

THE ESSENTIAL GUIDE TO

Accounts Payable Automation for Restaurants

Executive Summary

Accounts Payable (AP) in any industry can be challenging and costly to manage. On average, it costs \$10 and takes 8 days to process a single invoice, according to research and advisory firm Ardent Partners.¹ The process — which includes, but is not limited to, receiving, processing, and paying invoices — is time-consuming, inefficient, and highly vulnerable to error. This is particularly true in the restaurant industry, where even modest operations require multiple vendors and multifaceted supply chains with minimal resources dedicated to financial operations.

In restaurants, the AP process can be disorganized and disjointed, with numerous touchpoints divided across kitchen staff, management, ownership, and outsourced accountants. This not only adds to the cost of AP processes but also increases the likelihood of overlooking billing and data entry errors. In fact, an analysis of 11,000 restaurant invoices found at least one overcharge 35% of the time.² That's quite a jump from the 23% of errors and exceptions found in invoices across all industries. Additionally, the cost of key ingredients, from meat to fish to vegetables, can vary widely day-to-day depending on market prices, availability, or seasonality. This makes it extremely difficult to audit invoices for vendor inaccuracies, let alone closely control your COGS.

Despite the advent of digital technology, approximately three-quarters of all invoices require some human interaction to process.¹ Why? Paper!

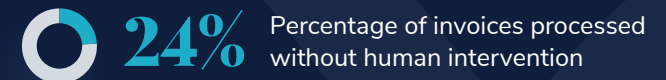
\$10.08 Cost to process a single invoice

8.3 days Time to process a single invoice

1. The State of ePayables 2019: Driving Value in the Age of Intelligence, Ardent Partners 2019 - FULL REPORT
2. FSR Magazine

Common Challenges for Restaurant AP Teams:

- Paper invoices subject to loss or damage
- Paper invoices expensive to transport, store, and access
- Time-consuming for in-store employees to manage
- Lack of streamlined approval workflows
- Lack of visibility into line-item details, like units of measurement and price fluctuations
- Lack of visibility into invoice and payment data
- Difficult to track vendor credits/returns
- Handwritten adjustments on invoices
- Reconciling vendor statements against invoices



Executive Summary (cont.)

Much of the AP process in the restaurant industry is still paper-based, requiring physical shipment, storage, and manual data entry — compounding time and expense. This also leads to lost, missing, or damaged invoices and potentially unqualified employees keying sensitive financial information into accounting software and/or antiquated spreadsheets.

That's the problem. The solution? AP automation software that's specifically built to satisfy the needs and nuances of the restaurant industry. Today's most savvy restaurant operators are saving time, minimizing costs, and getting unprecedented visibility into one of the most critical components of their profitability: food costs. Thanks to innovations in machine learning, the advent of mobile and cloud computing, and an influx of investment in hospitality technology, AP automation for restaurants is affordable, easy to implement, and here to stay.

We recognize that change can be hard and new technologies can often leave operators with more questions than answers: What exactly does the software do? How do I know it will work for my restaurants? How will I know which solution is best for my business? How will I be able to measure the return on my investment? Let this be your guide.

If you're ready to save time, improve margins, and use your own data as a strategic advantage, then keep reading. In the following pages, we'll take a deep dive into AP automation for restaurants, provide detailed questionnaires for potential vendors, and offer checklists that'll give you peace of mind in finding the right partner for such a vital part of your business.

Common Goals for Introducing AP Automation into Restaurants:

- ✗ Eliminate paper and reduce manual tasks
- ↓ Reduce invoice processing costs
- ↓ Minimize manual entry mistakes
- ↑ Improve financial reporting and analytics
- ↑ Improve visibility and collaboration between finance and operations
- 👁️ Audit vendor agreements and negotiate pricing
- 👁️ Monitor ingredient-level price fluctuations
- ↑ Improve procurement practices
- ↑ Improve oversight of payment approvals
- ↑ Improve access to invoices via cloud storage
- ✗ Eliminate need to update pricing of line items
- ✗ Eliminate coding

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Accounts Payable 101

Receive. Process. Pay. Sounds simple, right?
Well, it's hardly that easy.

AP is the process of receiving invoices from vendors, assigning General Ledger (GL) codes, entering them in your system, paying vendors, reconciling errors or exceptions, and managing all of the documents that accumulate in the process.

The process is particularly unique in restaurants, where many different employees collect invoices, spoiled food leads to frequent vendor credits and exceptions, and manual data entry leads to costly errors.



1. Invoice Capture

The basics

Invoice capture is the process of receiving goods and their corresponding invoices from vendors.

Unique challenges for restaurants

Paper

In restaurants, paper invoices are easily lost, wet, stained, or otherwise damaged because they're subject to the hustle and bustle of a kitchen.

Staff

In some corporate business settings, vendors typically send invoices electronically or through traditional mail. However, in restaurants, invoices often accompany the delivery and are handed to whichever employee accepts them — from the brand-new busboy to the busy cook in the middle of prep.

Accounting anomalies

Food costs for restaurants can add up quickly, and accounting holds the truth of what's actually been spent. Often, there are anomalies or one-off circumstances that make it difficult to calculate food costs accurately, like a server running across the street for emergency olive oil or a case of tomatoes that arrives rotten from the vendor. Tracking those unexpected scenarios can be challenging.



2. Invoice Coding

The basics

Invoice coding is the process of assigning a specific cost category, or GL code, to each expense. This helps business owners know where their money is going and monitor how expenses trend over time.

Unique challenges for restaurants

Time-consuming, error-prone process

For most restaurants, coding invoices one-by-one — let alone line-by-line — is an arduous manual process and, as a result, is vulnerable to incorrect coding and calculations.

Generic coding

Since many operators don't have the time or resources necessary to code at a specific, line-item level, many simply use lump-sum categories like "Food and Beverage." As a result, it's difficult to hone in on which items could be driving an increased spend.



Food for Thought

Food and beverage purchases are just the beginning. It's important to note all of the additional invoices that must be captured and processed, like maintenance, cleaning supplies, utilities, linens, marketing expenses, music, decor, and other must-have items for restaurant operations.



3. Invoice Payments

The basics

In exchange for goods and services, payments are made to vendors through traditional checks, automatic clearing houses (ACH), credit card payments, or virtual card payments.

Unique challenges for restaurants

Costly administration

Issuing paper-based payments gets costly as the price of stamps, paper, and envelopes can add up quickly.

Too many cooks in the kitchen

When multiple people are responsible for processing and paying bills, it can be difficult to know the status of an invoice or a payment, leading to duplicate payments or missed due dates.

Vulnerability to fraud

Without sufficient visibility into what's been purchased and paid out, chefs or managers might succumb to the temptation to take advantage of unsuspecting owners. That fraud could come in the form of ghost employees, fraudulent or non-existent vendors, or diversion of funds to personal accounts.



4. Data Entry

The basics

Manual data entry is a process where an employee enters information from paper invoices into an accounting system or spreadsheet.

Unique challenges for restaurants

Errors, errors, errors

We're only human: Even the most diligent AP clerks are not immune to errors, and chefs and managers are likely to make data entry mistakes after long shifts full of other tasks. Inaccurate data leads to more work and more headaches for all involved in AP management.

Time and labor

Manual data entry takes time, and time is money. What's worse, the lag time from manual data entry also makes it more difficult to use data to monitor performance and take quick corrective action.



5. Reconciliation

The basics

Reconciliation is the process of comparing two sets of financial records to ensure accuracy. Most vendors deliver periodic statements giving an overview of invoices, payments, and credits applied to a business over a specific period of time. Those statements can allow restaurant operators and bookkeepers to spot and correct any discrepancies.

Unique challenges for restaurants

Vendor credits add complexity

Spoiled, spilled, or missing items make vendor credits a regular occurrence in restaurants. Those credits, often quickly written in the margins of invoices, are notoriously difficult to track.

Cross-examining statements

Just because a vendor sent you a statement doesn't mean it's accurate. Vendors face many of the same complexities around tracking spoiled, spilled, or missing products that restaurants do. In some cases, vendors may intentionally hope that restaurant operators don't notice credits that are due to them.

Chef or manager fraud

Since bonuses are derived from the amount of profit a restaurant creates, some chefs and managers may hold invoices until the following accounting period to beef up their numbers and increase their chance at extra cash. This prevents business operators from getting accurate and of-the-moment insight into their financials.



6. Document Management

The basics

Document management is the process of storing and cataloging physical paper invoices, receipts, and vendor statements connected to your AP processes.

Unique challenges for restaurants

Shipping paper invoices is costly

The price to send invoices from a restaurant location to another location predetermined for storage adds up quickly.

Paper storage is cumbersome

Either your paper will take up valuable space in your kitchen or back office, or you'll pay high fees for a third-party service to store it for you. Both are less than optimal.

Lack of access for multi-unit operations

For restaurants with more than one location, each unit usually submits invoices to one central location for accounting. Individual locations are then left without immediate access to their important, unit-specific information.

AP Automation to the Rescue

AP automation streamlines the receipt, processing, and payment of invoices. It removes the need for manual, error-prone, paper-driven processes and brings accurate invoice capture and data analysis within reach.

Systems for AP management can digitize stacks of invoices in one batch upload. They code invoices with artificial intelligence and machine learning, identify exceptions, and easily sync accurate information into your accounting systems — with minimal need for human intervention. It all leads to a painless process where you can access invoices from anywhere, quickly reconcile vendor issues, and analyze data in real time.

Here's a breakdown of the AP automation process:

Digitize

Ditch the paper. Scrap the spreadsheet. Digitize your invoices so they can be cataloged electronically and become easily accessible to anyone in your organization, wherever they may be. With today's technology, digitizing invoices is easier than ever.

4 ways to digitize invoices:

- Snap a photo on your mobile device
- Scan a week's worth of invoices at once for a batch upload
- Send invoices via email for digitization
- Utilize electronic data interchange (EDI) to feed invoices directly from vendors into your GL

Automate

Save time by automating the otherwise monotonous GL coding process. Apply GL codes to an item once, and an AP automation system will recognize them accurately for future invoices. Say goodbye to manual tasks and hello to detailed data!

Pro Tip:

Utilize automation to make invoice review and approval easy. An automated system can give managers notice of how purchases are being coded and alert them of any changes. For example, if a chef starts coding limes as a bar expense to cut food costs, management will know immediately because the manager was notified there was a change to the assigned code.

Restaurant operators are not happy with their current accounting systems

Only **24%** of restaurant operators believe their current accounting systems are meeting their needs.³ Not exactly a vote of confidence. Here are their top frustrations:



3. Hospitality Technology's 2019 Restaurant Technology Study, Hospitality Technology

Integrate

Easily deliver your accurate, line-item, or GL-level data to your accounting system and any other restaurant management platforms you might use. Such integration allows chefs and managers to see COGS in real time, empowering them to make data-driven decisions on the fly. They'll immediately know if plate costs have gotten too high and can adjust accordingly.

Pro Tip:

Choose an AP automation solution that offers an integration with the POS you're already using so you aren't upending all operational processes at once. This will also help you get the COGS data you need more quickly.

Analyze

Today's tech tools allow you to gather more data than ever before. AP automation solutions slice-and-dice your data, empowering you to track, compare, and control your food costs while closely monitoring ingredient price fluctuations.

Back of house metrics that a restaurant can analyze with AP automation include:

- Cost of goods sold (COGS)
- Fluctuations in ingredient prices
- Costs across locations
- Changes to item prices by vendor



How is machine learning applied to AP?

Machine learning harnesses computer programming to improve processes over time, especially when working on similar use cases. In a restaurant setting for AP, that means digitizing invoices through optical character recognition (OCR), extracting their line-item data, then entering that data into accounting systems. The best AP management systems pay close attention to units of measurement, pack sizes, and unit prices to ensure that data entered is accurate. Machine learning picks up on how specific invoices are coded, and can handle those processes faster and even more accurately over time.

What is OCR?

Optical character recognition (OCR) op-ti-cal char-ac-ter rec-og-ni-tion

Definition: an advanced technology that converts different types of documents, like PDF files, scanned paper documents, or images of text captured by a digital camera into editable, searchable data.

Reconcile

When exceptions are the rule, reconciliation is key. With products that spoil, spill, or are missing from orders, restaurant operators must be diligent about comparing invoices and invoice totals to find errors and omissions. Automation simplifies that reconciliation process by making fast, accurate comparisons so the proper vendor credits are in place.

Hunting for errors

Though AP automation can dramatically reduce the number of errors, you should still take the time to make sure all of the data is coded correctly to ensure accurate reporting. Root out errors during reconciliation to ensure the software is learning the correct way to code.

Document Management

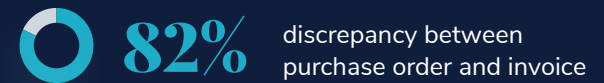
AP automation makes paper processing obsolete. Once invoices are scanned, there's no need to store them in filing cabinets, cram them in a tiny back office, ship them from one location to another, or pay for physical storage.

Shred the paper, gain efficiency

Advantages to digital document management include:

- Ability to access invoices from anywhere with any internet-enabled device
- Integration with third-party systems, like accounting software
- Transforming a non-searchable image of a document into a search-supported OCR document that's far more useful

Top Causes of Invoice Exceptions¹



What AP Automation Isn't

Beware! Some solutions are attempting to pass off as AP automation, even though they're incomplete and ineffective. How can you ensure that you're investing in the right AP automation tool? Look out for these red flags.

AP Automation Isn't:



Crowdsourced labor

Some systems utilize on-demand staffing platforms in order to automate invoices. But crowdsourced labor can pose a huge security risk for your restaurant. You have no insight into who is actually touching your data, what their training is, or if they're working with your competition. Plus, if you wind up automating more invoices than you expected, there's no guarantee that the crowdsourced labor will be able to meet the increased demand.

Make sure to vet potential solutions to understand who is going to see and touch your financial data and the exact steps for processing that information. Best-in-class tools hire dedicated, in-house teams that are specifically trained to automate invoices to guarantee the best possible output.



Hosting on Dropbox or Google Drive

Saving images of invoices to Dropbox or Google Drive doesn't actually automate anything. In many cases, the invoices will still need to be downloaded, printed, manually coded, then keyed into your accounting system.



Slow turnaround times

A worthy AP automation system needs to code invoices fast so you can make data-driven decisions in real time. The restaurant industry standard is less than 24 hours.

The spreadsheet struggle

Using digital spreadsheets like Microsoft Excel or Google Sheets to manage your back office data? You're not alone. Hospitality Technology's 2019 Restaurant Technology Study reveals that 60% of restaurant operators are using Excel as the primary system for core financial operations.

"Instead of using an automated solution, Excel tends to make accounting manual and inefficient as it was not built to handle the complexities inherent in the restaurant business landscape," according to the study.

AP Automation Also Isn't:



Using multiple tools

Stringing together Excel spreadsheets, accounting systems, and other tech tools won't deliver the same results that a real AP automation system will. More than half of all restaurant operators use three or more vendor systems to run their back office operations, and approximately a quarter have five or more vendors.³ Does that sound efficient?



Lack of detail

Broad, high-level GL codes that don't go into enough detail won't empower you to make the most of your data and analysis — and it'll hide specific price fluctuations.



A restaurant-specific accounting system

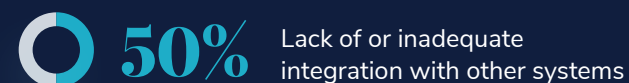
A digital accounting system that's tailored to restaurants could be great for your business, but it's not AP automation. Even with restaurant-specific accounting systems, you'll still have to manually enter your data and analyze it yourself.



Vendor access to accounting systems

Giving vendors access to your AP processes doesn't mean they'll be able or willing to help you resolve exceptions, credits, and overcharges. Plus, you could be exposing sensitive, private data to people outside the company — which could lead to a data breach.

Top frustrations with Excel:



Is AP Automation Right for You?

AP automation gives you a significant edge over the competition. In fact, Ardent Partners found that top-performing AP teams are paying nearly six times less to process invoices, while doing it three times faster.¹ They've found ways to push invoice exception rates down by 57% — all while having 65% of their invoices processed without any human interaction.

Best-in-Class AP Teams vs. All Others¹

	Best in Class	All Others
Cost to process a single invoice	\$2.18	\$12.60
Days to process a single invoice	2.9	10.8
Invoice exception rate	10%	23%
Percentage of invoices processed without human interaction	65%	19%
Percentage of suppliers that submit invoices electronically	49%	16%

"There's a million and one things to do when you run a restaurant. Not having to spend several hours a week managing paperwork is a game-changer and allows me to focus on the other million things."

**– Brian Kelly,
CEO of Kobeyaki**

How to Choose the Right AP Automation Tool

Ready to find the perfect tool for your business?

Use this checklist to vet the capabilities of an AP management solution.



General

- Quick turnaround times (24 hours or less)
- Integrates with top POS systems
- Easy access to invoices anywhere, at any time
- Makes budgeting and forecasting easy with dashboards and charts



Invoice Capture

- Supports invoice upload through photo submission
- Supports batch upload of invoices
- Supports EDI from vendors
- Ability to track exceptions and one-off purchases



Coding

- Coding requires little human interaction
- Track detailed GL codes
- Considers units of measurement
- Coding is far more accurate



Input

- Eliminates need for routine manual data entry
- Protects valuable data by not exposing it to high turnover employees



Payment

- Supports electronic payment processing
- Gives key stakeholders visibility into outgoing payments



Reconciliations

- Easier to find vendor statements
- Offers visualized analysis through dashboards and charts
- Simplifies visibility into vendor credits
- Helps you identify fraud by tracking vendor exceptions
- Supports vendor negotiations



Document Management

- Allows you to stop storing paper documents completely

4 Other Questions to Ask a Potential Vendor

1. How can your solution be personalized to fit the specific needs of my business?
2. How quickly will you fix errors or handle other problems?
3. Given my restaurant's invoice volume, how does this affect pricing? Is your pricing feature-and-functionality based?
4. Can you get images in and out of the system easily in the event of an audit or other issue?

How to Measure Success

Once you have implemented AP automation at your restaurant, use this checklist to ensure you've found the right solution for ongoing success.



You saved time

Invoices are being approved faster

Invoice data is coded and entered into your system within 24 hours

Chefs and managers can focus on their core tasks

Data analysis has been simplified from drafting spreadsheet reports to exploring charts and dashboards



You innovated

You analyze COGS to eliminate menu items that are low on margin

You utilize data to create new, profitable menu items

You reduced the amount of sensitive data exposure

You have a better understanding of how fluctuating prices impact your business over time

Your accounting, kitchen staff, and management teams are aligned on business goals and objectives

You're determining which vendors are trustworthy and properly and promptly rectifying exceptions



You saved money

Analyzing real-time data is part of your everyday workflow

Errors from manual coding and data entry have been eliminated

Errors from vendors are caught easily

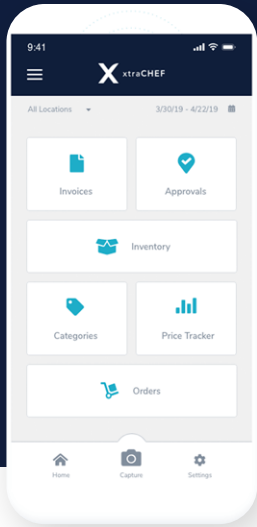
You're no longer spending money on sending invoices and payments via mail

You're freed from paying for paper invoice storage

Exceptions are tracked and fixed quickly

You're empowered to make better deals with vendors

Your restaurant is less susceptible to fraud



Using xtraCHEF for AP Automation

xtraCHEF modernizes the complex AP automation process for restaurants. Combining machine learning and optical character recognition, xtraCHEF saves restaurants time and money and empowers operators to make data-driven decisions with ease.

Contact

xtrachef.com
347.549.4349
info@xtrachef.com



Easy digitization

Uploading invoices is as easy as snapping and submitting a photo. If you're running a backlog, xtraCHEF also supports batch uploads and scans.



Finally, you can go paperless.

Once you digitize invoices, ditch the paper for good. No more illegible notes in the margins; no more physical storage payments.



Accuracy

Digitizing invoices reduces the human touch in your AP processes, keeping your data much more accurate than it would through manual entry. xtraCHEF offers unparalleled accuracy through our best-in-class technology.



Security you can trust

xtraCHEF has a dedicated team for invoice automation, trained to have an eye on the details that matter most. We also support permissions to prevent specific employees from seeing or changing sensitive data, and allow others to review and approve exceptions.



Coding made easy with AI

Our machine learning technology codes invoices so you don't have to. Code invoices once, and xtraCHEF's AI will continue to code from there.



Search in a snap

No more sorting through stained paper to find the information you need. xtraCHEF makes your invoices searchable with OCR.



Make data-driven decisions

With automatically generated charts and graphs, restaurant operators can visualize their data in a variety of ways and make strategic decisions that save money and drive revenue.