Vendor Invoice Management: What Is It and Best Practices

IN THIS ARTICLE

Traditionally managing invoices is a time-consuming process that often leads to errors.

Matching invoices, purchase orders, and shipping receipts, routing invoices to multiple approvers, and entering invoice data into an accounting software application eats up a lot of valuable employee time.

Even the simple process of routing paper invoices to the correct approvers can cause significant delays in payment processing, resulting in late fees and a lot of unhappy vendors and suppliers.

This usually occurs when an invoice is forwarded to the wrong department, where it remains on someone's desk for days or even weeks before they're discovered- if they ever are.

Is it any wonder that the latest survey from Ardent Partners State of ePayables 2023 shows that 49% of respondents indicated that invoice processing time and payment approval still takes too long?

But that's not the only problem with manual AP processing, with 47% of survey respondents stating that they're required to process too many AP exceptions.

That's why vendor invoice management systems can play such an important role in business today, regardless of the size of the business.

While a small business owner can certainly benefit from better invoice management, an enterprise-level organization would likely be completely dysfunctional without some level of invoice management in place.

We'll cover what vendor invoice management is, the latest tools to help your AP department eliminate manual processes, and why vendor invoice management and an automated AP solution are so important for your business going forward.

What Is Vendor Invoice Management?

Vendor invoice management is used to manage accounts payable invoices from receipt to payment. In simpler terms, vendor invoice management is simply managing the process of paying your bills.
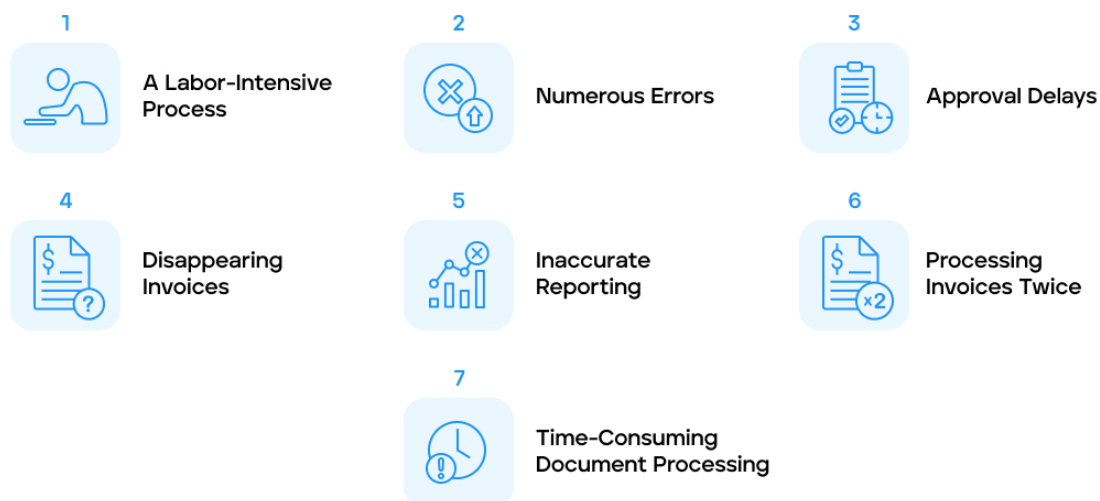
While the entire AP process has traditionally been a paper-laden industry with numerous processing delays, the use of a vendor management system helps mitigate some of the common issues found with invoice management including lost invoices, mis-routing invoices, and delayed invoice approvals.

What Are the Challenges of Traditional Invoice Management?

Invoice processing is something that impacts businesses of every size. If you only process a few invoices a month, your AP process is likely being adequately managed.

But for businesses that receive hundreds or even thousands of invoices monthly, challenges are abundant. Some of these challenges include:

What Are the Challenges of Traditional Invoice Management

1. A Labor-Intensive Process
2. Numerous Errors
3. Approval Delays
4. Disappearing Invoices
5. Inaccurate Reporting
6. Processing Invoices Twice
7. Time-Consuming Document Processing

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1. A Labor-Intensive Process

The traditional way of processing invoices consists of waiting until an invoice arrives in the mail, distributing the invoice to the proper department for processing, matching the invoices with purchase orders and shipping receipts, routing the invoices for approval from one or more managers, then entering the invoice information into a software application for payment.

But even after the checks are cut, the work is not yet complete.

Checks must be signed by one or more signers, envelopes need to be stuffed, and checks mailed.

2. Numerous Errors

Mistakes happen, no matter how careful we are. However, when AP is manually processed, the level of errors can reach unmanageable levels.

Even one simple mistake can result in a late payment, an overpayment, or no payment at all.

3. Approval Delays

Documents get lost. Unfortunately, the more places a document is routed to, the more likely it is to get lost or misplaced, resulting in late approvals, and ultimately, late payments.

4. Disappearing Invoices

If an invoice is routed to the wrong department upon receipt, you may not even it was received until you receive a late payment notice from your vendor or supplier.

5. Inaccurate Reporting

If your invoices aren't recorded in your accounting software application or on a spreadsheet of some sort, they aren't going to be included in your reports.

For example, if you receive an invoice on a Monday, and it doesn't get entered or recorded until the following Monday, any financial statements that you run for that entire week will inaccurately reflect your AP totals, your net income, and even your cash flow.

6. Processing Invoices Twice

Duplicate invoice processing can be the result of data entry errors or

entering an amendment to an invoice as a new invoice.

An amendment is an invoice that has been previously sent but has been adjusted to reflect an issue or an error that was found on the original invoice.

Without proper vendor invoice management in place, it's easy to enter the amended invoice into your software application without first deleting the original invoice, resulting in a duplicate payment.

7. **Time-consuming Document Processing**

Once an invoice has been processed, the AP department is still responsible for ensuring that all related AP documents are handled properly.

And if you're still using a manual AP processing system, that means attaching the invoice to the purchase order to the payment details and then filing that information.

What Are the Benefits of Vendor Invoice Management?

Properly managing vendor invoices helps to reduce the amount of labor hours needed to process an invoice.

Properly managing invoices also helps pinpoint and eliminate potential errors, while streamlining the entire invoice approval process.

Vendor invoice management also provides businesses with cash flow transparency, since all invoices are properly recorded in your accounting software application immediately upon receipt, resulting in a more proactive approach to spending and better cash management.

Finally, vendor invoice management helps strengthen vendor and supplier relationships by ensuring prompt, accurate payments are made.

What Is a Vendor Invoice Management System?

A vendor invoice management system is designed to eliminate tedious manual AP processes by providing the following options:

What Is a Vendor Invoice Management System

The Ability To Digitize Paper Invoices

Automated Three-Way Matching

Streamlines the Approval Process

Ensures Compliance

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· The Ability To Digitize Paper Invoices

Even if your business upgrades to an automated vendor invoice management system, it's likely that many of your vendors and suppliers will continue to mail you paper invoices.

With the proper invoice management system in place, you can quickly digitize those paper invoices, where they'll be automatically recorded in your software.

· Automated Three-Way Matching

A necessary but time-consuming part of the AP process is matching an invoice to a purchase order and shipping receipt.

A vendor invoice management system will complete this process automatically while flagging exceptions that may need additional follow-up.

- ## Streamlines the Approval Process

  Vendor invoice management systems provide automated invoice routing and approvals, eliminating approval delays that can lead to lost discounts and additional late fees.

- ## Ensures Compliance

  Pre-configured rules and user roles are easily implemented in a vendor invoice management system, providing an additional layer of security while helping businesses remain compliant.

What Is VIM and Its Relationship With SAP?

Open Text Vendor Invoice Management or VIM is designed to work with SAP applications to streamline the entire invoicing process for vendors, suppliers, and their customers.

For buyers, VIM streamlines the entire ordering process and simplifies product receipt and sales orders for vendors.

The application also automates the entire AP process, including monitoring and routing incoming invoices, while actively working to ensure on-time vendor payments.

VIM also captures and extracts invoice data, optimizes approval workflows, and automates the entire invoice routing process.

What Is the Difference Between VIM and AP Automation Software?

The biggest difference between VIM and AP automation software is that VIM is designed to work exclusively with SAP applications rather than as an add-on that can integrate with other accounting software applications.

In turn, AP automation software is designed to integrate with several popular accounting software applications such as QuickBooks, Xero, and Sage software solutions.

While not every invoice management application offers AP automation, any AP automation system you purchase should always include some level of vendor invoice management capability, or the software isn't truly automated.

What Is the Difference Between the Vendor Invoice Management System and the Vendor Invoice Tracking System?

Both vendor invoice management systems and vendor invoice tracking systems are designed to manage invoices from receipt to payment.

However, a vendor invoice management system also captures invoice data automatically from vendor and supplier invoices, scanning the invoice image, where it is immediately routed for further processing and approval.

Though both systems will shave off significant labor hours, a vendor invoice management system is generally a more robust application offering additional features.

Invoice tracking isn't always for accounts payable but can also be used for accounts receivable, tracking invoices from creation to customer payment.

The bottom line is that whether you're sending or receiving invoices, it's a good idea to have a system in place to track invoice movement from creation to receipt to payment.
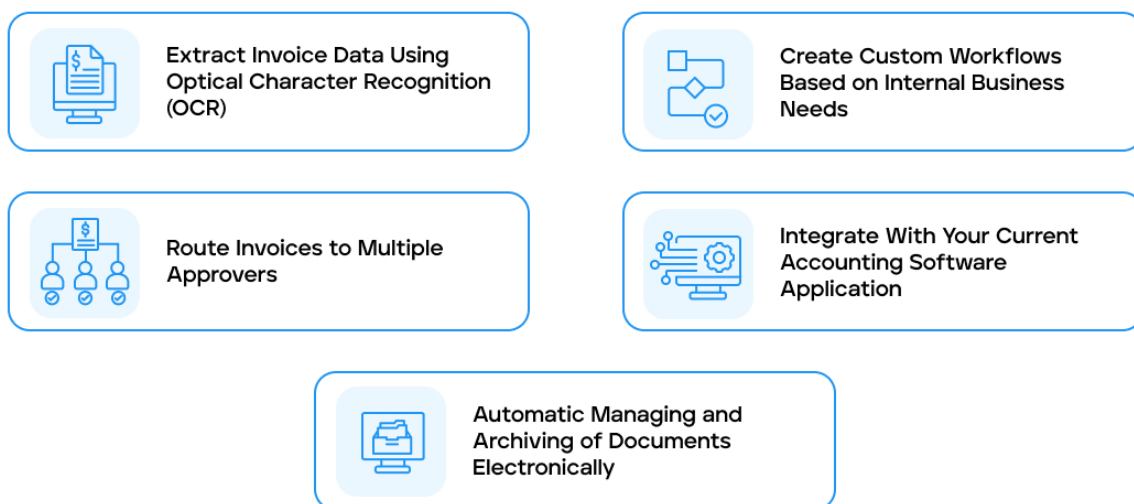
5 Tools To Help Manage Invoice Processing

If you're ready to move on from time-consuming manual processes, there are numerous tools on the market today designed to help simplify invoice processing and the entire AP process.

Some tools focus on data extraction and workflow management while others provide a more complete solution focused on AP.

The following is a list of some of the features that should be included in any invoice management software application you purchase.

5 Tools To Help Manage Invoice Processing

Extract Invoice Data Using Optical Character Recognition (OCR)

Create Custom Workflows Based on Internal Business Needs

Route Invoices to Multiple Approvers

Integrate With Your Current Accounting Software Application

Automatic Managing and Archiving of Documents Electronically

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- The ability to scan and extract invoice data into the application using optical character recognition or OCR
- The ability to create custom workflows based on internal business needs
- The option to route invoices to multiple approvers
- The ability to integrate with your current accounting software application
- Automatic managing and archiving of documents electronically

In addition to the above, automated three-way matching of invoices, purchase orders, and shipping receipts is also a valuable feature to have.

The following are some of the best invoice management/invoice automation tools on the market today, though each varies in functionality.

◼ Some of the Best Invoice Management/Invoice Automation Tools on the Market Today

Planergy
Vendor Invoice Management (VIM) for SAP
Mineral Tree TotalAP
Tipalti
Stampli

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For a complete AP automation procure-to-pay option, be sure to check out PLANERGY, which eliminates manual processes by automating both purchasing and invoice management processes.

PLANERGY uses OCR technology along with machine learning to automate three-way matching, offers customizable invoice approvals and workflows designed for your business, provides real-time budget tracking, and tracks committed spending before an invoice is even received.

In addition, PLANERGY offers users the ability to accurately accrue AP data from initial order to month-end closing so all financial reports are accurate and available in real-time.

▪ Vendor Invoice Management (VIM) for SAP

OpenText Vendor Invoice Management (VIM) for SAP Solutions is designed to streamline both procure-to-pay and order-to-cash operations for SAP users.

VIM enters and extracts documents from any source by automating the entire extraction process while providing custom workflow options.

VIM also automates invoice routing approvals and generates real-time reports with users able to drill down on each line item.

Mineral Tree TotalAP

Mineral Tree's TotalAP automates the entire invoice management process by providing easy invoice capture, automated invoice approval, and payment authorization.

Designed to integrate with numerous accounting software applications, TotalAP includes automated two or three-way matching, and the ability to optimize payments by paying vendors or suppliers using their preferred payment method.

Tipalti

Tipalti shifts the responsibility of entering invoice data to your vendors and suppliers by including a portal where invoice information can be entered.

In addition to the portal, Tipalti also includes OCR capability where AP staff can scan and capture invoice data.

A built-in approvals system makes sure that invoices get automatically routed to the right approver, and upfront payment scheduling eliminates the need to schedule payments at the last minute.

Stampli

Stampli offers excellent integration with most ERP or accounting software programs.

The application automatically captures invoice data from scanned invoices, provides automated two-way or three-way matching capability, and offers automated workflows such as invoice approvals and payments.

In addition, Stampli offers excellent vendor management capability, providing vendor onboarding options.

Why Is AP Automation and Vendor Invoice Management Important for Your Business?

The best management solution even small business owners can make is to upgrade to an automated AP system. Doing so eliminates time-consuming tasks such as three-way matching and data entry, allowing AP staff to spend their time on more important tasks.

But for larger companies, AP automation isn't an option – for their accounts payable team, it's a must.

Spending hours on end managing accounts payable processes manually costs businesses both money and time and often has catastrophic results including payment errors and even fraud.

Automating the entire AP process from purchase order to payment allows businesses to capitalize on early payment discounts offered, decrease the incidence of fraud, and increase AP efficiency.

AP automation also helps preserve valuable vendor and supplier relationships, provides better cash flow management capability, and provides users with accurate, real-time reporting options that allow you to strategically manage your cash flow.

With numerous options available, there's no good reason to not make AP automation part of your company's future.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

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- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stoping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

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2. Download our guide "Preparing Your AP Department For The Future"

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