



White Paper

SMARTER INVOICE PROCESSING FOR SMES:

How AI Is Transforming SME Finance
Operations

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TABLE OF CONTENTS

1. Executive Summary	03
2. Manual Invoice Processing: Top 10 challenges	04
3. AI Invoice Automation Explained	06
4. DeepKnit AI's AI-powered Invoice Processing Workflow	07
5. Technologies in AI Invoice Processing	08
6. AI-powered Invoice Processing Workflow Explained	10
7. Advantages of Smart Invoice Automation	12
8. Things to Consider before AI Implementation	14
9. Evaluating AI-powered Invoice Automation Solutions	16
10. Conclusion	18
11. References	19



EXECUTIVE SUMMARY

Invoice and expense processing has always been one of the most repetitive, time-consuming and error-prone processes for many small or mid-sized enterprises (SMEs). It is common knowledge that the traditional paper-based invoicing system is not just slow but also a lot messy. You might have also tried a combination of online tools like spreadsheets and other document management systems to reduce the time staff spend on data entry and also to tackle certain specific pain-points.

There is a common belief that the software solutions for accounts payable are traditionally built only for larger enterprises. However, if your business belongs to the SME sector, pegged at an annual revenue between \$1 million and \$100 million, AI-powered invoice processing tools such as DeepKnit AI Agent for finance would not only reduce the time taken for data entry but would also give you the benefits of streamlining approvals, and real-time access to transactional data, among others.

According to a report by Exploding Topics, 78% of global companies currently use AI, and 82% of global companies are either using or exploring the use of AI in their organization.

This latest white paper by DeepKnit AI explores the inefficiencies created by traditional manual and paper-based invoice processing, AI technologies enabling smarter invoice workflows, benefits of AI-based invoice processing, case studies, things to consider while employing AI-based tools for invoice processing, and how to evaluate AI-powered invoice automation solutions.

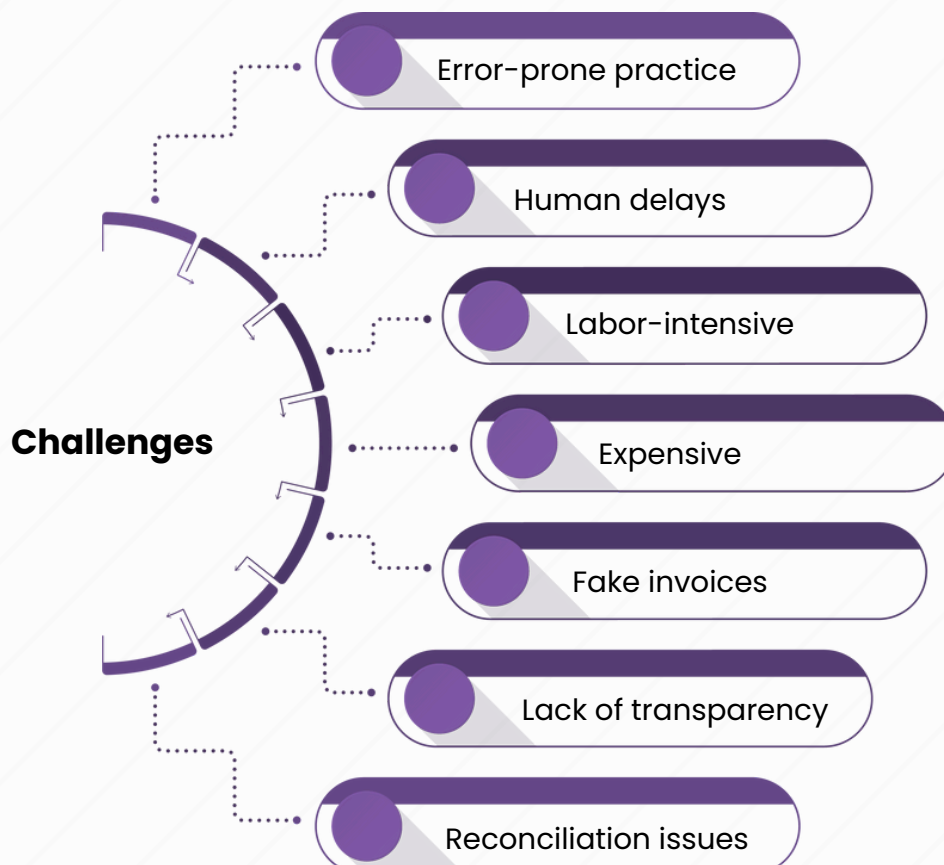


MANUAL INVOICE PROCESSING: TOP 10 CHALLENGES

Documents are generated at every stage of a business, be it contracts, quotations, invoices, receipts and many more, and invoices are by far the most used commercial document. They are also the most challenging documents for an enterprise irrespective of its size.

According to a study, about 86% of SMEs depend on manual invoice processing. Another report by Levvel Research, says that it costs about \$15 and 45 days for a single invoice to be processed manually, compared to around \$2.36 and 5 days when automated. Besides, about 79% SMEs have mentioned inefficient manual workflow as a major bottleneck, while 61% cite manual routing delays, and 48% state missing invoices as top pain-points. From supplier to the organization, everyone comes across multiple challenges during manual invoice processing.

The following are the top 7 challenges faced by SMEs relying on manual invoicing:



1. **Error-prone practice:** Manual invoices are received through different channels like traditional snail mail, email, fax, courier and others, and managing these multiple channels can be quite challenging. This is also when most invoices get misplaced or go missing, making it the earliest stage where errors begin. This could lead to faults in the rest of the process.
2. **Human delays:** Manual invoicing involves many steps and people. The involvement of humans can lead to unnecessary delays like slower processing, delays due to the absence of a particular person involved, and the like. All this makes manual invoicing inherently slow.
3. **Labor-intensive:** As mentioned before, manual invoice processing involves a lot of stages, human resources, and documentation, making the invoice journey quite lengthy and slower. This results in delays in approval, recording and payment, making the process inefficient.
4. **Expensive:** All the above-mentioned reasons also make manual invoicing quite expensive including the cost of material involved. And this cost can go further up depending on the size and volume of the business.
5. **Misplaced/Duplicate/Fake invoices:** As mentioned before, manual invoices come through different channels, and because of its lengthy and multi-stage procedure, the process often suffers from many problems like invoices getting misplaced or getting lost before capturing them in a system, or even during the process. There are also cases of invoices getting duplicated or fake invoices making it through the system, resulting in monetary losses.
6. **Lack of transparency:** Since manual invoicing operations are offline, they lack transparency, as it is difficult for all the concerned parties to have access to it in real time. This also leads to trust issues.
7. **Reconciliation issues:** As manual invoicing is an offline process, it is very difficult or nearly impossible to reconcile on time in case of any discrepancy. This can also lead to wrong tax declarations and ultimately financial losses and compliance issues.



AI INVOICE AUTOMATION EXPLAINED

While bigger enterprises have the luxury to insist on a standardized invoicing format or mandated use of a structured e-invoicing platform, this isn't the case with SMEs. The latter often receive invoices in different forms and formats like the traditional hard-copy, PDFs, spreadsheets, word documents or sometimes even in emails.

While automating the entire invoice process initially proved beneficial, the full potential of an automated process was not discovered until the introduction of artificial intelligence (AI). One of the major challenges faced by organizations was that while these invoices were received in different forms, they also came in different unstructured formats that used different numbering conventions, reference purchase order (PO) numbers in different ways, and vendor contact and address in different places of the document. Hence traditional automated invoicing systems found it difficult to capture the right data, and often required manual intervention to sort discrepancies. However, integrating AI tools such as DeepKnit AI Agents with automation solves this challenge.

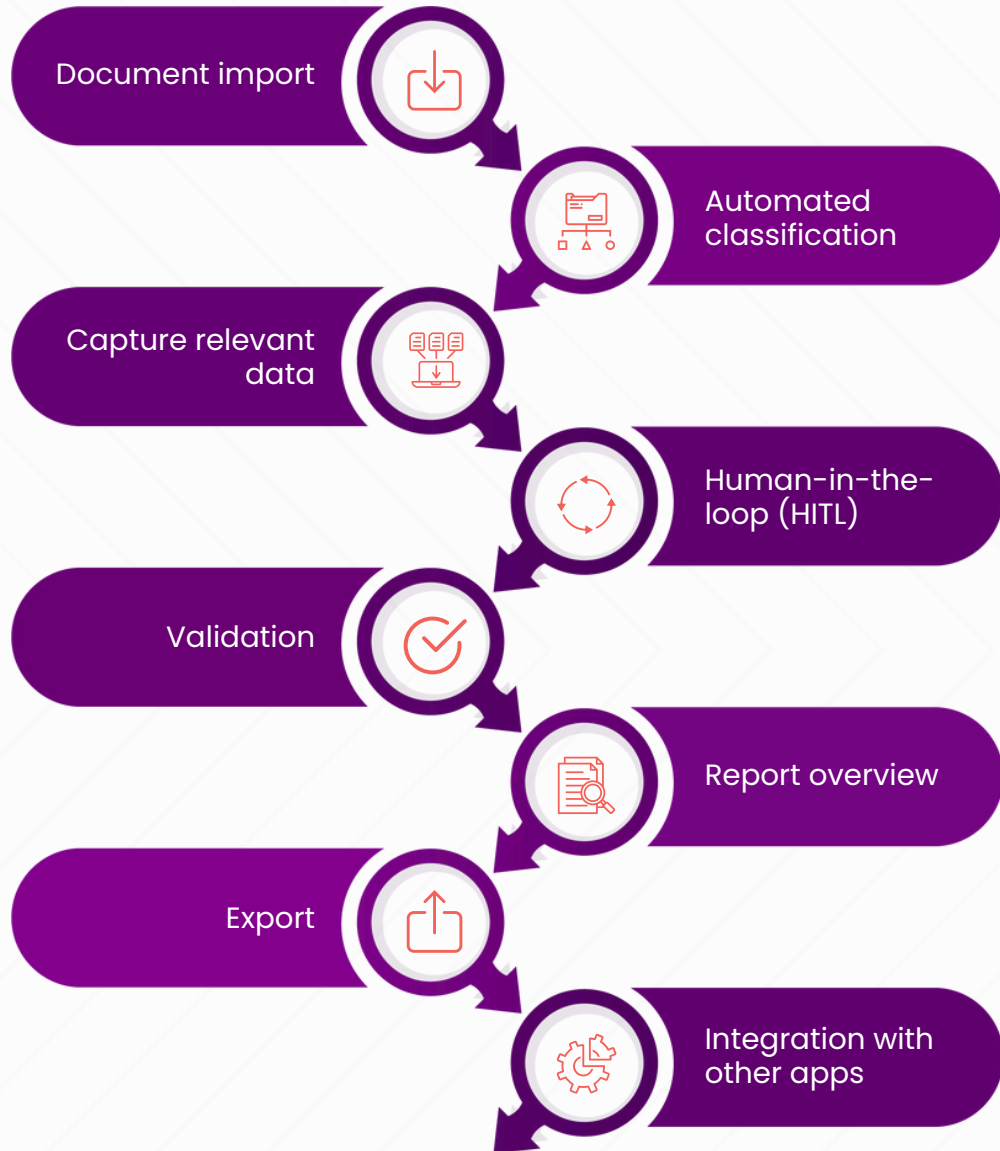
Automating invoice process using AI means to make use of advanced technology to automate and streamline the multiple stages of the process, while eliminating the need for human intervention at every stage unless necessary.

The four main technologies employed for AI invoice processing include robotic process automation, optical character recognition (OCR), machine learning (ML) and natural language processing (NLP). All of these technologies work in tandem to make every stage of invoicing easier, from data capture and extraction, verification and validation, to error detection and payment integration.

AI-enabled invoice processing is not just about digitizing documents but about making your entire invoice process smarter and more efficient. Enterprises can make use of AI-powered automation for their entire invoicing to reduce processing time, cost and errors, resulting in smoother financial operations and better resource allocation.



DEEPKNIT AI'S AI-POWERED INVOICE PROCESSING WORKFLOW





TECHNOLOGIES IN AI INVOICE PROCESSING

AI invoice processing makes use of a range of modern technologies to streamline the entire workflow and make the process smoother and efficient. These technologies make it possible for extracting the right data from individual invoices and routing it through the payment process and also applying predictive analysis to this data to estimate future outcomes.

The following are the four main technologies used in AI-powered invoice processing:

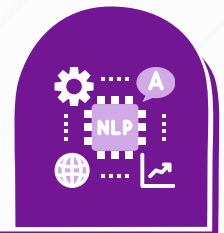


Optical Character Recognition (OCR)

Converts scanned invoices into machine-readable digital text.

Natural Language Processing (NLP)

Analyzes and interprets invoice text for context.



Machine Learning (ML)

Automates learning patterns for improved invoice classification.

Robotic Process Automation (RPA)

Handles repetitive tasks in invoice data workflows.



- **Optical Character Recognition (OCR)**

OCR enables AI to read texts on an invoice, even if the document is handwritten, PDF or a scanned image. It uses advanced algorithms to capture all the relevant data from an invoice like invoice number, vendor name and contact, names and dates. This data is then processed by ML models for accuracy and discrepancy, entries validated and data organized into the relevant sections of accounting software or enterprise resource planning (ERP) systems, facilitating automated invoice handling with little need for human involvement.

- **Machine Learning (ML)**

ML algorithms help AI-enabled invoice processing systems to continuously learn from previous invoice data captured by OCR to improve the accuracy of identifying relevant data. ML algorithms can easily identify patterns, differentiate between and adapt to different invoice formats, and make accurate predictions for data extraction, validation and classification. This self-learning capability of ML reduces human intervention for verification over time and would also make the system scalable.

- **Natural Language Processing (NLP)**

NLP is what typically tells OCR what the captured text is. NLP is based on AI/ML algorithms that are trained to understand human language and communication patterns. This helps NLP to understand the relationship between texts within a document. This is what helps AI invoice processing systems to determine whether the alphabets captured by the OCR is the name of the vendor or the address or the numbers captured is date or the invoice number. NLP makes it possible for an AI-enabled invoice processing system to interpret different documents of different formats and writing styles effectively.

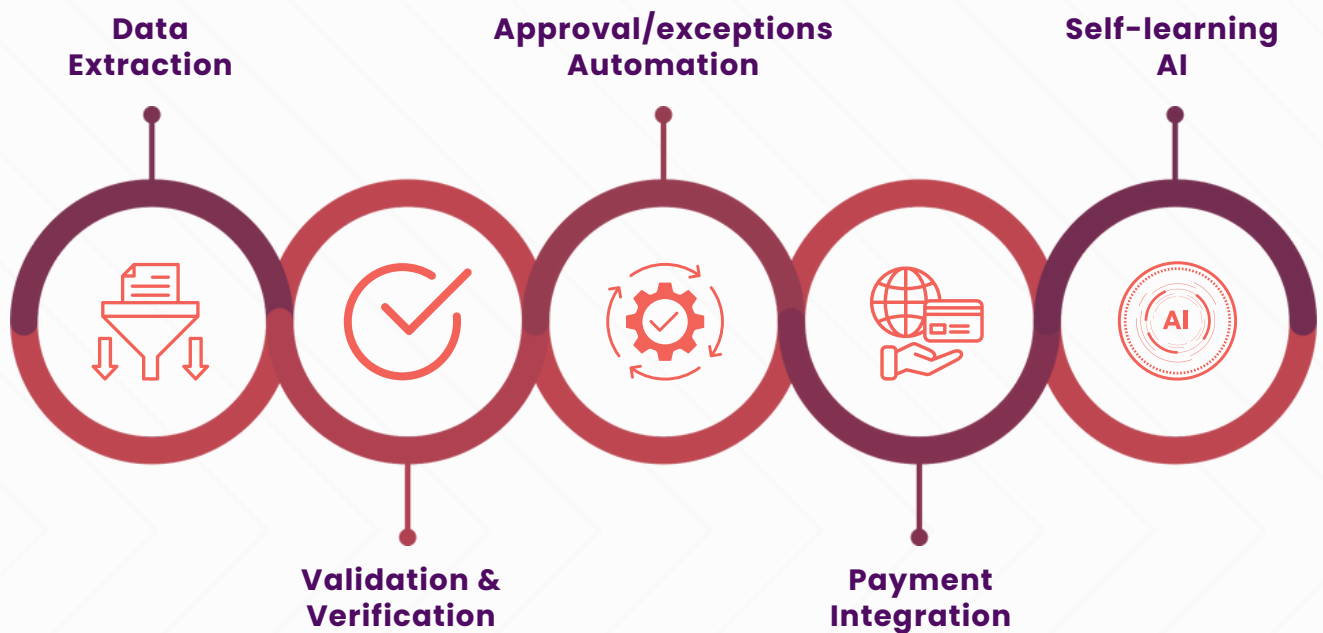
- **Robotic Process Automation (RPA)**

The role of RPA, or software bots, in invoice processing is to handle routine tasks like downloading invoice files like PDFs, or scanned images, or email attachments and filing them in a system. RPA can effectively connect the AI engine to legacy applications.



AI-POWERED INVOICE PROCESSING WORKFLOW EXPLAINED

AI-enabled invoice processing workflow is a sophisticated practice involving multiple technologies to automate and enhance the efficiency of the entire process. The following are the different steps involved in it:



- **Data extraction:** This is the first step involved in the process. The invoice could be in the format of a PDF, email attachment or scanned images. The AI system uses OCR to extract relevant data from the document even if they are hand-written or scanned, and convert them into machine-readable text. The ML algorithms are adept at learning patterns over time and hence gets better at understanding different formats and layouts of invoices. This means that the invoice needn't be in a standard format and yet the AI system can capture relevant data such as invoice number, vendor name and contact, amount due, due date and more from a vendor you have worked with before or a new one.
- **Validation & verification:** AI invoice processing system then validates and verifies the captured data by comparing it with predefined rules and existing databases to ensure that vendor details match up with a master list. It will also conduct date validation of the invoices, and detect duplicate invoices or any discrepancy like the invoice total not matching the purchase order, and flag these as potential errors or issues for review. Many businesses require the AI system to automate the process of two or three-way matching to ensure consistent checking against POs and receipts.

- **Automating approvals and exceptions:** After validation and verification, the invoice must then be sent for approval by the concerned people. It can also handle exceptions. For example, you can program the AI system to automatically approve invoices with an amount lesser than a specified limit (say \$700), and send only the rest to the concerned senior manager for approval. Also, instead of chasing people for approvals, AI systems can send invoices to the appropriate person, and also an email or an in-app notification prompting them to review and approve the invoice without needing to sift through paperwork or emails. This makes the entire approval process faster and less error-prone.
- **Payment integration:** An AI system can seamlessly integrate the invoice processing to the payment system of the company to initiate the payment process. AI can automate payments based on the due date or the terms of payment. This would ensure that the business pays invoices on time to avoid late fees or missed discounts. Also, AI keeps a record of every action it takes, and this helps with tracking payments, creating an audit trail for internal reviews or external compliance checks.
- **Self-learning AI:** AI invoice processing software comes trained in standard and pre-defined invoice templates, but they improve their efficiency over time as it is designed to learn from newer tasks they perform. AI invoice process will learn and retain the procedures flagged during data extraction and verifications of newer templates, and while they get routed through an exception-handling process. This helps in scaling the process as the enterprise keeps processing newer invoice templates as they grow.



ADVANTAGES OF SMART INVOICE AUTOMATION

Apart from improving the speed of the invoice processing, using AI automation also offers other benefits to an enterprise. Below are some of the common advantages:

- **Speeds up invoice processing workflow:** The most immediate and visible advantage of using AI automation for invoice processing is that it speeds up the entire process. Many studies have shown that the implementation of best-in-class AI automation to invoice processing can reduce its lifecycle time to an average of 3.4 days, compared to an average of 17.9 days for businesses without such a system.
- **Cost efficiency:** The average cost of processing a single invoice is about \$10.18, including labor charges, and cost of materials. This is excluding the expenses associated with costly rectifications, fines and lost discounts in case of any discrepancies detected. With AI automation taking care of much of the high-volume and labor-intensive process, while reducing errors, the cost for the same could be brought down to almost \$2.36 (almost 77%).
- **Error reduction:** Common human errors while processing invoices include misplacing decimal points, entering incorrect tax codes, transposing numbers etc. All these can lead to costly rectifications, incorrect payments, or even legal issues. All such errors can be significantly reduced with the implementation of AI automation.
- **Adherence to regulations:** The automated data validation and verification process offered by AI automation makes it easier for businesses to ensure that the policies related with accounts payable are adhered to by internal teams as well as vendors. It further makes it easier to integrate everything into financial systems for external regulatory compliance purposes because of the consistency of the system.
- **Improves Customer and Vendor relationships:** Invoice processing isn't limited to the accounts team; it's crucial for maintaining strong customer and vendor relationships. Delays or errors in payments can strain these connections, while AI helps by enabling timely and accurate invoice handling.

- **Enables real-time analysis:** In traditional manual invoice processing, analysis comes after the process is complete, and is also a time-consuming task with hours or days needed for people to sift through processed data. This often leads to missed opportunities, delayed decisions and actions. However, with AI automation automatically capturing and extracting invoice data and routing that information into financial systems, the amount of real-time information that can be used by financial analytics increases significantly.
- **Real-time fraud detection and prevention:** Early fraud detection is a major advantage of AI-powered invoice processing systems. Discrepancies like duplicate invoice, inconsistent vendor details, or unusual payments or patterns can be detected by these systems in real time during data validation and verification, and this helps companies mitigate risks, reduce financial losses, and maintain the integrity of their invoicing systems.
- **Seamless integration with legacy systems:** One of the major problems faced while automating the invoice process is integrating the new system into existing invoice and accounting systems or Enterprise Resource Planning (ERP) platforms. Manually transferring data from one system to another may lead to missing information or discrepancies. However, AI-powered invoice processing systems can seamlessly integrate with legacy systems with minimal human intervention as it can automatically transfer data between systems and detect anomalies and flag it for revision or correction in real time.
- **Optimize cash flow management:** Human errors like overlooked payment deadlines or discrepancies in invoices can lead to cash flow disruptions. AI-enabled invoice processing can detect and flag such anomalies in real time, and automatically send reminders for overdue invoices, thereby ensuring prompt payments. Also, the insights provided by AI analytics helps accounts departments forecast their cash flow with accuracy and plan for upcoming expenses.
- **Scalability:** The invoicing needs of an enterprise grow over time as their business grows. Self-learning and cognitive capabilities of AI makes it easier to scale it with growing business demands without the need of any extra hiring.



THINGS TO CONSIDER BEFORE AI IMPLEMENTATION

While the advantages of implementing AI-powered invoice processing are many, the successful deployment of AI invoice processing calls for some careful considerations, meticulous planning and strategic execution.

- **Data quality:** Automation is only as good as the data it is fed. Missing invoice details, poor scan quality and others will still spell trouble. Make sure to establish standard formats for invoice submission (preferred PDF/email formats) and implement internal controls. The ML algorithm of the system will adapt and improve over time but it would be good to conduct routine audits of OCR accuracy in early stages as this can catch systematic misreads and reduce the time spent on manual reviews of flagged invoices.
- **Integration with existing systems:** SMEs might already be using a particular invoice processing system. It is essential to make sure that the newly introduced AI-enabled system integrates flawlessly with the existing systems. The chosen solution must be able to transfer invoice data directly into these systems via API or compatible interfaces without duplicate entries. Industry experts advise selecting software that “integrates tightly with your ERP” so you don’t have to abandon familiar tools. Without tight integration, enterprises would find it difficult to get the anticipated results and would lose out on the ultimate goal of automating the process.
- **Data security and compliance:** Invoices contain sensitive financial information, so data security is critical. Businesses must look for solutions that provide enterprise-grade encryption (e.g. AES-256) for data security. Besides, access controls and audit logging are essential – the system should be able to track who approved each invoice and provide an immutable audit trail. If your industry has specific regulations (e.g. SOX, HIPAA), make sure that the software supports necessary controls.
- **Training:** Introducing AI automation for invoice processing changes workflow roles. Your accounts department staff will need training on the new system’s interface and exception handling. Plan for an initial training period where users can get accustomed to the new system and its functions while also correcting any mismatches, allowing the system to learn. It is also essential to

engage accounting and approval teams early: communicate how automation can reduce their time spent on mundane tasks thereby improving their productivity. Provide manuals or quick-reference guides. Also plan for a brief coexistence period, when you keep the old process alive in parallel until confidence grows in the new system.

- **Return on Investment (ROI):** Enterprises must be able to forecast future ROI before implementing an automation solution. Comparing current invoice processing costs (labor hours, error costs, late fees) against projected savings in future would give a better idea for the need of automating the process. SMEs should anticipate and aim for a payback period of 6–12 months, as this is an evolving process and not a quick fix for reducing costs. According to industry analysis, full AP automation can free up hundreds of labor hours annually. Businesses should take into account benefits such as time savings, improved discount capture and reduced error-prone spends. As one expert notes, demonstrating clear ROI (more visibility, lower costs) is critical for gaining stakeholder confidence.
- **Scalability and maintenance:** Last but not the least, enterprises must consider a solution that can be scaled easily with the growing needs of the business. Usually, cloud-based AI tools can scale easily, but make sure of any usage limits or extra costs involved per invoice volume. You must also look for solutions that can handle multiple company entities or currencies if your business anticipates to expand operations globally. Maintenance is another (important consideration. Ask questions like “How often will you need to update vendor fields or tax codes?”, or “What would be the downtime while I adjust rules during maintenance?”
- **Vendor support:** Many small businesses show hesitation to adopt automation for their processes, thinking solutions are too costly. However, today there are many SME-focused offerings out there in the market. Choose a vendor (or implementation partner) who understands SME needs and that fits your budget. Also make sure to ensure the provider offers reasonable onboarding assistance, user support and periodic updates, as a helpful support team can make the difference in rapidly solving any workflow issues. It would also be great to consider the vendor’s technical support in areas like enhanced AI analytics or assistance with integrating new connectors (e.g. additional ERP), as this would add future value.

By addressing these considerations up front, SMEs can make sure the integration of AI invoice automation is done smoothly. Also, engaging stakeholders at early stages, setting clear goals (faster approvals, fewer errors, etc.), and closely monitoring and documenting the rollout process will help ensure the project delivers its promised results.



EVALUATING AI-POWERED INVOICE AUTOMATION SOLUTIONS

While automation can improve productivity, reduce cost and time, and does many other wonderful things, it is crucial for technology leaders to choose the right automation tool. They should assess potential solutions against a clear framework of criteria:

- **Data capture accuracy:** The core capability of an AI-enabled invoice processing software is how well the tool extracts invoice data. Look for solutions that offer AI-powered OCR with machine learning refinement. The system should be able to extract all key fields like invoice number, dates, amounts, tax IDs and others correctly at least 95% of the time out-of-the-box, improving with use. If you receive different invoice formats, prefer solutions advertised as “template-free” or “adaptive learning.”
- **AI and ML capabilities:** Determine if the software actually uses ML and NLP or just basic OCR/RPA. True AI solutions should learn vendor-specific layouts, handle semi-structured text, and flag anomalies. Evaluate any predictive features (e.g. the ability to auto-categorize spend or forecast cash requirements). Make sure the system can be trained on your past invoices and improve accuracy over time.
- **Workflow automation:** Assess the built-in approval workflow features. Check whether the system gives you the option to configure custom routing rules (by amount, department, vendor). Also make sure it can handle three-way matching (PO, invoice, receipt) automatically. The system must also be able to support multi-level approvals. Modern platforms offer drag-and-drop workflow builders so that invoices automatically move to the correct manager’s inbox. The less manual intervention needed to set up workflows, the better.

- **Integration with existing ERP/Accounting:** Integration is critical while automating existing processes. Make sure the system can seamlessly integrate with the existing accounting or ERP system and import vendor master data without errors. If you use an older or custom ERP, check for API or Excel/CSV upload options.
- **Analytics and reporting:** A good AI-enabled invoice solution should be able to provide real-time dashboards and reporting on AP metrics (invoice aging, spend by vendor, approval delays). These insights turn AP from reactive processing into strategic spend management. Some platforms even include forecasting or cash flow analytics based on invoice timing.
- **Security and compliance:** Ensure the provider follows industry-standard security practices. Look for AES-256 encryption (data at rest and in transit), SOC 2 or ISO compliance, and role-based access controls. The system should offer audit trails for every action. Check if it supports electronic record-keeping rules (e.g., IRS or SEC requirements).
- **Ease of use and training:** One of the most important things to consider is the user interface as it directly affects the ease of adoption. Evaluate how intuitive the portal is for AP clerks and approvers. Look for solutions that provide clear review screens for exceptions, mobile or email notifications for approvals (as per your business need), and good user experience. All this would help the training of the staff on the new system easier, and a user-friendly platform will improve long-term use.
- **Vendor/technical support:** You must compare pricing models (per invoice, per user, flat fee), including implementation and training costs, and evaluate whether it fits your budget. Check if the vendor offers support packages or service-level agreements. Read reviews or case studies (if available) about their customer service. Also, remember to factor in maintenance and scalability costs as your needs grow.

CONCLUSION

Invoice processing is a mission-critical as well as a historically tedious task for SMEs. Depending on traditional manual invoice workflows ties up finance teams in repetitive, high-volume tasks, delaying payments, and incurring unnecessary costs. Implementing authentic and reliable AI and automation solutions by industry-trusted partners like DeepKnit AI can address this problem.

By applying OCR, NLP, machine learning and workflow automation, SMEs can transform their AP process into a streamlined, strategic asset. It is clear that automation cuts processing time by 70–80%, reduces costs by a similar proportion, and sharply lowers errors. As a result, finance professionals will have more time for analysis and planning, and small businesses can enjoy healthier cash flow and vendor relationships.

In summary, smarter invoice processing powered by AI is not just a nice-to-have for SMEs; it is increasingly a necessity. It frees companies from the drudgery of manual data entry, letting them scale more efficiently and make better use of their finance talent. By leveraging AI, small businesses can compete on a level-playing field with larger firms, achieving similar speed and accuracy in their finance operations.

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