

The 4 Most Important Benchmarks for Becoming a Best-in-Class Accounts Payable Organization



An AP & P2P white paper

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The 4 Most Important Benchmarks for Becoming a Best-in-Class Accounts Payable Organization

Best-in-class accounts payable organizations have it all figured out. Compared to their peers, the accounts payable processes at best-in-class organizations cost less, are more accurate, take less time, provide better visibility, and result in fewer inquiries from suppliers. What's the secret of best-in-class accounts payable organizations? The findings of Institute of Finance and Management's (IOFM's) 2016 AP Key Performance Indicators Study suggest that four benchmarks have an outsized on an accounts payable organization's ability to become best-in-class. This white paper reveals the four most important benchmarks for becoming a best-in-class accounts payable organization, and provides a roadmap for improving an organization's performance and progress in each area.

Benchmark #1:

The Percentage of Invoices Processed Straight-Through

Best-in-class accounts payable organizations approve most of the paper and electronic invoices that they receive from suppliers straight-through with no human operator intervention.

In most businesses, invoices can be received in paper or e-mail format by anyone, anywhere in the organization, including a branch office, centralized mailroom, finance department or a purchaser. The invoices are then reviewed and forwarded (usually via inter-office mail) for approval and coding. Much of the invoice approval process resides in the heads of seasoned, trusted employees who can go on vacation, go on maternity leave, quit, or become sick, causing significant delay in workflows. Any exceptions are chased through the organization. Once invoices are approved, invoice data is keyed into an enterprise resource planning (ERP) platform or other line of business system, and the invoice is scheduled for payment, and physically filed. Supplier inquiries and management and audit requests for reports and access to documents typically require manual document retrieval.

It is no wonder that only 47 percent of accounts payable departments can process any invoices straight-through, per research and advisory firm Ardent Partners. Fifty-six percent of businesses process less than 6 percent of the invoices their organization receives straight-through with no human intervention, per IOFM's 2015 AP Benchmark Study.

And it's not just paper invoices that require manual intervention. Only 39 percent of the electronic invoices received by businesses can be processed straight-through without human intervention.¹ Only 38 percent of purchase order-based invoices received electronically are processed straight-through, IOFM reports.

71% of best-in-class accounts payable organizations can process invoices straight-through, Ardent Partners reports.



Improving processes and automating manual processes rank among the top accounts payable concerns for **41 percent** and **33 percent**, respectively, of businesses surveyed by IOFM.



1. IOFM's 2016 AP Key Performance Indicators Study

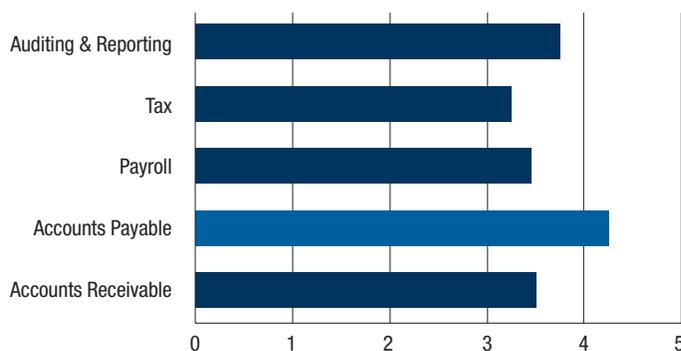
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All this manual processing contributes to a series of obstructions: higher processing costs, more errors because of mis-keyed information, more opportunities for invoices to become lost, misfiled or “stuck” on someone’s desk, and limited visibility into operational performance and key financial metrics, such as accruals. In addition, the resulting longer approval cycles can cause late-payment penalties, missed opportunities to capture early-payment discounts and more phone calls and emails from suppliers regarding invoice status.

As a result, accounts payable earned a dubious trifecta in an IOFM survey of controllers: it topped the lists as the most time-consuming, laborious, and paper-intensive finance and administration function, ahead of burdensome activities such as accounts receivable, payroll, tax, and audit and reporting. In fact, accounts payable received nearly twice as many votes from controllers as the most time- and labor-intensive finance and administration function than the next highest-ranked function.

Controllers think AP is the most manual, paper-based F&A function

5 = Most Manual, Paper-Based



Source: IOFM

Benchmark #2:

Invoice Approval Cycle Times

Best-in-class accounts payable organizations have significantly shorter invoice cycle times – the time it takes to approve an invoice for payment from the point of receipt – than their peers.

Fast invoice approval cycles eliminate late-payment penalties, strengthen supplier relationships, and provide buyers with greater leverage when it is time to renegotiate contracts with key suppliers.

However, only 4 percent of businesses surveyed¹ report that they pay all their invoices on time. Only 7 percent of businesses pay all their PO-based invoices on time. Six percent of businesses pay less than half their supplier invoices on time.

Reducing processing costs and driving more value from data and internal and external collaboration are the top priorities of accounts payable leaders, Ardent Partners reports.



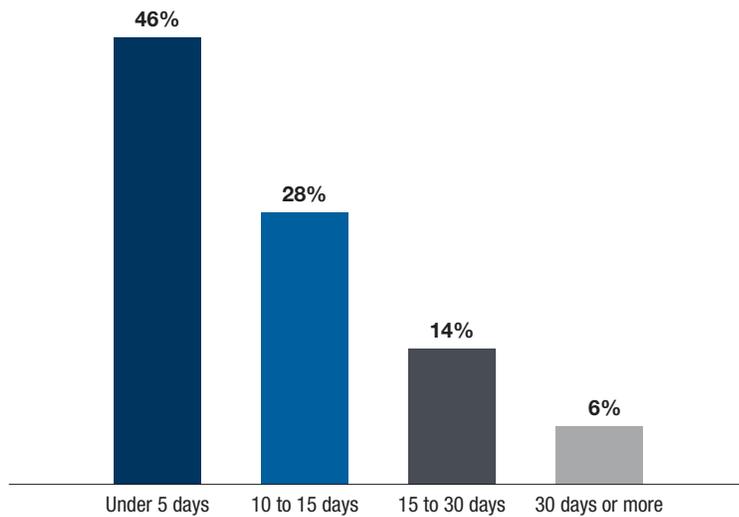
Time management and on-time payments are among the top accounts payable concerns of one-quarter of businesses, per IOFM's 2016 AP Key Performance Indicators Study.



1. IOFM's 2016 AP Key Performance Indicators Study

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Time to Process a Single Invoice



Source: Ardent Partners 2017

Why? Perhaps it's the deluge of manual tasks required to pay invoices at most accounts payable organizations. Accounts payable professionals surveyed by IOFM spend 84 percent of their time bogged down by a seemingly endless list of manual transaction processes:

- Setting up suppliers
- Gathering payment details
- Collecting tax forms
- Keying invoice information
- Matching invoices with purchase orders and shipping documents
- Tracking down purchasers
- Searching for lost or misplaced invoices
- Inputting information on approved invoices into a system-of-record
- Setting up payments
- Reconciling payments
- Resolving payment issues
- Responding to supplier inquiries

It is no surprise that faster invoice approval cycle times is a top concern of businesses, per IOFM.

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Benchmark #3:

Alignment Between Accounts Payable and Procurement

Best-in-class organizations have stronger alignment of their accounts payable and procurement functions compared to their peers. Accounts payable and procurement have traditionally operated as silos. This has resulted in high purchasing costs, invoice processing errors, poor spend visibility and management, and strained supplier relationships. Only 36 percent of businesses describe their accounts payable and procurement functions as being well-coordinated.¹ Even fewer businesses (35 percent) report that their accounts payable and procurement functions regularly collaborate, IOFM's research found. Tightly aligning accounts payable and procurement starts with requiring purchase orders (POs) for more purchases.

Fifty percent of all invoices are against a PO.¹ The ability to match invoices to POs accelerates invoice approval cycle times. Twenty-seven percent of businesses process PO-based invoices in less than four days from the receipt of the invoice, IOFM's 2016 Key Performance Indicators Study found. Only 25 percent of businesses process non-PO invoices in less than four days from the receipt of the invoice.

Similarly, 21 percent of businesses report an average cycle time of less than four days from the invoice date to process PO-based invoices. Only 18 percent of businesses process non-PO invoices in the same amount of time.¹

Benchmark #4:

Percentage of Early-Payment Discounts Captured

Best-in-class accounts payable organizations capture seven times more early-payment discounts (as a percentage of total spend) compared to their peers, per The Hackett Group's benchmarking data. More suppliers offer buyers a discount on the amount due on an invoice in exchange for receiving payment before the due date; the earlier the payment, the bigger the discount on the amount due.

Businesses that take advantage of just a standard early-payment discount term of 1/10 net 30 earn an annualized 18 percent return – a lot more than businesses can earn from a typical interest-bearing bank account. Importantly, the savings earned from early-payment discounts help transform accounts payable from a cost center into a profit center by delivering lower cost-of-goods.

Eighty-percent of the businesses surveyed by IOFM in 2016 receive invoices that offer early-payment discounts. In fact, 5 percent of those surveyed said that more than 25 percent of the invoices their business receives offer discounts for early-payment, while 3 percent of businesses say between 16 percent and 25 percent of the invoices they receive offer early-payment discounts.

“For years, CFOs have talked about the importance of moving finance out of the transaction-processing business and towards a more strategic role.”

— CFO Magazine



Reducing costs is among the top accounts payable concerns of businesses, per IOFM.



The average fully loaded cost per invoice under manual processes is **\$15.00**, compared to **\$3.00** per invoice under a completely automated AP process, per PayStream Advisors.

1. IOFM's 2016 AP Key Performance Indicators Study

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But most businesses capture less than 21 percent of all early-payment discount offers, and 12 percent of businesses are unable to capture any early-payment discounts.¹ These results are more sobering when you consider that 79 percent of businesses say their suppliers offer payment terms of 30 days or more. Only 27 percent of businesses surveyed by IOFM capture more than 80 percent of early-payment discount offers. These are some of the reasons that early-payment discount capture is a top concern of businesses, IOFM reports.

Achieving Best-in-Class Results

Achieving best-in-class accounts payable results starts with automation. Nearly three-quarters of accounts payable departments say they lack the technology to pay supplier invoices in a timely manner, per MasterCard's Creating Payment Energy report. Here's how automation helps accounts payable organizations improve their performance for each of the benchmarks outlined above:

Higher Percentage of Invoices Processed Straight-Through

Solutions that combine electronic invoicing and workflow empower accounts payable organizations to process invoices without operator intervention. The technology uses clearly defined business rules and thresholds to facilitate a high volume of automated approvals. For instance, an uploaded invoice can be matched to its purchase order and/or proof-of-delivery document automatically, and paid according to the most advantageous terms, without a single staff member having to look at it.

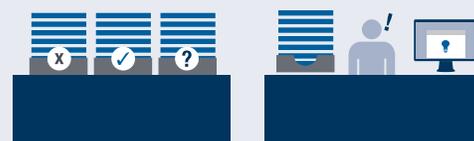
With electronic invoicing, invoices are received in digital form either through a supplier portal or an online network and are automatically validated at the point-of-submission. The system immediately notifies suppliers of any discrepancies and requires that they be corrected before being processed.

Processing invoices straight-through is a big reason that best-in-class organizations spend one-fifth what it costs peers to process an invoice from receipt to approval (\$3.34 versus \$16.67), Aberdeen Group reports. Ardent Partners finds that best-in-class organizations can reduce their invoice processing costs by 82 percent compared to peers, in large part, by posting invoices straight-through.

The accelerated cycle times that result from straight-through processing also reduce the possibility of late-payment penalties and opens the door to more opportunities for early-payment discounts.

Moreover, increasing the percentage of invoices processed straight-through frees accounts payable staff to focus on identifying and resolving exceptions and on value-added tasks, such as data analysis and vendor master data management.

The typical accounts payable department spends between 4 hours and 8 hours per week resolving accounts payable process issues, PayStream Advisors reports.



Automation eliminates the need for time-consuming manual matching and approvals.

51% of businesses identify faster approval cycles as the greatest benefit of electronic invoicing, per PayStream Advisors's *eInvoicing Benchmarking Report*.



Automation streamlines workflows – from invoice receipt and approval routing, to invoice and PO matching, to review and exceptions management, to final approval for payment.



1. IOFM's 2016 AP Key Performance Indicators Study

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Opening envelopes, keying invoice data, matching invoices to purchase orders, tracking down purchasers, physically routing documents, and responding to phone calls and emails from suppliers regarding the status of invoices consumes most of the typical accounts payable professional's time. In fact, 84 percent of an accounts payable staff's time is spent on transaction processing, per IOFM's Accounts Payable Department Benchmark and Analysis Report.

Straight-through processing is especially impactful for organizations with:

- A high percentage of three-way match invoices or recurring transactions
- A high volume of invoices for small amounts
- A low percentage of invoice exceptions
- An audit system that checks transactions to identify duplicate or fraudulent items

This is the reason that more accounts payable departments are focused on improving the activities around invoice processing than any other accounts payable task, per Ardent Partners' research.

Faster Cycle Times

Automation accelerates the cycle times for PO-based and non-PO based invoices by enabling businesses to receive invoices in any format, from any location. Images of invoices received via paper also can be consolidated into an electronic invoicing platform, as well as data extracted from paper invoices via optical character recognition (OCR). Electronic invoicing solutions automatically extract supplier, header and line-item data (such as amounts) from invoices that are received electronically. Invoices then are matched with POs and/or goods or services receipts. Invoices that require approval (such as non-PO-based invoices) or exceptions handling are automatically routed based on pre-configured business workflows. And electronic invoicing ensures that invoices requiring review are always sent to the appropriate person; Atradius reports that 21.4 percent of payment delays in the United States are the result of invoices being routed to the wrong person.

Accelerating cycle times enables businesses to eliminate late-payment penalties, reduce supplier inquiries regarding invoice status, strengthen supplier relationships, gain leverage at the negotiating table, and capture more early-payment discounts. Faster cycle times also enable executives to analyze data in a more timely manner to make better-informed financial and business decisions.

And combining faster invoice approval cycle times with the analytics tools in automated solutions enables businesses to develop a more strategic payment scheduled on a supplier-by-supplier basis.

It takes 77%

less time to process an electronic invoice than to manually process a paper invoice, Ardent Partners' State of ePayables 2016: Eyes on the Prize research study finds.



73% of the supplier invoices received by best-in-class accounts payable organizations are linked to a purchase order, compared to just 54.5 percent of the supplier invoices received by their peers, per Ardent Partners' ePayables 2016 – Higher Ground report.



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Compared to capturing data from paper invoices and physically routing the invoices for approval, electronic invoicing greatly accelerates cycle times for PO-based and non-PO based invoices. Best-in-class accounts payable organizations process invoices in less than one-quarter the time of their peers (3.6 days versus 16.6 days), Ardent Partners' *ePayables 2015 – Higher Ground* report.

Alignment of Procurement and AP

At most businesses, indirect spending – or the purchase of non-core goods and services – is a paper-intensive, decentralized affair that is poorly aligned with accounts payable. As a result, businesses spend a lot of time tracking down purchasers, searching for purchase orders and proof-of-delivery receipts, and resolving invoice exceptions. Worse, poor alignment of procurement and accounts payable makes it hard to track or control transactions from purchase order initiation through the receipt of goods or to comply with agreed upon terms, and can result in purchasers overpaying for products, buying unbudgeted goods or services, and making purchases from unapproved suppliers.

Automating procurement and accounts payable end-to-end delivers four significant benefits:

- 1. Reduced overhead:** End-to-end procure-to-pay solutions eliminate most of the manual tasks that drive up the costs of purchasing goods and services and contribute to time-consuming errors.
 - The technology facilitates the online purchase of goods and services from approved suppliers, electronically generates purchase order requisitions and routes them for manager approval, digitally transmits purchase orders to suppliers, matches supplier invoices with purchase order information, accelerates exceptions resolution with instant access to all information on a purchase in a single location, and seamlessly posts information from approved invoices to an enterprise resource planning (ERP) platform.
 - With an end-to-end procure-to-pay solution, supplier invoices can be processed and paid within minutes. End-to-end procure-to-pay solutions provide additional efficiencies by enabling suppliers to convert (or “flip”) purchase orders into electronic invoices that can be presented to the buyer and processed straight-through, without human operator intervention.
 - Streamlining the procure-to-pay process frees staff to spend more time on value-added activities such as data analysis and vendor master cleanup, and less time on tactical tasks such as data entry and filing.

80% of suppliers would accept a discount in exchange for early-payment, per MasterCard's Creating Payments Energy report.



32% of finance executives surveyed by CFO Research said their organization achieved better working capital management through financial operations automation.



33% of finance executives surveyed by CFO Research said their business increased net income and profit margins because of automating financial processes.



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- 2. Better spend analysis:** End-to-end procure-to-pay solutions provide real-time visibility into enterprise spending, including purchased goods and services, outstanding purchase orders, and settled payments. Knowing how their money is being spent helps businesses ensure budget compliance, take proactive steps to eliminate unauthorized spending, comply with supplier contracts, gain leverage with suppliers during contract negotiations, and make better informed cash management decisions (e.g. whether to take an early-payment discount). Better visibility into spend also makes it easier to implement and enforce spending controls.
- 3. Greater agility:** Migrating procure-to-pay functions to the cloud makes it easier for businesses to respond to changing demands and achieve a competitive advantage. Operations can be scaled up or down more quickly, business units can be easily implemented, workflows and business rules can be deployed or adapted with minimal risk or expense, and information is accessible to authorized users from any location, via any PC, laptop or mobile device.
- 4. Less risk:** Compared to fragmented purchasing and accounts payable systems, end-to-end procure-to-pay solutions reduce potential supply chain risk by providing better tracking and control over infrastructure, applications, information, and users. All information is centrally stored in a secure cloud, ensuring that information does not fall into the wrong hands, and that authorized users are always accessing the most current version of financial data.

Capture More Early-Payment Discounts

Automation enables accounts payable organizations to capture more early-payment discounts.

- Cycle times are reduced, creating more early-payment discount opportunities
- The technology automates early-payment discount programs

When a buyer uploads data on approved invoices, the solution electronically notifies suppliers of the availability of any early-payment discounts; the earlier the payment from the invoice due date, the larger the discount. Suppliers can accept or decline any early-payment discount offers. Funds are dispersed in the method and currency the supplier selected, and buyers can track payments, identify rejects, and generate necessary reports. Detailed transaction and reconciliation reports are integrated into the buyer's ERP system. And suppliers register online to receive early-payment discount offers.

Early-payment discounts are a win for buyers and suppliers. By capturing more early-payment discounts, accounts payable can make a major financial contribution to their business at a time when revenue growth is tough to come by.

69% of controllers cite improved visibility into cash flow and cash management among their top priorities, per IOFM's *Turning Accounts Payable into a Strategic Partner: How AP Automation Drives Better Financial Visibility and Decision-Making*.



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Early-payment discounts also help lower a buyer's cost of goods and services, help attract and retain suppliers, and help ensure supply chain consistency. Suppliers benefit from improved cash flow, less risk of nonpayment, and better access to capital.

Capturing more early-payment discounts helps senior finance executives achieve their top priority of improving liquidity management, per Aberdeen Group. Similarly, accounts payable departments can improve working capital management, which ranks among their top concerns.¹ Eleven percent of businesses surveyed by IOFM already regularly track and report on alternative financing options such as early-payment discounts.

Conclusion

Today's increasingly competitive global trade and commerce environment requires businesses to strive toward becoming best-in-class or risk falling hopelessly behind their peers. The path toward achieving best-in-class results in accounts payable is no secret. Accounts payable organizations must automate their processes to: facilitate straight-through processing of invoices, speed invoice approval cycle times, more tightly align procurement and accounts payable, and capture more early-payment discounts. Achieving these best-in-class results not only makes accounts payable organizations more efficient and effective, they help transform accounts payable into a more valuable strategic function.

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AP & P2P Network also hosts the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), designed to facilitate education and peer networking.

The AP & P2P Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.