envelopes.

Though the cost is less, even ACH transfers normally incur a minimal cost.

Using the totals above, we'll calculate the cost of processing the invoices for payment, with 105 payments paid by check, while the other 20 were paid by ACH transfer.

Item	Per-unit Cost	Number of Invoices	Total Cost
Paper Checks	\$0.03	105	\$3.15
Envelopes	\$0.05	105	\$5.25
Postage	\$0.63	105	\$66.15
ACH Transfers	\$0.35	20	\$7.00
<b>Total</b>		<b>125</b>	<b>\$81.55</b>

To get your total per-invoice cost, you would add your labor cost, infrastructure costs, and payment costs, and then divide that total by the total number of invoices processed.

$\$2,800 \text{ labor costs} + \$31.25 \text{ infrastructure costs} + \$81.55 \text{ payment costs} = \$2,912.80 / 125 = \$23.30$ .

That means that it is costing you at minimum \$23.30 to process every invoice received in accounts payable.

It's important to keep in mind that other related costs or soft costs such as rent, utilities, insurance, printer ink, computers, and possible storage costs are not included in this calculation, which means that processing a single invoice is likely



much more.

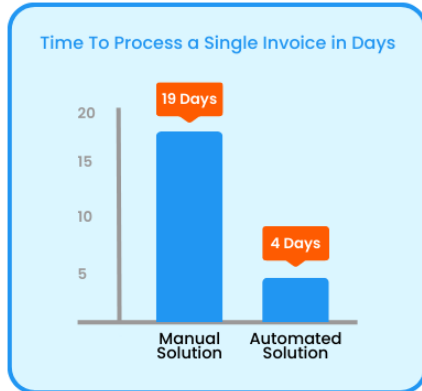
Add to that the other hidden costs, such as time spent investigating checks that have not been cashed, correcting errors, and investigating invoice variances, and your bottom line can be severely impacted by the costs involved in processing invoices manually.

## **How Many Invoices Can Be Processed in an Hour?**

Using a manual AP process, most AP clerks can process around five paper invoices in an hour. This number can vary, depending on the accuracy of the invoice, if additional research or validation is needed, and whether any errors need to be corrected. For those using an automated system, the number increases.

For example, the number of days it can take to process a single invoice using a manual system is just over 19 days. But using an AP automation solution, this drops to just under 4 days.

## ■ Average Time To Process an Invoice



**19 days** to process a single invoice when using a manual system.

**4 days** to process a single invoice when using an AP automation solution.

Source: Ardent's State of ePayables 2022 report

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## What Is the Cost To Process an Invoice With a Credit Card?

There is no cost to your business if they wish to pay an invoice with a credit card, though some of your vendors and suppliers may charge what's commonly called a convenience fee to cover the fees they will incur by accepting your credit card payment.

Another issue that can occur when paying bills with your credit card is the interest that may accumulate on your card if you don't pay the balance in full each month. Instead of using a credit card, consider using an ACH transfer to pay invoices.

Though there is a small fee, it's minimal compared to the interest you may accumulate using a credit card.

# What Is the Invoice Processing Cost for a Company That Processes 100,000 Invoices per Year?

Let's calculate the cost of processing 100,000 invoices per year using the Best-in-Class metric according to Ardent Partners, which is \$3.71 per invoice, with all others costing \$19.37 per invoice.

$$\$3.71 \times 100,000 = \$371,000$$

$$\$19.37 \times 100,000 = \$1,937,000$$

That's a difference of \$1,566,000 a year in costs that can be eliminated by moving to an automated AP system.

## What Are the Benefits of Invoice Processing Automation?

Aside from the significant cost savings, there are other benefits to moving to invoice processing automation with accounts payable automation providing the following benefits:

- Reduction or elimination of manual data entry
- Reduction of human error
- Elimination of duplicate payments
- Elimination of late payment fees
- Streamlining approval workflows
- Reduces the possibility of fraud in accounts payable
- Reduces invoice processing time by performing three-way matching automatically

- Allowing electronic document storage and management
- Allows you to take advantage of early payment discounts

## ■ Benefits of Invoice Processing Automation



**Eliminates Manual  
Data Entry**



**Reduces  
Human Error**



**Eliminates Duplicate  
Payments**



**Eliminates Late  
Payments**



**Streamlines  
Approval Workflows**



**Reduces the  
Fraud Possibility**



**Reduces Invoice  
Processing Time**



**Allows Early  
Payment Discounts**

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Moving to AP automation that includes the complete procure-to-pay cycle can save a significant amount of invoice processing time while helping to streamline the entire invoice approval process.

Even better, a business owner making an investment in AP automation software today will see increased cash flow and a system that will pay dividends for years to come.

## What's your goal today?

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